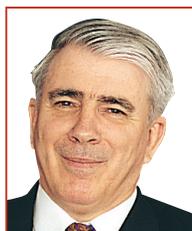


Dental state of play post Federal Election 2013

By Graham Middleton, BA, MBA



“It remains true in 2013 that the most consistently profitable and successful dental practices are not overly large, with the profit overwhelmingly produced in owners’ or associated owners’ own surgeries...”

The change of government further chills the chances of a universal dental scheme being introduced. Rather, as the new government comes to grips with the federal debt and deficit, there is likely to be a tight lid on new government spending. The most we are likely to see is a limited form of spending of a tightly means-tested nature on the genuinely impoverished with significant dental issues.

The new government’s financial forecasting involves a significant reduction in the Canberra bureaucracy and this is likely to fall heavily on the Department of Health and Ageing, which treats no patients, and the Department of Education, which teaches no students. Certainly, the loss of the bureaucrats who gave us the large surplus of dentists would not be mourned within the dental profession.

The spreading realisation that students entering dental programs at the beginning of 2014 are likely to end up in an unemployment queue when they graduate after five or seven years in university should prove to be a damper on enrolments.

The dental schools have an ethical responsibility to point out to students that their chances of gaining full-time employment on graduation are poor, given the huge and rapidly growing surplus of dentists and dental auxiliaries.

Housing recovery?

The combination of rising population, lower interest rates, increasing investment interests, bank preferred lending to homebuyers and a federal government which is not in a minority are likely to contribute to rising housing prices. However, beware the difference between freestanding homes on their own land and high-rise apartments or units. The latter never look good on the resale market, as new units being sold off the plan by hot sales staff with lots of gimmicks always look better than resales on the secondary market. Any modest rise in the price of home units is followed immediately by a surge in the selling of new units off the plan. Investors in high-rise units are invariably disappointed in the long-term and nothing is going to change this fact.

East vs West

Just as the fall of the Berlin Wall made visible the failures of the socialist paradises of Eastern Europe compared with the advanced economies of the West, the belt-tightening of an economy drawing back from the mining boom, coupled with the flood of dentists without full-time work, has exposed the stark differences between well-run practices and over-staffed, poorly directed practices. The Western style practices with equal attention to cost control and charge-out, with economical purchasing, with some able to have several associates function well without a practice

manager, remain nicely profitable. The Eastern style practices with poor attention to fee application protocols, often with wasteful management layers and with inefficient associateship rules, struggle. If the latter practices fail to address these deficiencies, they will increasingly leak fees to new competitors. We continue to seek examples of both Eastern and Western style practices.

Poor start-ups

There are a host of dentists who have started up practices in the last couple of years, many without a successful strategy to attract patients. Many of these practices were started with the intention of farming the Medicare Chronic Disease Dental Scheme, but had no other business strategy when the scheme terminated on 30 November 2012. Some of these practices appear to have no support staff, with the dentists themselves answering the telephone. These practices don't have the resources to attend follow-on training and upgrade the treatment services they offer, nor a patient base to market such services to. Many of these dentists will exhaust their resources in paying off fit-out and equipment and many will quietly fade away. Practice closures go relatively unnoticed. Some so-called practices for sale have been merely attempts to pass over financial obligations of premises leases, equipment and fit-out, with vendors desperate to get out because their income doesn't match their continuing financial obligations. Unemployed dentists may drop out of the profession. A multitude of dentists are either unemployed or under-employed. The unemployed, if they don't succeed in getting reasonable dental employment within a year or so of qualification, will inevitably depart dentistry for some other calling. If the under-employed have sufficient work to keep bread on the table and to maintain and develop their skills and can endure in such a way for a couple of years, they are likely to achieve full-time employment when they can demonstrate a sufficient array of skills.

Sporting forecasts

Australia now has two sporting organisations whose revenues dominate, being the Australian Football League (AFL) and the National Rugby League (NRL) thanks to substantial television and sponsorship income. Other once-major sports, including cricket, forced into a short summer season, and Rugby Union, have been squeezed down the economic food chain and will struggle to maintain their existing market share. Soccer has been showing signs of taking off in Australia since at least the 1950s, but in reality, potentially star players are identified at an early age and are lost to the A-league by the allure of contracts with prestigious European teams. Hence the A-league will continue to suffer by being a second-rate competition compared to the European leagues. A-league soccer was forced to move to a summer season to avoid being swamped in the media by AFL and NRL reporting.

Dental divorce (practice valuation pitfalls)

The dental profession is far from free of this unhappy experience. It is sometimes the case that the parties' solicitors impose on the parties a joint valuer who, while having impeccable accounting qualifications, has never before dealt with dentists nor valued practices. The result is an often bizarre valuation outcome, far beyond the extremes of what the practice might fetch if subjected to an orderly sale in the marketplace.

