THE KEY TO SUCCESSFUL SPECIALITY SERVICES LENDING:
CREDIT CONSIDERATION FOR 4 INDUSTRIES
The Key to Successful Specialty Services Lending: Credit Considerations for 4 Industries

Contents

Dental Practices ................................................................. 2
Physician Practices ............................................................ 4
Plumbing and HVAC Contractors ........................................ 5
New Car Dealers ............................................................... 6

This white paper discusses credit risk considerations for the four most-researched specialty services industries on eStatement Studies and will help you make better lending decisions in the industries presented.
DENTAL PRACTICES

CREDIT CONSIDERATIONS

ADVANTAGES
Dental practices are one of the most profitable industries in the entire economy, and that is likely to continue. One main reason is that, unlike other medical fields, the dental industry is not as burdened by the administrative costs of interacting with health insurance entities to be reimbursed for patients’ out-of-pocket costs: Many patients pay out-of-pocket costs themselves.

There is expected to be a rise in the need for dental services in two population groups: children and the elderly. It is projected that aging Baby Boomers, a population that numbers close to 70 million, will be seeing dentists more in the next few years. Dentists will also be in demand in the future. Industry projections are that there will be more dentists retiring than there will be new dentists entering the field.

RISKS
However, one threat to dental practices is the possible reduction of Medicaid funding by states. Dental practices can also be hampered by the large amount of money required to open an office. There have been great technological developments in equipment, but that has driven up the overhead costs for starting a new dental practice. Overhead costs are becoming so cost prohibitive that more dentists are combining with other dentists to form a shared clinic rather than opening an independent office.
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**Funding Needs**
Dentistry practices typically need funds for:
- Dental equipment
- Dental supplies
- Furniture
- Staff salaries
- Rent or mortgage payment
- Office supplies
- Working capital

**Other Credit Considerations**
- The effects of changes in Medicare, Medicaid, and private insurance coverage on the industry.
- Key points of healthcare reform that will impact dentists.
- How the prices of nonferrous metals and technological advances will impact dental practices.
- How the increasing elderly population will affect dental practices over the next five years.
- Insight into how the increase in at-home preventative care affects the industry.
2 PHYSICIAN PRACTICES

CREDIT CONSIDERATIONS

ADVANTAGES
The market forces of supply and demand coupled with healthcare reform and its cost containment measures are the largest factors that affect physician practices. At the same time, demand for healthcare is increasing. More births and a large, aging population are factoring into the need for more primary care and specialty care physician practices, particularly in the areas of vascular surgery, cardiology, neurological surgery, radiology, and general surgery.

RISKS
Certain pressures play an important role in the success of physician practices. Expenses, as well as the complexity of running a business and keeping up with IT advancements, are rising in this sector. Healthcare reform also adds pressure to this segment, specifically with greater scrutiny of physician practice, more administrative burdens on practitioners, and downward pressure on average reimbursement. Larger practices have strategic advantages in managing these pressures, so this segment has seen consolidation with physicians joining group practices, or smaller practices merging with each other. In addition, new practice models—from the solo micropractice to the patient-centered medical home to direct-pay practice—hold promise both for diversifying physicians’ service offerings and for improving physician productivity.

FUNDING NEEDS
Physician practices typically need funds for:
- Financing a start-up, new additional practice or joint venture.
- Practice acquisition.
- Equipment purchases.
- Malpractice insurance premium financing.
- Real estate acquisition.
- Working capital for ongoing financing need.
OTHER CREDIT CONSIDERATIONS

- Key indicators that a physician practice is a good risk.
- What competitive issues you need to determine per market.
- Insight into the economic pressures bearing on medical fees and reimbursement.
- Which expense-to-revenue changes in a physician practice can indicate a bad risk?

PLUMBING AND HVAC CONTRACTORS

CREDIT CONSIDERATIONS

ADVANTAGES
Plumbing and HVAC contractors will benefit from a continuing increase in nonresidential construction which includes office buildings, schools, and hospitals. Demand in the residential sector to update older homes to central air conditioning and environmentally friendly plumbing or to repair already existing systems is also projected to rise—which represents an enormous possibility for business expansion. This demand is expected to increase job growth for plumbing and HVAC contractors, particularly for those contracting businesses that support niche markets, like service provision (energy services or refrigeration) or industry specialization (convenience stores, homes, or restaurants).

RISKS
However, there are challenges to this growth. Residential housing construction continues to be erratic, with substantial growth in some parts of the country and slower growth in others. Although many leading economic indicators have improved, consumer confidence remains too low for accelerated overall housing growth throughout the country. Another challenge to plumbing and HVAC contractors are federal regulations directed at small businesses. In addition, projected increases in costs for materials will affect cash flow and raise upfront costs in this sector.
FUNDING NEEDS
Plumbing and HVAC contractors typically need funds for:
  - Equipment and tools.
  - Insurance.
  - Employee recruitment, training and retention.
  - Materials.
  - Vehicles.

OTHER CREDIT CONSIDERATIONS
  - How do different types of contracts affect profitability?
  - What key balance sheet indicators can signal risk?
  - The financial effect of restrictions and regulations.
  - How to determine if maintenance contracts will positively impact profit.
  - Trends in residential and nonresidential construction.

NEW CAR DEALERS
CREDIT CONSIDERATIONS
ADVANTAGES
As economic conditions have gradually improved, the new car dealer industry has expanded, with its success largely attributable to increased discretionary spending and elevated confidence among consumers. The introduction of new, fuel-efficient vehicle models with advanced technologies, currently low interest rates, high service standards, and use of a high volume/low margin strategy will continue to drive industry growth.
Risks
Economic factors that threaten profitability of new car dealerships include increased vehicle prices due to new federal automotive regulations and trade disputes with foreign brands. The areas where new car dealerships are typically most profitable are in parts and service and used car sales. Dealership profitability is affected by growing competition from fast oil-change outlets, tire stores, and independent service centers. In addition, cars have grown more complex, making service jobs more challenging. Periodic skilled labor shortages can affect profitability in this sector.

Funding Needs
New car dealers typically need funds for:
- Land or building acquisition and development.
- Dealership setup, including signage, pavement, banners, and lights.
- Working capital.
- Inventory.
- Sales-related expenses and advertising.
- Parts inventory and employee training for service department.
- Utility bills.

Other Credit Considerations
- What sales tools and strategies will increase traffic and volume sales?
- Insight into debt management requirements for managing changes in the new car market.
- The revenue effects of after-sales services and customer satisfaction with these services.
- How fluctuations in the price of oil will affect consumer demand for new cars.
- What levels of disposable income are required to maintain industry expansion?
- What effects will consumers’ increased environmental consciousness have on the industry?
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