Location and Strategy - The Drivers of Competitiveness

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The profitability of dental practices depends on the nature and extent of competition. The critical factor in assessing the competitiveness of a dental practice is its "closeness" to other practices — where closeness is defined both in terms of geographical proximity and strategic similarity. Competition is most intense among geographically close competitors with similar strategies.

Locational closeness can be determined from a location-proximity map that pinpoints the geographic position of competitors. Strategic closeness is more complicated to establish because dental practices compete on two levels — positioning strategy and competitive strategy. Analysing competitiveness can help an established dentist decide to change strategy, to expand at the same location, to open a new satellite practice or to move. It is also a useful exercise for a new dentist considering buying into a new practice or setting up a first practice.

The Importance of Location

As they say in real estate, "location, location, location." This maxim applies equally to dentistry where, like all retail businesses, it is just as hard to recover from a poor location decision. All location decisions involve long-term investments which are almost never recovered if the practice moves.

Location itself also influences strategy — everything from patient profile to practice style. Practice location is one of the most important attributes of the service quality "experience." Both practice location and the appearance of the neighbourhood provide customers with cues about service quality. Locational factors are also important drivers of profitability and practice success.

A Location-Proximity Map

One way to analyze locational closeness is by means of a location-proximity map (LPM). An LPM shows the location of your practice in relation to other nearby dental practices, and is useful for assessing the size and quality of the customer market.

Figure 1 is an example of an LPM for a dental practice in Vancouver. The large star represents the location of the target practice and the small stars represent other dental practices. The number of dentists at each location is shown adjacent to the star. As there may be many dentists at one location (e.g., a corporate dental office), the number of dentists is a more useful measure of competitiveness than the number of practices. The line emanating from the target practice measures a half-mile radius.

The easiest way to construct an LPM is with a local map and a copy of the Yellow Pages, which will help you find the addresses of all relevant practices. However, measuring the number of dentists in each practice usually requires site scouting.

Closeness is usually measured "as the crow flies." However, in urban settings travel time may be more salient than straight-line distances. If so, it may be more useful to construct iso-time lines (i.e., lines representing points that are normally the same travel time from the target practice). Iso-time lines are affected by factors such as road conditions (e.g. congestion) and availability of public transportation.

Analyzing a LPM

Figure 1 reveals 70 practices located within half a mile of the target practice. While this may appear brutally competitive, one should also consider other factors when analyzing competitiveness.

Demand factors, such as population density and socioeconomic characteristics of the neighbourhood, are particularly important. (Population demographics can be obtained from Statistics Canada.) Based on Statistics Canada data, there are 18,539 residents within half a mile of the target practice or an average of 265 people per dentist. This ratio is very low compared to the average of 1,722 people per dentist in British Columbia. In fact, it is among the lowest in North America. Prima facie, the low population-per-dentist ratio for the target practice suggests a high degree of competitiveness and therefore a poor location. But this is not the whole story.

Patient socioeconomic data reveal that this population has high family incomes: the average family income is $61,187, almost twice the provincial average of $31,504. Furthermore, the local population has a

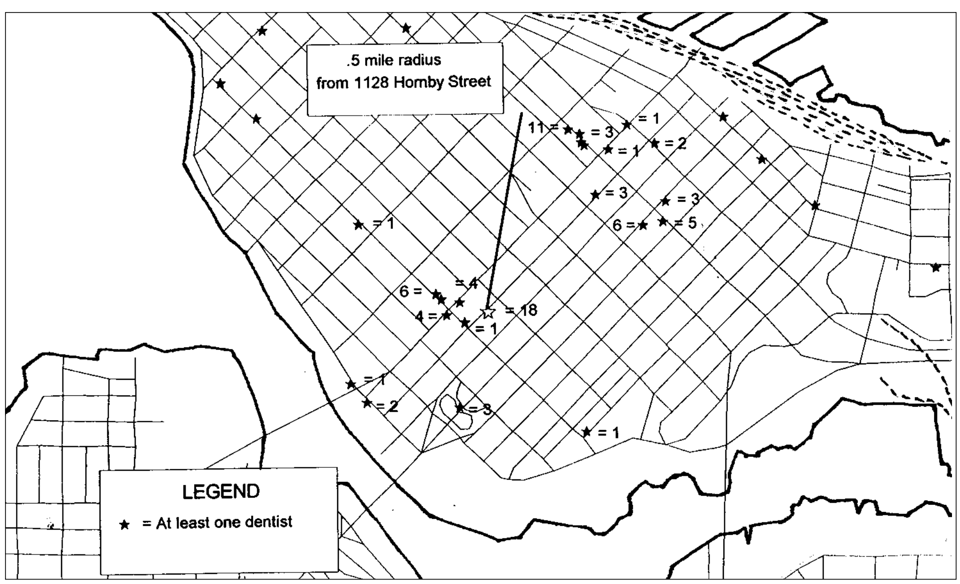

Figure 1: LPM for a dental practice in Vancouver

disproportionately large percentage of the population over 30 years of age, which is desirable for the target practice because it focuses on adults. Another positive market characteristic is that many commuters work nearby.

It is also useful to consider other locational characteristics that have indirect effects (positive or negative) on the attractiveness of the location, i.e. “externalities.” Positive externalities include coffee shops, boutiques, waterfront walks. Negative externalities include insecure parking and diminished personal safety.

