



THE SCIENCE OF LOCATION IS THE KEY TO PRACTICE SUCCESS



► by David James

Let me just cut to the chase: The most important decision you will make as you begin your dental career is the location of the practice you will be starting, buying or joining.

Why? Because when you sort through all the clutter and clamor, there is no denying the fact that location is the number-one key to dental practice financial success.

Your generation is tech-savvy. You know technology. You embrace social media. You are technically prepared. What you may not fully understand is the business side of running a practice and the impact of data, especially on the crucial business decisions like where to set up shop. Big data is now everywhere and has taken over how companies (mainly large companies) make sales, marketing and other business decisions.

How about the dental industry? Is it using technology and big data to make these decisions? No.

Corporate dentistry is the exception — they are growing by using data to capture market share by figuring out where to start practices, what practices they should try to buy and how to attract the type of patients they are targeting.

But the individual practitioners that make up the vast majority of the industry do not have access to this information, nor do their advisers. They are not using technology and data for critical strategic-and location-based decisions. Too often, these decisions are made by gut feelings or incomplete or obsolete data. It's not their fault, as in the past the data has been extremely expensive to obtain, not to mention difficult to analyze and interpret.

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It is important for all dentists to understand that in order to stay competitive, they need to start paying attention — now — to data.

In your case, as a new dentist, you do not want to start, buy or join a practice that runs a high risk of not growing and not being competitive in upcoming years, and thus losing value. If you are going to be an associate, why not increase your probability of growth and success?

In this environment of an uncertain economy, changing demographics and industry changes, a premium will be placed on good practice management to grow and build practice value.

The key to that is location — specifically your location strategic plan.

It's important to note that when I say location, I mean more than just where your practice is on the map. Location isn't just whether your office is on a busy street. That's a very dangerous generality. It's much more. Often the term demographics is used throughout the industry when talking about a location. Yes, it is an important factor to evaluate when selecting a spot. But it's not the only factor — not by a long shot. Demographics is just the tip of the iceberg.

Whether you are looking to start a practice or join a practice, you need to do your due diligence. You need a plan — a strategic plan. Regardless of where a dentist is in his or her career, even if things seem to be going well, I believe that it is critical that every dentist should immediately create or review a strategic plan with their trusted advisers and partners, centering around the vital aspect of location strategy.

What does location include?

1. **Demographic data:** Here are 19 major demographic components that should be evaluated: Total population, population by age range, population change by age range, average per capita income, average household income, households by income brackets, households change by income bracket, average household size, total households, total families, average

family size, housing units breakdown (owned versus rented), total housing units change, average value of owner occupied units, population by ethnicity, total number of businesses, total number of employees, total sales, retail sales.

Tips for evaluating demographic data:

- Understand your practice goals in terms of the demographics of the patients you are trying to reach. Determine the radius and especially the maximum reasonable drive time that a new patient would drive to your practice.
 - Do not look at zip code data. That is very dangerous due to the irregular boundaries. Look for census block data as it is exceptionally more precise.
 - Are there natural or other boundaries (like an interstate) that need to be considered?
 - In addition to current data, look for five-year future forecasted data.
2. **Competition or market saturation evaluation:** It is critical to understand how competitive the market is, specifically in understanding the ratio of practitioners (not practices) to population and comparing it to standards that help determine if a market is saturated and to what extent opportunities and risks exist. Do you know your competitors' ages? This factor will be a major input into your strategic plan, especially as it relates to financing, cash flow, growth projections, marketing spend and more.
 3. **Future growth potential of the area:** Are you in a high growth area, or stuck in a declining area? Two important factors here are evaluating where people work, not just where people live, as well as the five-year forecasted demographic data.
 4. **Where are your existing patients?** If you are considering joining an existing practice, it is important to understand the breakdown of patients by not just age and other common factors, but by location and dispersion. You need to

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see where they are on a map and especially evaluate the drive time ranges they encompass. For example, if the drive time you believe patients will typically travel to your practice is 20 minutes, how many patients live outside of that distance? If you are buying or joining a practice, it's critical to know your patient drive-time dispersion from a practice valuation and practice management standpoint, because the answer determines how much "goodwill" you should pay for and the risks you will encounter in retaining it after you purchase the practice.

5. **New patient marketing:** Most dentists struggle with generating a good return on the investment they make in marketing. I believe that this is because there is not enough emphasis on focusing just on neighborhoods and areas that meet your desired demographic and drive time profile. I believe in focused multi-touch marketing campaigns that provide value and create an impression of community rather than one-off large-area postcard campaigns.
6. **Building or office strategy:** Should you own your office building or lease? When is the lease term up? Do all of the previous location characteristics support staying? Is there room to grow or expand both your building and the market? Should you remodel to add space or is it better to move, or just add another office? Is there an opportunity to move the office to take advantage of new growth and neighborhoods without jeopardizing the current patient base?
7. **Practice valuation:** The most important factors in determining what a practice is worth are the hardest to ascertain, because they are intangible and not readily measured like assets such as equipment and receivables. The main factors are the patient base (including the ability to transfer that goodwill to a buyer) and the future growth potential of the practice. If you are joining a practice with the goal of someday becoming a partner, you should know this information up front.
8. **Building or office characteristics:** Once you get to the point in the process where you actually start looking for a

specific location, there are several building characteristics to evaluate. First of all, find a commercial broker who specializes in working with dentists. Your needs are very specific, so ascertain your broker's experience. The other factors to evaluate when building or leasing are its accessibility from major highways, major streets, visibility from the street, monument signage, building signage, parking, handicap accessibility and availability of public transportation.

9. **Referral opportunities:** What referral opportunities exist in the area, not just from dentists but from other medical professionals?
10. **Risk detection, avoidance and mitigation:** Location strategy is all about being proactive about planning ahead, detecting and avoiding risk rather than being reactive and having to figure out how to extricate yourself from a challenging situation two to five years into a practice.

If the practice you are looking to start, buy or join does not have satisfactory, objective data and answers to all of these questions, then beware.

Finally, let's discuss underserved areas. The majority of new dentists want to live and practice in a metro or suburban area for many reasons. However, in most instances, these areas are already incredibly oversaturated. Competition is fierce and it may take many, many years of hard work and marketing to win over patients from competitors, whether you are a start-up or an existing practice needing to grow. It is very hard to build practice value in such instances.

However, I believe that a multitude of underserved areas exist, many of them close enough to have easy access to cities, where the competition is not severe and the demographics and other factors make sense. This allows exponential practice value to be created. The issue for most young dentists comes down to having proof for themselves, their lenders and especially their spouse, that the community makes sense from a business, family and lifestyle standpoint.

The choices you make about location will determine everything: your family legacy, your practice value, eventual estate and more. Do not leave it to chance. ■

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Author's Bio

David James is a founder of REALScore with 30 years of experience as a CPA, CFO and strategic consultant to companies and individuals. He is an entrepreneur and a dental industry strategic and visionary leader whose mission is to help dentists of all ages and specialties achieve success and have a direct, significant impact on companies that provide products, services and advice. He desires to serve and help ensure that all families and communities across the U.S., including those in underserved areas, have access to quality dental care provided by dentists and companies who are thriving and successful. He can be reached at David.James@REALScore.com or (740) 403-2156. Visit REALScore.com for more information.