Part 3:

Recession 2023: Will it Happen?

Survive and Thrive in Tough Economic Times

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Recently, both the USA and Canada posted astounding job growth numbers. In January 2023, 15K new Canadian jobs were predicted but we produced 150K, while the US created 500K. Sounds great, but unfortunately, inflation was still over 6% and wage settlements were just under 6%, far above the 2% goal for Canada's central bank. The central banks will need to maintain higher interest rates for longer, and may have to further tighten monetary policy (as interest rates rise, unemployment must rise, usually creating a recession). While the US may avoid a recession (far from certain), Canada's economy is slowing more dramatically.

On January 19, financial advisors Deloitte forecasted a **deeper** recession than first expected as Canada's economy slows more drastically. Deloitte's researchers are among a growing group of economists **expecting the economy to suffer in 2023**. Over the March 11/12 weekend, **the world changed again. Both Silicon Valley Bank and Signature Bank became insolvent within 24 hours, the second and third largest bank failures in US history.** All US Federal agencies are working to prevent these failures becoming contagions and causing another *Great Recession* like in 2008. The risk of a recession in Canada has increased. It will take some months to see the full impact of these exogenous shocks to the US financial system and their impact on Canada.

If we encounter a recession, the reduction in uninsured patients and some insured patients will likely be immediate and severe. ***Economic caution*** **over the next two to three years will be the new black.**

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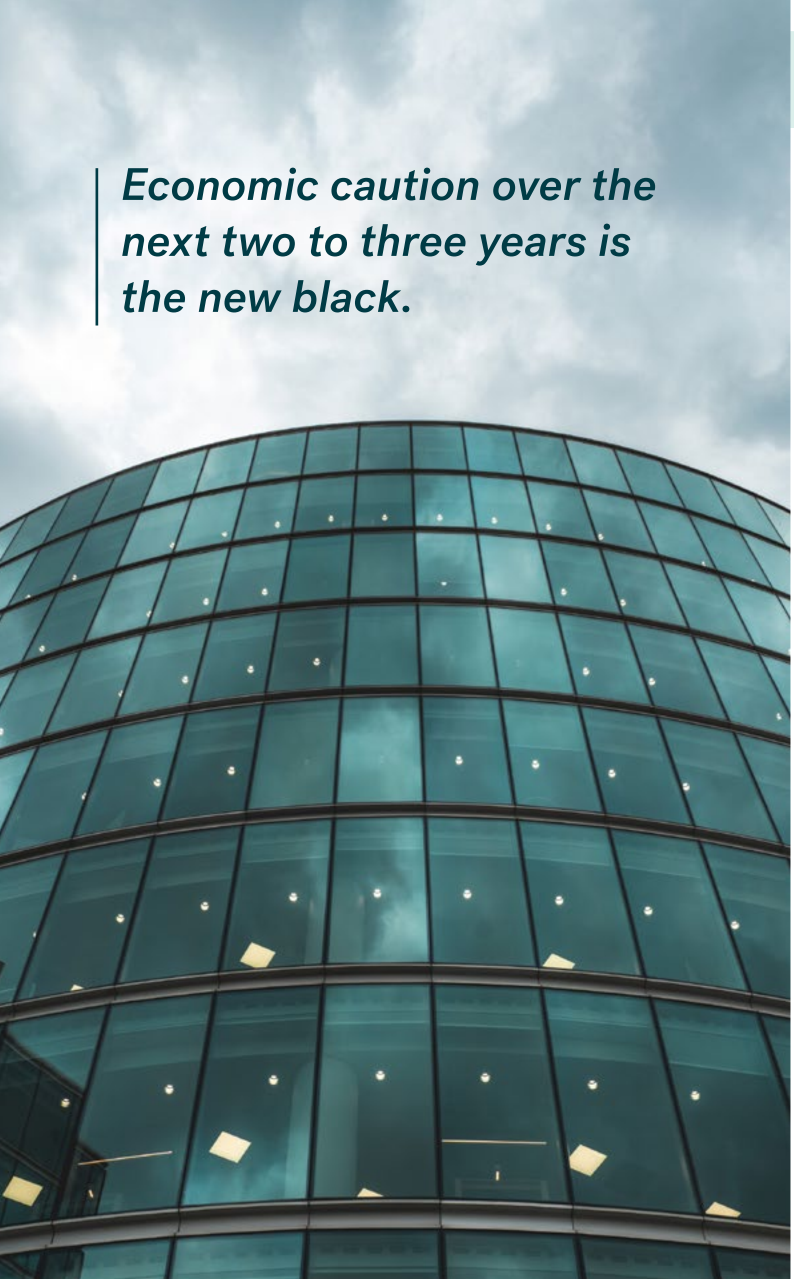


