



Dental Practice Research Report

2016/17

Foreword

On behalf of BOQ Specialist, the Bstar team and our clients, we hope you enjoy reading our 2016/17 Dental Practice Research Report (Report).

The Report is drawn from one-on-one interviews with advisers and their dentist clients, and looks at many of the issues dentists are worried about. Dentists are concerned with growing their patient numbers in an increasingly competitive environment. The twin threats of an oversupply of graduates and increased competition from corporate practices and health fund providers are putting pressure on attracting new patients, and maintaining fees, but few dentists have a plan to meet those threats.

Dentists tell us they know what a successful practice looks like. It is patient-centred, with all the tools and technology needed to offer a comprehensive dental service. It is also a comfortable and welcoming environment.

However, they have both immediate and strategic concerns. The major business concern is finding a way to grow their patient numbers. The Report identifies this, and also their lack of strategies for solving the problem. Linked to that is concern about increasing competition from health funds and corporate groups, who through economies of scale benefit from greater cost reduction and marketing advantages.

Our research indicates there are opportunities to help dentists with benchmarking, understanding business indicators and planning. Most practices are producing accurate and timely financial reports, but they are not analysing that information against industry benchmarks.

Dentists also believe they are not operating at maximum efficiency, and are not getting specific advice based on the life stage of their practice. We identify 19 key performance indicators (KPIs) which will allow dentists to address their challenges and make their practice more efficient, and more profitable.

This Report is an exciting new way that BOQ Specialist is adding value to our traditional specialist niches in the medical and accounting professions. We are pleased to be working with the Bstar team. Without their support we would not be able to produce such a comprehensive and insightful survey of the dental profession, and I thank everyone who participated.

We hope you enjoy reading our Report, and we welcome your feedback.

Dr Brett Robinson
Chief Executive Officer
BOQ Specialist

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METHODOLOGY

This Research Report has been prepared by Bstar Pty Ltd ABN 60 109 809 305. Bstar has a relationship with more than 200 accounting and financial planning practices. A Bstar Alliance Partner is typically a 2-10 partner accounting and/or financial planning business that has been trained and accredited in Bstar's Value Improvement Benchmarking Advice ('viba') advisory process.

The content in the 2016/17 Dental Research Report is taken from ongoing one-on-one strategic discussions with dentists. The primary tool utilised to collect the information in the Report was the Bstar Needs Review Process. Quotes used in this Report are sourced from notes taken during interviews, and may have been paraphrased or amended for clarity and to de-identify the individuals involved.

Bstar has used the real life experiences of accounting and advisory practices and their client dentists to tailor the suggested solutions for the concerns and issues identified.

Executive summary

“The industry is changing fast - we need to act, and change faster.”

In the current competitive climate, efficiency is key, but the majority of dentists (**77%**) believe their practice is not operating at peak efficiency. Dentists want to survive and thrive and believe growth planning is required immediately (**62%**) or in the current financial year (**11%**), but only **41%** have a plan for growth.

Dentists are highly intelligent, highly educated, self-motivated professionals. They have strong values in relation to patient care, this goes beyond just making money. They operate in a highly regulated professional environment, and dentists and their patients have high expectations of their conduct.

“Healthcare needs to be maintained as somewhat sacred and should not become engulfed by the corporate world. Dentistry needs to maintain integrity and not allow itself to be ‘bought’ by the health funds and corporates at the expense of patients’ health.”

Dentists have major concerns too. Dentists are worried about maintaining and growing their practices. Dentists are conscious of the toughening economic conditions and are concerned that their practices will be impacted. They see **corporatisation, oversupply of dentists and arrangements with health funds** (such as preferred provider arrangements) as strong strategic threats to their industry. (See the ‘Strategic Threats’ section for more information).

In this context, it is understandable that dentists’ major immediate concern is how to grow their patient numbers (**#1 Concern**). Many dentists want growth in patient numbers, and the majority (**66%**) have ideas on growth opportunities, but they need help to put these ideas into action. The Growth Planning section discusses these ideas, and plans in more detail.

“I need to improve our attraction of new patients. This will mean I can increase the hours for my associate dentist. I also need to retain our existing patients. This all means concentrating on good patient care and high quality of care”

The oversupply of dentists (**#2 Concern**) caused a number of concerns, primarily relating to increased competition for patients, and concern about maintaining fees.

