

Practice Management

Small Town Practices — A Great Way of Life

Kevin A. Shea, J.D.*

Introduction

The basic premise of Economics 101 is that demand for a business will be in direct proportion to the rate of return a buyer can reasonably expect from the acquisition of the business. Much to the chagrin of many economics professors, this principal has little or no application in the demand for dental practices today. The great paradox in dentistry currently is the fact that while most practices are more profitable every year, their practice values continue to remain flat or decrease in relative terms.

Smaller Communities vs. Metro Areas

This contradiction is particularly true in practices in small to mid-sized communities.

A couple of examples of this contradiction the author has observed firsthand are:

- (1) A practice in a community of approximately 500 surrounded by pristine lakes and forests. The selling doctor has netted nearly \$300,000 and has a patient base of nearly 3,000 fee-for-service patients.
- (2) A practice in a college community of approximately 4,500 with an annual gross production of more than \$650,000 and having more than 4,000 fee-for-service patients.

Both these practices have struggled to find parties interested in looking at them. Even after visiting the offices and their communities, most of the potential buyers, while raving about the great income and growth potential of the practices, fail to purchase them because the community is "just too small".

Practices in these "third and fourth tier" communities are having a difficult time selling, despite their inherently

significant economic benefits. In contrast to those in the metropolitan area, these practices generally have the advantage of:

- (1) a lower competition in a doctor-to-patient ratio,
- (2) no competition from managed care and capitation plans (and, as a result, the doctor can be more selective in the patients he or she accepts), and
- (3) lower overhead costs.

For example, two of the larger costs in many dental practices are those for labor and for occupancy expenses. Overall, the labor and occupancy costs in smaller towns are significantly lower than in urban practices, with average salaries for staff in an outstate practice approximately 15% less than for one in a metropolitan area. Further, it is not uncommon to see square footage occupancy costs in small towns under \$7.00 per square foot, whereas many metropolitan area practices have square footage occupancy costs in excess of twenty-five to thirty dollars per square foot. As a result, a dentist in a smaller community can net five to ten percent more than his or her metropolitan counterparts.

Additionally, some non-economic benefits of a smaller community are:

- (1) the personal nature and quality of local schools and businesses,
- (2) the lack of crime and poverty,
- (3) the trust and loyalty of patients and friends,

- (4) greater opportunities for children in school and extracurricular activities, and
- (5) the ease of accessibility to metropolitan areas because of advanced transportation means.

Lack of Demand

Nevertheless, it is economically perplexing why younger dentists are not streaming to the smaller communities. At times it is difficult, if not impossible, to attract the younger dentists to these towns. In my experience, there are three main causes for this lack of demand.

First, there is a general shortage of dentists in the Midwest. The enrollment in the regional dental schools has been flat for several years. Compounding this problem is the closure of Northwestern University's dental school.

In addition, there is a significant migration of graduates from the Midwest to the high

growth Rocky Mountain and Sunbelt states. Between Minnesota and the Pacific states, there are 13 states that are served by four Midwest dental schools (plus Colorado's dental school), including the high growth states of Nevada, Arizona, New Mexico, and Colorado. As an example, only two members of the 2001 graduating class at Creighton University Dental School

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*Mr. Shea is president of Shea Practice Transitions, Edina, Minnesota.

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are planning to return to locations east of Omaha.

Second, and irrespective of the flat enrollments, a significant percentage of graduates are choosing against private ownership of a practice. Many of these dentists are opting for corporate practices or for simply remaining lifetime associate dentists (oftentimes on a part-time basis).

A third cause for lack of demand for practices in smaller communities is related to changing demographics. The most recent census confirms that the United States is becoming more concentrated in metropolitan areas. A telling aspect of this statistic is that smaller communities are not only losing population, but their populations are aging. The fundamental reason for this urban concentration is the advent of "two career households". It often happens that while the dentist may be attracted to the overwhelming benefits of practicing in a smaller community, the spouse may have a postgraduate degree and a career that he or she wishes to pursue as well. In this scenario, the smaller community does not offer the diversified job market the metropolitan areas do. Therefore, living and working in a smaller community becomes unacceptable to many, if not most, of these two-career households.

Unfortunately, this trend has crept into some of the "third tier" cities also. Although some dental schools have plans for expansion, it is questionable whether they will be able to fill the void left by the increased demand for dentists. In Minnesota, the most recent legislative budget sees the dental school

trying to simply maintain their enrollment rather than increasing the number of graduates to meet demand.

Practice Sale in 2002

Despite the foregoing, there are some things a dentist can do in preparation for his or her practice sale:

- (1) *Start early.* Practices are still selling, although they take longer to sell than 15 or 20 years ago. Therefore, if you have an "urban practice", plan one to two years in advance; for "rural practices", at least three years in advance.
- (2) *Consider bringing in an associate dentist.* As mentioned, many practices are experiencing rapid growth, and thus what traditionally have been single-dentist practices can easily accommodate two or more doctors. Therefore bringing in an associate dentist early on and properly structuring a buy-in/buy-out can greatly enhance a successful practice transition.
- (3) *Keep your practice modern and updated.* Certainly one method (although not a fail-safe) which may attract younger dentists to smaller communities is to maintain a modern facility with up-to-date equipment and technology. It is not necessary to be extravagant, but a "modern office" can be very appealing to potential buyers and/or associates, as well as increase your own productivity. If this modernization is not in place, many times an associate will become disenchanted with the community or simply "scratch start" to take advantage of the pent-up demand in a smaller town and the impending retirements of older dentists.

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- (4) *Lobby your policy makers.* While unthinkable 20 years ago, there is now an acute need to increase enrollments in regional dental schools. Naturally it is quite expensive to establish and maintain dental schools; hence it is imperative that state and local policy makers are aware of the need for increased dentists in the smaller communities. Even though a dentist is not a major employer in the community, many dental offices employ 10+ staff members as well as contribute to the array of services and the livability of the community.

Conclusion

Owning a dental practice in a small town has tremendous benefits economically and otherwise, yet as we progress further into the 21st century, these smaller cities seem less attractive to younger dentists. Clearly it is in the best interests of these towns and dentistry at large to preserve dental practices in these communities. In order to do so, some broader changes must occur in dentistry, and careful planning should be implemented well in advance by the selling doctors. If this can happen, "small town practices" will continue to be a great way of life. ■

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