Recession-Proof Your Practice and Your Personal Finances

1. Talk to your accountant or CDSPI financial advisor about preparing monthly financials for your practice and corporate/personal monthly budgets
2. Prioritize your Emergency and Sinking Funds for unexpected expenses
3. Pay down high interest debts
4. Pause new debt
5. Adopt Cost Leadership strategies – don't lose capacity
6. Build your brand to retain your employees and attract new employees

Figure 1 shows a recent survey of Canadians' financial stress. Even the **Great Recession of 2008** did not cause this level of financial stress for so many Canadians. If unemployment rises, we will **not** likely see short-term increases in dental revenues. Insured patients have returned – revenue from them is growing. The patients who are experiencing stress and already pulling back on dental visits are the uninsured, representing about one-third of most practices' patients.

Figure 1: Canadians Under Financial Stress

Canadians are experiencing financial stress even before the highly probable recession arrives; recent surveys show:

- **22% of Canadians have run out of money** for living day to day; they can't afford to pay any more.
- **52% will struggle to feed their families** and pay for any further price increases and are cutting back on other purchases (dentistry is paid for in discretionary dollars).
- **81% of Canadians are worried** that inflation will make **purchasing every day items less affordable.**
- **75% of Canadians with children have cut back on food, school and sports/arts investments for their kids** from what they traditionally provide for their kids due to rapid rise in interest rates and inflation, especially food inflation.
- The unprecedented **financial strain on all Canadians will affect how much discretionary income is available for dental appointments from 2023 through 2025.** It will take at least two years for Canadians to rebuild their personal finances from the rapid increases in inflation and interest rates.
- **Record numbers of Canadians have accessed credit counselling;** even more than during the height of 2008's "Great Recession".

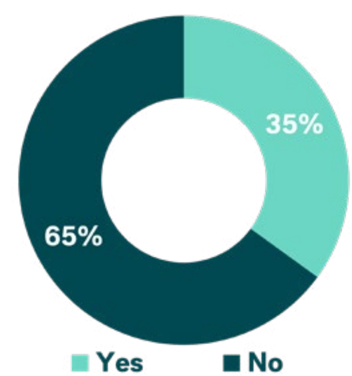
One of my mentors who lived through recessions since the 1950's had a *Five-Minute* rule to help his patients during tough economic times. Anything he could do in five minutes or so, he gave away. To keep his patients coming for their regular re-care visits, he did the recall exams and necessary X-rays, but didn't charge them. He wanted to help his patients afford the key re-care/hygiene appointment, which was so important for their dental (and overall) health. If a patient who was struggling broke a cusp, the specific exam/X-ray and small temporary filling was free. His goal was to enable the patient to afford a large filling (stable holding pattern) until finances improved and they could afford the crown. His *Five-Minute* rule was flexible; for his retired patients, it could be more free services. The end result was enormous loyalty and appreciation from his patients. His practice grew through many new patient referrals and he protected the capacity of his existing patient base. In business terms, he maximized Customer Lifetime Value (CLV), not short-term net income.

CLV isn't a concept I can teach in this space, but suffice to say, in strategy, operations, and marketing, it's an important concept. It's not just revenues that are important; new patient referrals are equally, if not more important. Treat patients nicely during tough times, and your CLV will be maximized in the long term. My mentor created great value for each of his patients, who sent him many new patients when other practices were shrinking during recessions.

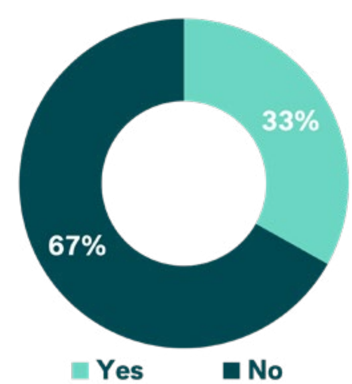
How much we help our patients whom we know are struggling financially is an individual practice decision dependent on our own practice and personal finances; but is a key decision for all practices. *Figure 2* shows how many Canadians are already avoiding seeing the dentist due to their financial struggles.

Figure 2: Due to the current economy will you be...

Delaying further dental treatment this year



Delaying further dental check-ups/cleanings this year



Will you be delaying further dental treatments this year because of the current economic situation?

Will you be delaying further dental regular check-up/cleaning this year because of the current economic situation?

Some dentists will have more flexibility in helping patients and managing CLV than other practices with high corporate and/or personal debt levels. Here are some tools to manage through a recession.

Corporate/Personal Budgeting and Emergency/Sinking Funds

I've stressed the importance of **monthly** financial reports, not just year-end financials. Without monthly statements and cash flow analysis, you're managing your practice blindly. If you don't get monthly financial statements, now's the time to start!