“The oversupply of dental graduates can be good or bad. You can see it as more competition or as cheaper labour. There are more graduates to choose from, but are they any good?”

Dentists were also very concerned about increased competition (**#3 Concern**), and two related threats - Health Fund Providers owning practices and the growth in corporate practices.

“Competition is getting tougher. Corporates are aligning with health funds. Free enterprise is being squeezed.”

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What are dentists most concerned about?

- Patient numbers
- Oversupply of dental graduates
- Competition

Refer to ‘Business Concerns and Needs’ for a full discussion of the top concerns.

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Growth

“We have recruited a second dentist to start in the practice, part-time. The aim is to have the second dentist full-time within 12 months. Then we will recruit a third dentist, again initially operating part-time, and building up to full-time within two years. The next stage will be the gradual fitout of fourth and fifth surgeries over this period. I will assess the feasibility of a hygienist or therapist in the fourth room when the third dentist starts.”

Two in three dentists had identified the key growth opportunities for their practice (see the Growth Planning section for details). While 77% of dentists indicated that they had moderate (43%) to good (34%) understanding of growth planning, less than half had taken the next step and prepared a plan to take advantage of these opportunities. The Growth Planning section of the report includes a range of suggested growth solutions for dental practices.

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The ‘Donut’ Effect

Will the dental industry develop into a ‘donut’ shape?

There is the ongoing growth of large corporate and multi-owner practices at one extreme.

We are also seeing the rise of the very small, single chair practices at the other extreme.

Will any of the current medium size practices remain, or will there be an empty centre?

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Improvement

“It’s only an idea. To get another dentist and advertise more aggressively. I don’t really have a plan.”

Three in four dentists have concerns about practice efficiency. They want to improve their practice operations, and profitability and believe their strongest need is to improve staff and productivity. However, only 1 in 3 practices have the information to understand how they are performing, and where they can improve. In the ‘How do advisers help dentists’ section there is a list of operating cost KPIs used to measure and improve performance.

“I need to operate the practice efficiently. It is essential that we book appointments for optimal time utilisation and maintain an efficient recall system. This is all in order to allow the employment of another dentist in our unused surgeries.”

The Report highlights how practices fared against six key business indicators including profitability, business capitalisation rates and gross patient fees growth. See the Business Indicators section for more information.

Succession

“I assume succession planning is important right from the start of a business, however I am not completely sure what this entails”

While the majority of dentists indicate that they have some knowledge of succession planning, 68% don’t have a succession plan. Management succession was more important to dentists than ownership succession, with 28% saying that management succession planning was needed ‘now’ (21%) or in the current year (7%). See the discussion on succession planning in the Minor Concerns section.

Successful Dental Practices

“Our dentists will be around for the next 20 years. We are building long term relationships, based on continuation of care, and familiar, trusted faces.”

We asked dentists to describe the characteristics of the best dental practices. There were some consistent themes that emerged, and we have collated responses into 14 characteristics. Patient service and experience was a dominant theme. See the section What makes a Successful Dental Practice for more information.

“Success is built on personalised service.”

Dentists can work with their practice managers, trusted business advisers and banking partner to build a successful dental practice, and to improve their practice operations.

Solutions Tailored to Dental Practices

The Report contains sections dealing with the solutions being provided to dental practices by advisers specialising in the dental industry. These advisers are helping practices to:

Prevent failures by establishing:

- financial reporting systems and procedures that provide real time information in relation to the practices' breakeven point, the costs to deliver each service; and
- marketing plans centred on retaining and rapidly growing patient numbers.

Grow and improve by:

- managing or reducing **18** key operating costs,
- investing in training and development of their dental support teams and offering bonus plans that reward productivity whilst maintaining quality health care.

Minimise risks by:

- regular strengths, weaknesses, opportunities and threats (SWOT) workshops.

Effectively plan for succession by supporting implementation of:

- *Management Succession Plans* that include profit sharing plans to attract and retain contracting dentists; and
- *Ownership Succession Plans* that build practice goodwill by creating a shared vision of how the practice will improve its key qualitative value drivers.

