

# Part 1: Houston, We Still Have a Problem



**Dr. Jim Armstrong**  
Senior Associate,  
Co-Academic Chair, Certificate in Dental  
Practice Management,  
Sauder School of Business, UBC,  
Past President BCDA, CDA (2020-2021)

This was the title I choose for a 2012 article when all Canadian dentists were reeling from the 2008/9 “Great Recession”. It’s an apt title for what we’re collectively facing over the next few years. But like the Apollo 13 astronauts, we can fix this.

Let’s start with good news, every generation of dentists for the last century has been beset by challenges in the external environment that blind-sided them, but they met the challenges. Our generation will do the same, faced with the triple whammy of COVID-19 still evolving; supply side constraints; and war in Europe. However, it’s never easy and dentists in the past had to make sacrifices to get through “tough times”. They did. We will, too.

What’s different this time?

## The End of Cheap Money

For the last 20+ years, any dentist who started a new practice or bought an existing one faced historically lower interest rates which kept dropping until money was virtually free (sub 2.5% interest rates). As a result, many dentists and companies binged on debt to fund their practice growth and their personal consumption. Asset prices for things like homes in urban areas, or dental practices went through the roof. It is not uncommon today to find dentists in urban areas who have millions of dollars of mortgage debt, millions of dollars of practice debt and are still paying off their educational loans. For the first time in their lifetime, interest rates are rising rapidly. Dentists who graduated in the 80’s faced interest rates of 15-22% and adopted **cost leadership strategies** – targeted efforts to lower the cost of operation – to survive. These tools are going to be key to the survival and thriving of many practices in the next two-three+ years.

## Staff Shortages

The whole world was short of employees prior to COVID-19, and it’s gotten worse for healthcare through the pandemic – this is the same in the USA or Canada, rural or urban. Segments of dentists who are above pre-pandemic billings today generally have won the Hygienist/Certified Dental Assistant/Receptionist lottery; they can find new team members or their original team members all returned. Too many dental practices are operating without a full team.

## Climbing Interest Rates

The G7 central bankers have signaled that they’ll do “whatever it takes” to break the current record high inflation rates we haven’t

seen since the 80’s. For anyone with debt, it’s likely your interest costs have doubled and will continue to climb. The American Dental Association’s **September 2022 HPI Report** indicated that for many US dentists, their reimbursement rates/incomes had not gone up but their costs, especially PPE and staff, have risen at least 20%. In fact, in “real dollar terms” the average dentist’s net income has not increased since about 2004.

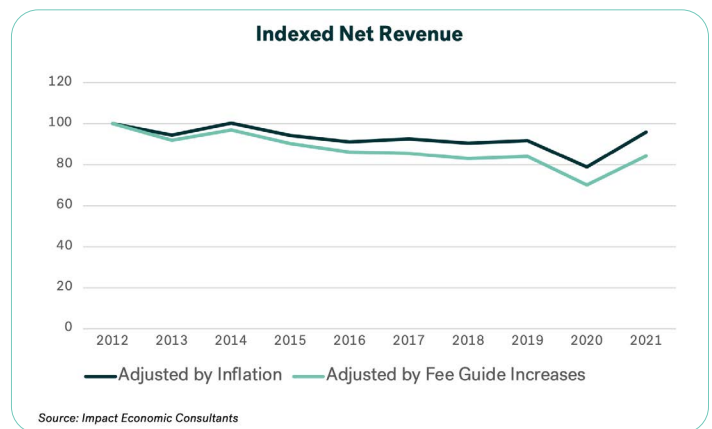
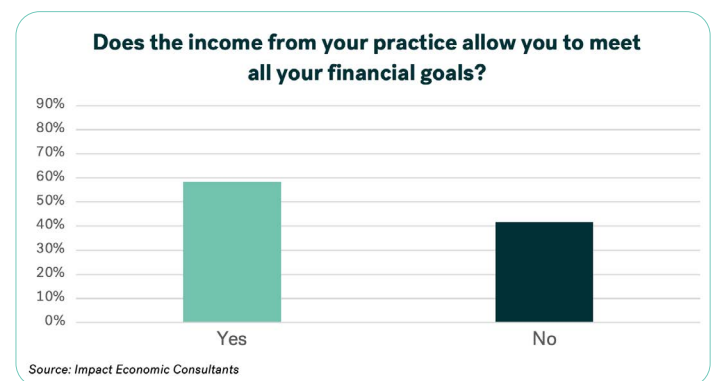


Figure 2 shows that about 40% of BC dentists net incomes do not meet their needs and that was before interest rates started to rise rapidly.



