The New Economy Reality Check

Where Does This Leave Us?

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For more about Terry, see his full bio on page 5

The election is over. The fiscal cliff was averted — or was it just postponed?

It is a strange new world we live in. The European Union is trying to decide if Benjamin Franklin was right when he said “Together we stand, divided we fall”, even as their unemployment continues to grow to levels never before experienced, and their collective debt threatens to sink the economies of even the strongest member nations. Our nation continues in the third year of the worst economic recovery we have ever experienced. Our debate rages on about the importance, the purpose, and the value of the government driving our nation’s future. The only economies that have grown in the last 5 years, the third world countries, are reducing their aggressive growth forecasts (some by design to control inflation, others in recognition that they are players in a world economy, and the developed world, as we proudly call ourselves, shudders. We need THEM now more than ever to keep OUR economies afloat.

So in such a world of historic uncertainty, how does an orthodontist and small business owner survive?
FIRST, LET ME TELL YOU WHAT I KNOW FOR SURE:

- The teen population will remain below the 2004 numbers (as reported by the US Census bureau). The census bureau reported in 2010 that it expected a rebound to 2004 numbers by 2022. An article in the Chicago Tribune dated January 25th, however, reports that the nationwide DECLINE in the birth rate has worsened, not gotten better. ONLY Hispanic births are up. This is a trend that will influence the numbers of folks we serve for at least the next 15 years, a very long time! We will need to look at new population groups to serve besides the traditional Caucasian middle class population. This includes the Hispanic and Asian populations and the biggest underserved group - adults.

- There will be more orthodontic graduates in the coming years. They are in the pipeline. Thanks, in part, to Orthodontic Education Corporation (OEC), new schools with large classes were built with corporate promises of financial support in the early years of this century. This was true even as existing schools struggled to establish and maintain sufficient funds for faculty recruitment and retention. The fact remains that there are more graduates today than there were 10 or 20 years ago, and that will not only increase the number of people competing in our cottage industry, it will change the dynamics of how it serves the patients we treat.

- The age of providers is not getting any younger. In the last decade we've seen a reverse in the retirement trend predicted by "the experts". Fewer of us are retiring. Of course, recent economic events have produced this phenomenon. However, there will be a surge coming in practices for sale as we old timers regain our financial health, or as we reach an age where we will need less to retire on (demographics works this way).

- As inevitable as it is that the ranks of the retirees will grow, it is important to know what will come of their practices. Who will buy them? In a supply and demand world there will come a moment where there will be more sellers than buyers.
  - Some doctors will simply close their doors for lack of someone interested in buying the practice.
  - Some practices will find a willing new graduate to buy their practice.
  - Still others will sell to a corporate entity. Corporate practices are becoming a bigger and bigger player in the healthcare sector. They offer, on the one hand, the ability to "pay top dollar" for a practice, and on the other, economies of scale that only deep pockets can afford. The hope of course, is to wring out more profits from a historically poorly run business (most of our practices). The price doctors will pay for selling to a corporate is that nothing in life is free. In exchange for what appears to be a wonderful sale price, the corporates will extract a few years of servitude "to ensure the practice survives and thrives through the transition". This servitude usually repays the corporate the cost of the practice. New graduates faced with historic debt and looking for work, any work, will be the providers. Sound far-fetched? I lectured on this phenomenon in the mid-1990's. Then they called the corporates "orthodontic MSOs", short for management service organizations. That was their model. I see it reappearing again today.

- Managed care will finally be the overwhelming reimbursement mechanism for dentistry. In the mid 1980's, I lectured on the dangers of managed care. I used the medical model to explain how the honorable practice of medicine was being destroyed by managed care. Third parties were telling physicians who they could see, what they could or could not treat, and what their compensation would be. Importantly, by 1984 physicians had lost their independence forever, as managed care patients represented such a huge portion of their practices that they no longer could afford to "opt out". There would be so few patients left for them to serve as to make it impossible to practice independent of managed care. Recent McGill Advisory newsletters outline the intrusion into dentistry that managed care has taken. PPO participation has grown from some 20% of all insured to over 80% in just ten years. This has occurred because businesses, in an effort to contain their costs, have chosen this model for their employees as a cost saving mechanism. After all, they save premium expenses, the employees still get to choose a provider and save some money. Only the provider loses. I told dentists in the US and Canada over an 8 year crusade in the 80's, "watch what you wish for". Capturing a population of patients comes with a price. Can you make up for lost revenue/case with efficiencies of scale? Look to medicine and what is happening there…this is OUR future now.