Where to Start

Dentists can start by understanding the services that are available from specialist advisers and their banking partner, such as:

- Industry specific benchmarking
- Cost audits
- Business growth planning
- Chief Financial Officer programs
- Board of Advice programs
- Succession planning
- Business valuations
- Alignment and risk SWOT workshops
- Dental support team bonus programs
- Profit sharing plans for contracting dentists

Conclusion

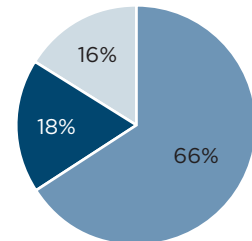
Dentists can use this report to compare their practice to successful practices and to gain insight into how their peers are dealing with the changing industry.

Armed with detailed information, dentists can work with their trusted business adviser/s and banking partner to set their own agenda.

By knowing what solutions are available, dentists are able to choose an approach that suits their individual needs and is aligned to their practice lifecycle stage.

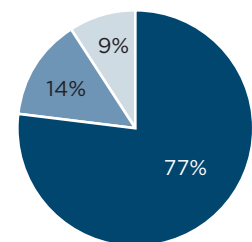
HAVE YOU IDENTIFIED KEY GROWTH OPPORTUNITIES?

■ Yes ■ No ■ Unsure



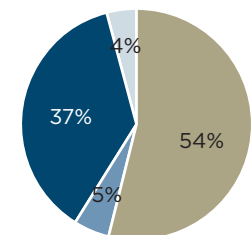
IS THE PRACTICE OPERATING AT PEAK EFFICIENCY?

■ Yes ■ No ■ Unsure



BUSINESS CAPITALISATION RATE

■ We're Top 20% ■ We're Okay ■ We're Not So Good ■ Not Sure

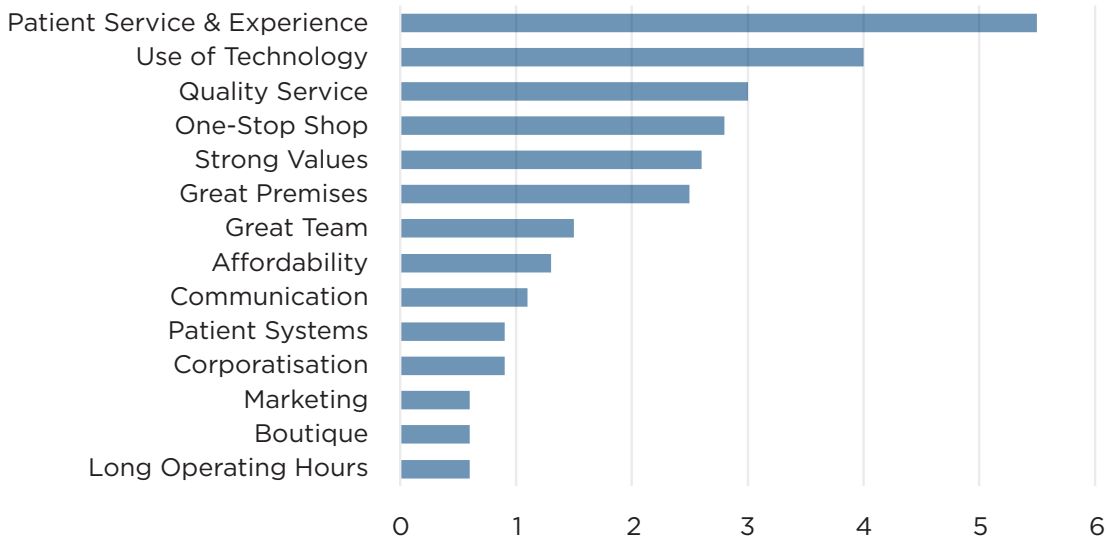


1. What makes a successful dental practice?



We asked dentists to describe the features of the best dental practices. There were some consistent themes that emerged.

CHARACTERISTICS OF A SUCCESSFUL PRACTICE



“It’s a patient focused practice; not supermarket style.”

“It’s all about patient rapport.”

“A Successful Practice is all about technology. You have to keep up with new technology and techniques.”

“Quality dental care, with comprehensive treatment planning and well informed patients.”

“Providing a safe, appealing environment for the patients.”

“It’s staff – attentive, caring and empathetic staff.”

“The goal is to become a ‘one-stop shop’ – to have everything within the practice. To offer all treatments, e.g. implants, orthodontics.”

“Communication is key. You have to have high quality admin staff and great customer communication.”