In such circumstances, if it can be demonstrated that the original valuation was manifestly wrong, a party's lawyer may obtain court permission for an alternative value to be submitted.

In order to avoid much angst, extending settlement and paying heaps more legal fees, it is essential that the initial jointly-agreed valuer have extensive experience as in many years of actual dental practice valuations and have had lots of valuations accepted by the parties to property settlements as a basis of settling that aspect of their affairs.

Don't agree to a joint valuer no matter how well qualified, unless that valuer can demonstrate that they have been involved with hundreds of dentists and dental valuations.

Dental practice size

It remains true in 2013 that the most consistently profitable and successful dental practices are not overly large, with the profit overwhelmingly produced in owners' or associated owners' own surgeries.

Dental immigration

It is hoped that the dental profession will successfully lobby the new government to curtail immigration, other than from graduates of dental schools covered by mutual recognition arrangements.

Dental schools

It is also hoped that by making full information available to students and prospective students concerning the demand side of dentistry, i.e. the actual job vacancies vis-à-vis the number of unemployed dentists seeking jobs, that dental schools will face up to the reality and reduce their student intakes and that undergraduates will force change by electing to transfer to courses in other disciplines.

There is an inevitability concerning these changes. It remains to be seen whether dental schools themselves adapt or are forced to adapt by the disappearance of students to other courses. The proliferation of dental schools and expansion of existing dental programs cries out for rationalisation. The dental schools should also be lobbying government to curtail the dental immigration program.

Up-skilling and nurturing the patient base

Good general dental practices are maintaining their position among the proliferation of competition by a combination of up-skilling and nurturing their existing patient lists, which are also their referral base. We note lots of dentists doing career-enhancing courses such as implant placement courses in Columbia or undertaking orthodontics training. The ability of dental practices to both maintain their patient base and enhance the treatment options that are available to offer to their existing patient base is central to the ability of established practices to keep new competitors at bay. As mentioned elsewhere, tight cost control and fee-setting protocols are also key elements. The business message is adapt your practice or lose your market share.

Superannuation tax deductions

It is unlikely that the Coalition government will have the resources to reverse the most substantial of the Labor government's impositions, such as reducing the over-50 superannuation tax deduction from \$100,000 to \$50,000 then from \$50,000 to \$25,000 or its tendency to impose additional levies of a temporary nature to fund the Queensland floods disaster and a permanent nature to partially fund the NDIS. Levy is in reality a four-letter-word meaning 'tax'. The over-60s can claim \$35,000 of tax deductible superannuation contribution.

Double dissolution?

Prime Minister Abbott clearly indicated that if he could not pass his electorally mandated policies through both houses of Parliament, he would call for a double dissolution election. While this stance has its risks, it is highly unlikely that a defeated Labor party would want to fight another election so soon and it is therefore predictable that it may abstain from voting in the Senate to allow those elements of Abbott's election policies, for which he has a strong mandate, to pass.

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Dental corporates vs privately owned practices

Precise figures are not available, but we estimate that there are as many viable privately owned dental practices in Australia in 2013 as there were six or seven years ago. Taken overall, the corporate impact is much less than their PR suggests. To date, corporates have had poor results from their own start-ups, with some outright failures and closures. It is apparent that they are utterly reliant on vendor dentists to maintain good practice outcomes. Of the listed corporates, 1300SMILES has done better with far fewer practices than has New Zealand listed Abano Healthcare Group Ltd, which purchased the Dental Partners business.

Corporate limitations

Despite the pronouncements of how they develop practices, there is no way a corporate can get dentists to treat more than one patient

at a time. Hence, corporates really consist of a string of small businesses with common branding and synchronised purchasing. The big business experience of aggregating capital to buy bigger planes, trucks or mining machines to shift bigger loads with less workers doesn't apply to dentistry. A dentist may acquire more modern equipment but can still only operate one drill at a time.

Dental graduates - success in practice in 2013

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About the author

Graham Middleton personally has been advising dentists on strategic, practice management, valuation and conflict resolution processes for 26 years, the last 19 as a founding partner and director of Synstrat Management Pty Ltd and Synstrat Accounting Pty Ltd. He was once a regular army officer and later Director Human Resources Manager, Attorney General's Department of Victoria. He is considered an expert on dental practice valuation and practice performance benchmarking. He has spent many years advising dentists in respect of their business and financial strategy and measuring their practice and financial performance. He is the author of the Synstrat Guide to Practice Management, 50 Rules for Success as a Dentist and Buying & Selling General & Specialist Dental Practices. He is a long-term contributor to Australasian Dental Practice. The Synstrat Group is an independent data-based organisation providing management, benchmarking, valuation, financial and accounting services to the dental profession. Synstrat Management Pty Ltd is a licensed financial services company owned by its directors who work within the Synstrat Group. For more information, call (03) 9843-7777; Fax: (03) 9843-7799; see www.synstrat.com.au or email dental@synstrat.com.au.

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