- Government intervention in health care is here to stay. The re-election of Barack Obama will ensure that government will be setting the fees, determining the services to be rendered, and doling out care with a limited budget. Governments throughout history have tried and failed to provide "universal coverage" to the masses. Health care has bankrupted even healthy economies in Europe. It has forced governments there, in Canada and elsewhere to ration care. Our experiment in socialized medicine is just beginning, but it is here to stay. By the time our president leaves office it will be too well entrenched in society and in the bureaucracy to be repealed. We will merely be adding Obamacare to Social Security, Medicare, and Medicaid as governmentally run entitlement programs that our nation can no longer afford. But there IS good news for us in dentistry. The government, in its wisdom, has chosen to exclude the services we provide from the services they will offer the public. How we use this "opportunity" will be discussed as you read on.
As the government comes to grips with (we can only hope this happens soon) the entitlement programs it must fund, and as employers come to grips with the increased costs they will bear supporting governmentally mandated programs, it is only rational that business will look for places to cut expenses. Dentistry looks to me like a good place for them to begin. It has already begun with the incredible incorporation of PPOs for dental plans. Indemnity programs will become a thing of the past. I predict that HMOs will, as well, not because they do not save the purchasers of insurance money, but because of how the plans make money...they deny care to those who need it. I also lectured on this in the 1980's. Employers want happy and productive employees. In such a world, their current best option is to provide what seems like the same care for less money (the PPO model), until the marketplace provides less service in response to less money. The final chapter of this cost cutting story will be a drastic reduction in the number of insured patients and a vast reduction in the services that will be covered. I put orthodontics at the top of the list of services that will be dropped as a cost containment measure. More will follow on this as well.

IS THERE A SILVER LINING?

What I have laid out above is what I see happening in the orthodontic arena going forward. If I am right, are we doomed? The short answer is that there will be some winners and a lot more losers.

Those who continue to “do it the way I always have” are in deep trouble. Similarly those frozen with indecision, suffering the “deer in the headlights” syndrome are also in very deep trouble. Richard Nixon is famous for, among many things, the phrase “When the going gets tough, the tough get going”. I believe the future belongs ONLY to those who “seize the moment”. Let me continue my thinking:

In a world where businesses are looking to cut ever-increasing costs for employee healthcare, I almost welcome the dropping of orthodontic benefits. In such a world, we would be to dentistry like plastic surgery is to medicine. Free of third party intrusion in our practice lives, we would be free to offer our services at whatever fee WE feel appropriate. What a benefit to medicine. Free of third party intrusion in our practice lives, we would be to dentistry like plastic surgery is to medicine. In such a world, their current best option is to provide what seems like the same care for less money (the PPO model), until the marketplace provides less service in response to less money. The final chapter of this cost cutting story will be a drastic reduction in the number of insured patients and a vast reduction in the services that will be covered. I put orthodontics at the top of the list of services that will be dropped as a cost containment measure. More will follow on this as well.

Creating a need for our services in the marketplace. We would need to educate the public we serve about the benefits and value of orthodontics. With them paying our fee without third party help, this would be job one. The AAO and others should be our spokespersons, and tell the world there is a difference between providers. We will need to support their efforts financially (it is time to spend some significant money) and ride that coattail to the future.

Those who can PROVE their work is better, will have a clear advantage in the competition for patients.

Better cannot be a “catch phrase” as everyone can and will use it. It must be real, documentable, and available to the world to “Google search”. Take the time to look at the websites of your competition. You will find that everyone proclaims they are “better”. Remember, your patients are adults seeking “the best” or the children of parents who want ONLY the best for their kids. This is a powerful message you must convey to survive and thrive.

In our practice, we treat ALL fully banded cases with Suresmile. A database of over 80,000 finished cases (and growing) clearly substantiates that if ABO standards are the measure, Suresmile delivers the goods. It will be up to you to decide how to convince the public you serve, how you are better…and you will also need to determine how you will tell the world.