“Communicating with clients, keeping it simple and understandable.”

“A great practice has competitive pricing and long opening hours.”

2. Strategic threats



Activities of Health Funds

In 2013, 50% of people aged five and over had some level of private health insurance with dental cover.¹ However, the dental care covered varies widely between health funds, and between specific health insurance plans or tables.

Basic dental treatments and preventative treatments such as regular check-ups and cleaning are usually covered in the basic or default plan. Coverage of more extensive treatment such as root canal treatments, implants or orthodontics, varies widely and generally requires payment of additional premiums. In 2013, 77% of adults with some level of health insurance made a co-contribution towards the cost of their dental visits. Cosmetic dentistry is generally not covered by health insurance.

Preferred Providers

Preferred provider agreements between health funds and specific dental practices have been used for more than 20 years. Over the last 10 years health funds have been pursuing preferred provider arrangements more strategically, increasing control over where rebates are paid, by targeting an increase in the numbers of contracted dentists.

“There’s increased competition for new patients and preferred providers are really causing issues. At the same time patients are affected by the uncertain economy and wages are not increasing in the general population.”

Health funds can also directly own the preferred provider practice, such as Bupa Australia, owner of 190 clinics.

“One of the problems is whether a health insurer should be providing the service, charging a fee, providing a rebate and then charging the contributor a fee to actually join the insurer.”

Dr Terry Pitsikas, AM²

Health funds can encourage the insured patient to use preferred providers, through direct referrals, website and member communications and increasingly by providing different levels of rebate or benefit, paying higher benefits for services provided by preferred providers.

Complaints about these practices relate to the trend to financially penalise patients who wish to choose their own dentist and that the preferred provider arrangement does not necessarily include guarantees of quality care or continued care by the same dentist. Other issues arise, such as conflicts of interest and the lack of transparency as patients are frequently unaware that the

insurer also owns the practice and the ‘using up’ of insurance benefit limits more quickly with higher benefits at preferred providers.

Dentists indicate that the need to discount their fees when contracting to become preferred providers results in lower margins, and increases pressures to compromise on resources, materials or treatment times.

“I don’t want too much involvement with health fund providers, as I don’t feel they can be trusted.”

Some dentists commented they were concerned about building a practice model based on being a preferred provider, as it made them vulnerable to policy changes by the health fund. Of particular concern was possible direct competition from health funds who currently own, or might establish, their own practices.

¹ “Oral Health and Dental Care in Australia: key facts and figures, 2015” published 28 January 2016 by the Australian Institute of Health and Welfare, Canberra (Cat. no DEN 229) www.aihw.gov.au

² Dr Terry Pitsikas, Chair of the ADA’s Schedule and Third Party Committee, quoted in Bite Magazine, 10 February 2015 “The problem with preferred providers” (www.bitemagazine.com.au)

Corporatisation

Corporatisation is increasingly a feature of dentistry in Australia and New Zealand. Corporate entities own more than 600 of the estimated 6,000 to 7,000 dental practices in Australia. While this is a small percentage of the overall number of dental practices, this is a growing market. The current major corporate groups all have growth strategies (see page nine for more information).

The risk to individual dentists is that the industry is starting a period of fundamental change, with increasing consolidation of practices, and the emergence of new, high profile brands likely. To date, corporates have not started heavy brand development, such as advertising. There remain concerns that corporate dentistry could develop in the same manner as corporate optometry, with large corporate advertising budgets, dominant brands, and high levels of competition on fees.

“Corporate practices come with lots of rules, expectations and requirements.”

While there are slight differences, in essence the model involves the corporate entity acquiring a dental practice, taking over the practice premises, or establishing new premises. The acquisition strategy being pursued by corporate groups is credited with sharply increasing the value of established dental practices to a multiple of five times adjusted profit.

The selling dentist receives payment for the practice, capital and goodwill, and frequently contracts back to the group for a period. A five-year contract is common. Acquisition terms can vary considerably. Under the terms of the acquisition, part of the payment for the practice may be paid in instalments during the period the selling dentist contracts back to the corporate. Payments may be conditional on meeting agreed KPIs including profit or patient retention. Non-compete clauses are also common.

The corporate entity provides dentists with infrastructure and facilities, including support staff, materials, marketing and administrative services. The dentist retains control over dental services and clinical decisions, and sometimes responsibility for managing the daily operations of the dental clinic. The corporate operates the practice as a business, introducing performance KPIs for the dentist and the practice, and economies of scale, particularly in dental supplies.