Similar principles are involved in analyzing the practice location of specialists. For specialists, however, their customers are general practitioners who refer patients. Ideally, specialists want to be close to general practitioners but far from similar specialists. They may also want to locate close to different types of specialists as they may complement each other (e.g. orthodontists close to oral surgeons).

Strategic Closeness

Strategic closeness requires consideration of competing dentists’ positioning and competitive strategies.

Positioning strategy can be determined from an analysis of a competitor service-customer matrix (SCM). The target practice shown on the LPM pursues a customer-focused positioning strategy concentrating on price-sensitive adult patients with insurance. Research into the 70 closely located dentists indicates that only four have similar customer-focused positioning strategies. Thus, the target practice faces little direct competition. Eleven other dentists pursue customer-focused strategies, but with different target customers. Three of them are in the same building, but as they target elite patients and charge premium fees, they are not very close strategically. Service-focused dentists and niche dentists are also not much of a competitive threat because they also target different segments. Many dentists pursue mixed or hegemony strategies. They are a potential threat, but are not as focused.

We now shift from positioning strategy to competitive strategy. One way to ascertain the closeness of the competitive strategy is to determine the key attributes of the nearby practices that pursue a similar positioning strategy. Segment-specific key attributes for the five practices that target price-sensitive adults with insurance are shown in **Fig. 2**.

Consider, for example, the key attributes for general practice/preventive services. This is the “upstream” part of the business: it involves diagnosing remedial dental needs and leads to the more profitable “downstream” services. Key attributes of the target practice are extended hours (hours), highly visible ground floor location (G. Floor), running on time (ROT) and efficient scheduling (scheduling). Extended hours are more convenient to new adult patients, thereby increasing new patient volume. The highly visible ground floor location allows potential patients to view the facility. Efficient scheduling and ROT are essential to keep the practice at optimum throughput and to maintain revenues. A female dentist (F. dentist) may be preferred by women patients. Seniors, who are more flexible in their scheduling, receive fee discounts (discount) for mid-morning and mid-afternoon appointments, which are less busy times. These discounts help to even the flow of patients and to ensure high occupancy at all times.

Some key attributes are common to all nearby practices with a similar positioning strategy. For example, reputation is a key attribute for all dentists performing cosmetic procedures and pain management (pain) is a key attribute for all dentists performing remedial procedures, and crown and bridge procedures. For many services, competing practices also use some quite different key attributes. For example, competing practices pay more attention to advertising and high staff levels (staff). They are also better set up to accommodate walk-in patients requiring general practice/preventive dental services. Given these differences, we find that the target practice pursues a unique competitive strategy.

	Customers (patients)		
	Low and middle income with indemnity insurance		
Services	**Adult females**	**Adult males**	**Seniors**
General practice/ preventive	*Hours, G. floor, F. dentist, ROT, scheduling,* **advertising, walk in**	*Hours, G. floor, ROT, scheduling,* **advertising, walk in**	*G. floor, scheduling, discount,* **walk in**
General practice/ remedial procedures	*Hours, F. dentist,* pain, **staff**	*Hours,* pain, **staff**	*G. floor, discount,* pain, **staff**
Crown and bridge	*Hours, reputation,* pain, **staff**	*Hours, reputation,* pain, **staff**	*Reputation, discount,* pain, **staff**
Cosmetic procedures	*Hours, atmosphere, price,* reputation, **staff, advertising**	*Hours, atmosphere, price,* reputation **advertising**, **staff**	*Atmosphere, price,* reputation, **staff**
Implants	Subcontract, **reputation**	Subcontract, **reputation**	Subcontract, **reputation**

Italics = attributes possessed by target practice
bold = attributes possessed by competitors only
regular = attributes possessed by the target practice and at least one competitor

Figure 2: Segment-specific key attributes of the target practice and its four main competitors

Combining Locational and Strategic Closeness to Assess Competitiveness

The overall competitiveness of a practice can be assessed by combining the location and strategic closeness of competitors. A dental practice that is unique (i.e., pursues different strategies than its competitors) and has few geographically close competitors has a dominant competitive position. Efforts should focus on protecting and maintaining this strategic dominance.

A practice that is unique but that is in a highly competitive location has an intrinsically good strategy. This is the case of the target practice: it has many close competitors but few of them cater to the same customer segments; those that do, compete using different key attributes. Efforts should focus on either maintaining strategic differences or moving to a better location (or alternately, setting up an additional practice that will be expanded over time, all the while “milking” the existing practice).

A practice that has a superior location but a poor strategy should focus on introducing or changing its mix of services, developing a new customer base, or developing unique key attributes.

A practice that has a poor location and a poor strategy is in serious difficulty. Immediate action is required. Options include selling or effecting a major turnaround, including moving to a new location based on LPM analysis.

The Bottom Line

Detailed analysis of locational and strategic closeness is demanding. Even if you do not want to do too much work, here are some simple, important lessons to consider:

- locate where there are no competitors;
- locate where there are many customers;
- look at customer quality, not just quantity;

- look at neighbourhood quality;
- always search for attractive niches or positions;
- be as visible as possible — ground floor location is good. ■

Reference

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