You might wonder what it means to differentiate your practice. What I teach is that consumers seek convenience. Importantly, they will pay more for it as well. There is good evidence to support these facts. In a world where consumers will be paying for our services entirely out of pocket and a world where our competition for patients will include corporate offices marketing heavily and offering evening and Saturday hours, what can we offer? The answer is better and faster!
WHAT ELSE CAN WE DO TO DIFFERENTIATE OUR PRACTICE? ASIDE FROM BETTER AND FASTER WE NEED TO BE ABLE TO CONSISTENTLY DELIVER:

- Convenient hours
- Convenient location
- Friendly service
- Run on time
- Very convenient financing options

Importantly, it is not enough to “do it consistently”, we need to tell the world what we are doing and why. This requires a comprehensive marketing strategy that your practice is devoted to execute consistently. Your referrals need to know, on a regular basis, what you do that is different and better. So do your patients, who must be trained to tell the world your story (i.e. market your practice...you need to teach them how and give them the tools). You MUST have a great website and a great Internet presence, because this is how consumers (your future patients) shop. You must be actively involved in community activities (it is up to you what this means) as your consumers, faced with choices on who to seek orthodontic treatment from, will naturally gravitate to those practices (all other things being equal, of course) who give back to the community. This is a continual ongoing process with no end. You need to tell your story over and over again. What should be worrisome to you is that the corporates have the manpower and the means to create and continue a comprehensive marketing campaign.

Marketing your practice professionally is one of the keys to your future. It is not enough to be good or even REALLY good. You need to tell people in every way possible. In my comprehensive courses, I teach doctors these concepts. Importantly, we work together, one on one, to develop a comprehensive plan specific to you, your community, and your personal goals.

Key to a consistent marketing program as well as consistent high quality service that you can differentiate is the people you work with. High turnover is a practice killer, as “newbies” cannot deliver the care of more experienced team members. Your treatment results and your service reputation both suffer. (By the way, it costs you $30,000 every time you lose and replace an employee). Importantly, the key to motivated, long-term team members is creating an environment they want to work in and rewarding jobs that are well done. It takes more than money to assemble and retain such a team and without it, you cannot possibly deliver care that is exceptional and at a level that your patients and referrals will brag about. Without highly motivated and trained team members, your quality will suffer and your marketing campaign will fall into disuse or worse. Do you have really motivated team members, or is it just a job? Are your team members in it for the long run? Are some of those long-term folks more of a liability than an asset? Can you count on them? Can they count on you? Will they “fall on their sword” for the practice? Look hard at your team. As Jim Collins, author of Good to Great once said: “The art of management is getting the right people on the bus, the wrong people off, and everyone in the right seat”. How good a manager of people are you? Can you be better? Where can you learn? I have taught for years the key to your success is your people. It begins and ends there.

WHAT ARE SOME OTHER THINGS I CAN DO?

Your future is yours to control only if you “seize the moment”, carpe diem. Aside from the aspects above some other suggestions I can make:

- Find an underserved population to take care of. This might mean moving to another town or another state. It might mean a second office. If your “market” is over served, do something!

- Be a “niche player”. In a competitive world, one way to survive is to focus on one segment of the market and serve it well. This is what plastic surgeons do. People who want to look better seek them out. They don’t go to their general surgeon. Importantly, they will pay handsomely to look better, even in a world where insurance will pay none of the cost. So perhaps focus on being the TMD specialist in your town or the “comprehensive multidisciplinary adult ortho doc”.

- Create a “boutique practice”. Offer services so exceptional and unique that no other orthodontist will compete for these patients. Offer nails and massages “while you wait”, or offer Sunday hours. Offer to be the ONLY person who touches the patient (viz. ONLY the doctor provides treatment...to an extreme). Be careful with the boutique concept. If your offering is not what the public wants, you will have no patients. If their “tastes” change, you could, like the local restaurant, be out of favor overnight.

- Minimize your overhead. This is what most orthodontists do when faced with monetary challenge. The danger is that in your quest to control costs that you will either damage your service skills and kill your reputation, or unwittingly expend more on the most expensive cost on your P & L statement, your cost, in trying to reduce a far less costly expense like staff salary or equipment or supply costs.

- Acquisition. An underutilized way to grow a practice is through acquisition. In a world where older orthodontists will be retiring in increasing numbers, the opportunity to acquire a competitors practice offers several advantages. First, it adds immediately to cash flow with, if done correctly, little added overhead expense. Second, it eliminates a competitor. If you don’t buy the practice, correctly, little added overhead expense. Second, it eliminates a competitor. If you don’t buy the practice, someone else likely will. That someone else is likely to be a recent grad who is hungry, has bills to pay, and the energy to do anything to succeed. The alternative could also be a corporate purchase. Do you really want a corporate, with their deep pockets, to be a competitor?

WHERE DO I GO FROM HERE?

Do you feel overwhelmed? If so, you have a lot of company. There is a lot to do. It takes time and prioritization to develop and execute a comprehensive plan for the future. It takes longer still to assemble a team that sees your vision and wants to be part of it. It is a long journey and I’d love to lead you on it in The Bottom Line Comprehensive Series.