The suggested advantages of corporatisation include allowing dentists to concentrate on the provision of clinical services,

promoting peer interaction within the group, providing training and experience for young dentists and removing the hassles associated with business management. The group uses its expertise to encourage growth and efficiency within the practice, and to develop and market brands. Corporate groups are also able to offer patients payment alternatives, such as instalment payment plans and gift vouchers.

The experience of individual dentists varies when joining corporate practices. Anecdotally, some report difficulties with the transition from operating their own business to working in a corporate model. Some indicate that they are unhappy with having to meet KPIs. Other dentists indicate that they are thriving in the new, larger groups, they enjoy being able to concentrate on patients, and are relieved to no longer have to deal with business management issues.

Only 5% of dentists indicated that they saw corporate practices as the ideal dental practice, and some negative comments were received on this type of practice.

Cost advantages

Corporate groups have cost advantages over independent practices when providing practice infrastructure. These cost advantages arise in two main ways:

1. Economies of scale through the operation of a large number of practices, which can be characterised as:
 - Spreading the cost of overhead inputs such as advertising and marketing, accounting and other managerial expertise
 - Lower variable input costs, for example, through bulk purchasing arrangements for dental supplies, freight and other inputs
 - Better organisational processes and techniques
 - Improved staff training and development techniques at lower costs
 2. Better cost and management accounting records allow corporate groups to apply to the ATO for private rulings to allow a higher level of service fees to be charged to practices.
-

Major Corporate Groups:

- **Dental Corporation** is Australia and New Zealand's largest dental group, comprising 190 clinics and more than 560 dentists. From May 2013 it has been owned and operated by Bupa Australia, which provides health insurance, aged care services and complementary healthcare services such as dentistry. Bupa Australia is part of the Bupa Group, an international healthcare group, originally from the United Kingdom but now operating in 190 countries, with 32 million customers. Dental Corporation operates a partnership business model, acquiring established dental businesses, and providing infrastructure and support to simplify management of and grow the practices operating in the clinic.
- **Abano Healthcare Group**, a NZX publicly listed healthcare provider, operates a trans-Tasman dental group of more than 185 practices through its brands Lumino The Dentists with 100 practices in New Zealand and Maven Dentist Group with more than 85 practices in Australia. Abano is currently aggressively seeking growth through acquisition of dental practices, and in 2015 was buying practices at a rate of one every three weeks.³
- **Pacific Smiles Group** has been ASX listed since 21 Nov 2014, and has a current market capitalisation of \$344 Million (as at 28 September 2016). It currently operates approximately 60 dental practices, with more than 240 active dental chairs under the Pacific Smiles and nib Dental Care brands. Its growth model is focused on new centre rollout rather than acquisitions. The company's service model includes specialist services (including dental implants and orthodontics) and cosmetic dental treatments.
- **1300SMILES Ltd** is a Townsville based company with a market capitalisation of \$165 million (as at 28 September 2016) which listed on the ASX in March 2005. It owns and operates 21 dental facilities in Queensland and single facilities in Sydney and Adelaide. The company provides facilities and practice management services to dentists. The company is both establishing new facilities and acquiring existing practices. The company actively promotes development of specialities and cross referral within its group.
- **National Dental Care**, owned by private equity firm Crescent Capital Partners, has been steadily buying up dental practices around Australia, and owns more than 34 practices.

³ Source: Australian Financial Review, 29 May 2015

Oversupply of Dentists

“I am really concerned about the oversupply of dental graduates. There needs to be action to reduce numbers and reduce the number of overseas dentists coming in.”

There are currently nine Australian universities with Schools of Dentistry. Six of the nine universities take undergraduate students directly into their dentistry courses. Three of the universities (Sydney, Melbourne and Western Australia) have pathway programs into their postgraduate dentistry courses for high achieving year 12 students.

The jobs market for dental graduates has become increasingly competitive. There has been a

progressive increase in dental graduates due to an increase from five Schools of Dentistry to the current number, with graduate numbers increasing in 2012, 2013 and 2014 to the current level of approximately 1,000. At the end of 2014, 79.6% of graduates from Australian dentistry courses had found a full-time job, leaving the remaining 20.4% working in casual or part-time positions while looking for a full-time job.