Yet costs for you and your practice and family are substantially higher in 2022 in real dollars than 2004. This affects everything from lifestyle, retirement, debt repayment and practice efficiencies. Your nominal income is going up, but your purchasing power is going down.

## A Recession on the Horizon?

The probability of a recession is very high and increasing. The

resolve of the G7 to raise interest rates until they choke off the wage price spiral and substantially reduce borrowing by firms and individuals is certain. Will the landing be hard or soft? Even Jerome Powell, who chairs the US Federal Reserve, cannot forecast for certain. So, one of many \$64,000 questions is **which dentists need to act now**, given all the likely stresses on their practices, and **which dentists are in a safer place and can ride out the storm?** It's important to remember that for dentists whose practices run at 50% overheads, a 1% drop in gross billings is a drop of 2% if net income; at 63% overhead (the average practice) is a 3% drop in net income; and those at 75% overheads (1/4 of all dentists) equates to a 4% drop in net income.

#### **Dentists who are in safer place:**

- Dentists with minimal or no practice or personal (mortgage) debt.
- Rural dentists just about anywhere, as costs for housing are a fraction of urban areas and patient/dentist ratios are often over 2000:1, so they are booked out weeks and months already.
- Dentists who are within five years of retirement (who have a significant buffer in their retirement plan).
- Dentists who have third-party insured patient pools that are above the 65% average for Canadians. Insured patients generally consume about twice as much dentistry as uninsured patients.

#### **Dentists who are exposed:**

- Dentists with high debt loads due to graduation in last 20 years or starting over (setbacks such as a divorce) in last 20 years.
- Dentists who have not yet reached or exceeded pre-pandemic gross and net billings. This is usually due to fear in patients and/or lack of team members which causes drop in billings.

This upcoming "highly probable" dental recession will be unlike any we have seen before. The next three to five years will likely be different than pre-pandemic times – much more competitive – and improvements in the economy will not float all dental boats (aging of population, changing internal migration and immigration patterns, and Canadians paying down debt vs discretionary spending). The future for growth in dental billings is extraordinarily cloudy. Cost leadership strategies will be vital.

In Part 2 of this series, I'll discuss cost leadership strategies, the importance of the "last dollar" into a practice (one more patient per day/1 more procedure per hour would add to the average dental practice). Hint: for a dentist the last dollar in has a profitability of about 94% with no lab, and 84% with a lab procedure. As well, I'll outline how to increase operational efficiency through optimized scheduling and block booking and turning dental "job shops" to "flow shops". Debt reduction is one important tool in a cost leadership stance, driving costs out of your practices. A checklist to get started is in the accompanying sidebar.

We can and will get through these difficult times. ■

*The opinion(s) and/or perspective(s) raised in this article is/are not an official position of the BCDA.*

# Debt Reduction Strategies

Debt levels do fluctuate through a business lifecycle – however excessive leverage (debt) has three impacts:

1. Key driver of "stress" in running your practice
2. Increases bankruptcy risk
3. Opportunity cost – crowds out retirement investing

Work with your accountant/banker to identify if you have high debt loads that are problematic. Do not avoid this step until year end. Many dentists have paid highly inflated prices either for practice assets (purchase, leaseholds, high tech), or personal assets (house, car, vacation). Remember high tech is not viewed as important by most patient segments. Debt reduction strategies are fairly straight forward:

1. Shed assets (sell) – de-leverage, e.g., do you need two or three cars?
2. Share assets (with other dentists) thus increasing utilization
3. Stop any more borrowing to be able to pay off the existing assets.
4. Stop new purchases or renovations home or business

Talk to your banker/accountant for the Net Present Value (NPV) analysis of your individual situation. The longer you wait, the bigger the hole you dig (time value of money). A recent Financial Post article highlighted that with a \$500k variable mortgage, the monthly payment has jumped from about \$1,900 in 2020 to \$3,900 in September 2022. Who has an extra \$2k/month lying around? Some dentists have millions in debt and it's all variable (floating). A dentist with \$2 million in borrowing may need to find an extra \$8k per month!

If you don't have business training, you'll need some professional help (banker, management consultant, accountant) or take a management program to learn the tools. The BC Dental Association has some great management tools for analysis of key benchmarks at [members.bcdental.org](https://members.bcdental.org) > About BCDA > Corporate Publications or check out the joint management program between UBC Dentistry and Business at [saunder.ubc.ca/dentist](https://saunder.ubc.ca/dentist).