Meet with your accountant and CDSPI financial advisor and plan monthly corporate and personal budgets for the year. The goal is to help dentists who need to reduce debt and increase net income through Cost Leadership strategies. There are always savings we can make inside our practices, but it's dangerous to cut too much out of your practice. It's often safer to reduce our personal income draws through budgeting, which puts less stress on the company. However, this may be a difficult topic to discuss with your spouse or partner. Your accountant and CDSPI financial advisor are invaluable in laying out the goals and reasoning for personal cuts.

Sinking Funds are used to build up savings **inside** a company for unexpected expenses, while *Emergency Funds* are normally created **outside** of the company. If you don't have these, start now. Your accountant or CDSPI financial advisor can give you effective tax structures to start saving.

Pause New Debt/Reduce High Interest Debt

Many dentists are debt-free; as I wrote in part 1 of this series in *the bridge*, these dentists are relatively safe over the next two to three years. However, if you have significant debt, reviewing your financials monthly with your accountant and CDSPI financial advisor is critical. Most bank financing products for professionals are **demand** or **credit line** loans which can often be recalled in 30 days or less. Bankers look at various ratios, which are part of the *fine print* of their loans. Your accountant and CDSPI financial advisor can help you understand where your ratios are.

Personal debt, especially credit card debt, is the first quick win your experts will focus on. It's critical to pause new personal or corporate debt to pay down existing debt and improve your financial ratios. This requires expert advice – talk to your accountant or advisors first, and develop a plan **before** the bank calls. Taking action early will reduce stress for you and your family.

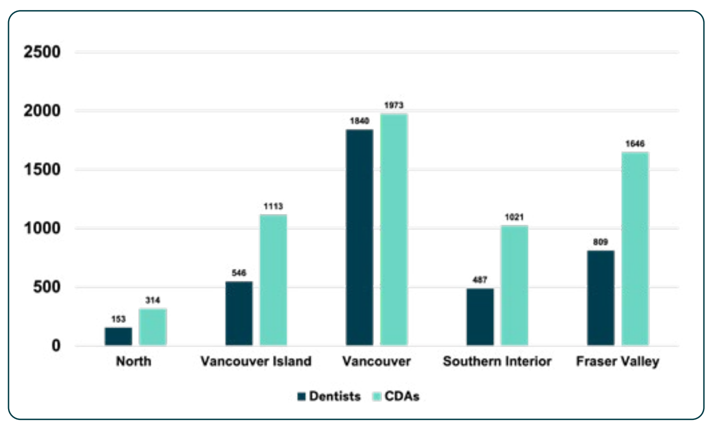
Recession-Proof Your Practice/Maintain Capacity/ Power of Brand

Part 2 of this series gave **cost leadership stance** strategies. The most efficient dentists can produce six procedures per hour versus the average dentist who produces three. To clarify, this isn't only the procedures in the dentist's chair, but **any billable procedure attributed to the dentist**. For example: a dentist has three chairs, one for her hygienist, one for herself and one for slack capacity. If the dentist does two fillings in her chair in the hour; sees the patient in the hygiene chair for a recall exam and X-rays were taken (which she reads); and she quickly pops in and delivers a night guard to a patient while her certified dental assistant (CDA) goes over the post-op instructions in the slack capacity chair. Each *Suggested Fee Guide* item (two fillings, recall exam, X-ray(s), night guard) means she delivered **five** procedures in that hour. The more efficient the dentist, the larger the team she can support. **Efficiency is not doing a filling every 10 minutes, it's managing a multi-auxiliary team.**

Practice Capacity has two issues: first, how do you support your uninsured patients in affording the re-care appointment; and second, is your full team available, especially for peak demand times for patients (often evenings or Saturdays)? You may need to pay your team more for peak demand hours versus their regular office hours. The shortage of registered dental hygienists and CDAs will be a key issue for many years. Small, three- or four-chair offices should be considered if you can't easily attract new team members. If you can easily attract new team members, larger offices are an option. Efficiency and running a cost leadership stance are important for any office (covered in part 2 of this series).

We all have a brand which hopefully is deliberate. This is key to attracting and retaining your patients and your employees. All team members want *mastery* in their profession. Investing in your team to ensure mastery and treating each of them as priceless, irreplaceable gems is critical going forward. Your team **is** the quality and experience your patients see.

Figure 3: **Dentist and CDA Breakdown in BC**



Management skill sets are the basis for the performance of the most efficient dental practices, but not taught in dental school. Investing in your management skills has a huge dividend for any dentist. Colleges have courses for small business to improve strategy and operations, or you can take a specialized program such as the *Sauder Certificate in Dental Practice Management* sauder.ubc.ca/dentist.

My wish is for Canadians to return to simpler, less stressful financial times as soon as possible. Until we get there, the BC Dental Association (BCDA) and Canadian Dental Association are here to support all dentists. ■

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