After some years of lobbying from the industry, dentistry was removed from the Skilled Occupations List (SOL) on 1st July 2015, leading to a reduction in the numbers of overseas dentists entering Australia. This has led to an improvement in the jobs market for graduates. At the end of 2015, 86.7% of graduates were in full-time employment.

However, despite this improvement, the concern remains. The Australian Dental Association (ADA) has stated that the oversupply of dentists will continue until at least 2025, and in August 2015 called for an end to automatic recognition of overseas qualified dentists. Approximately 200 overseas dentists start practice in Australia annually. Particular attention was drawn to the absence of reciprocal automatic recognition of Australian qualifications in Ireland and the United Kingdom.

New Trend: The rise of the single chair practice

Bstar is seeing an emerging trend. Young dentists are setting up their own practices when they can't find full-time employment in existing practices, and can't afford the capital to buy, or buy into, an established practice.

These young dentists also can't afford the full cost of establishing premises (estimated at \$350,000 to \$400,000) whether in capital or loans. They are setting up the practice they can afford, sometimes for as little as \$200,000, and as a result, are establishing very small, single chair practices. But these practices have no capacity to grow to become multi-chair practices, and they struggle to break even.

A single practitioner can expect to generate in the range of \$500,000 to \$700,000 in gross patient fees (GPF) per annum. A contracting dentist expects to receive a percentage of GPF, but these principal dentists in single chair practices cannot afford to pay themselves equivalent wages.

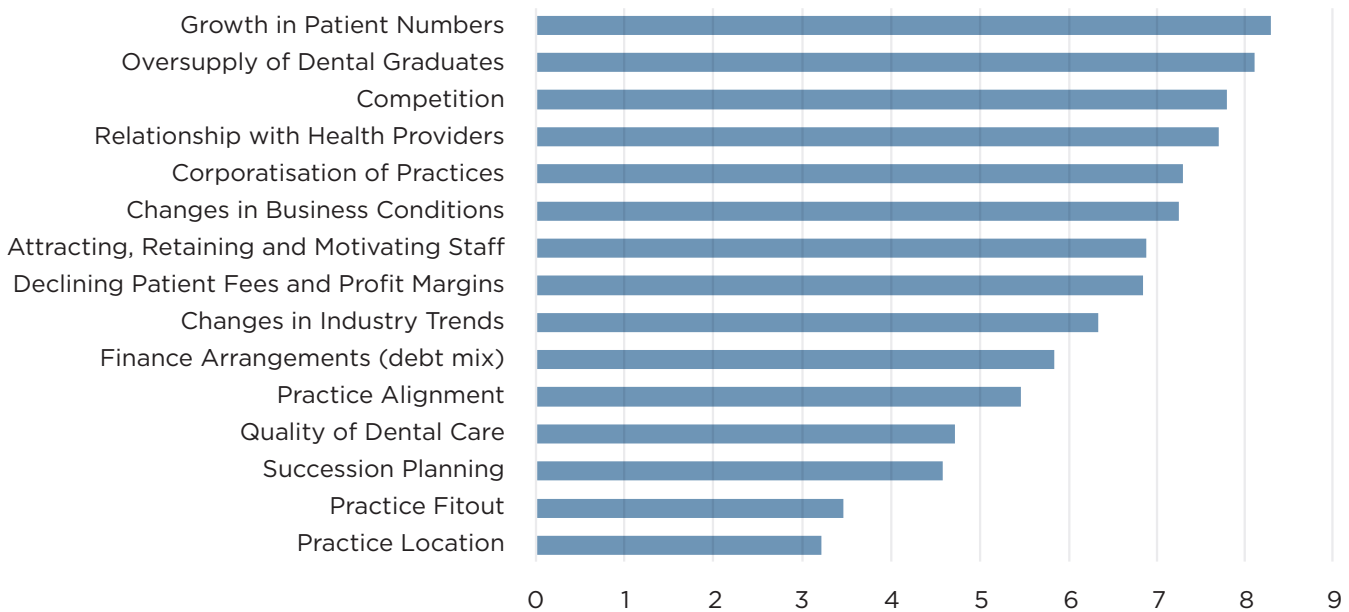
The principal dentist is under heavy pressure to build the practice, and may discount fees to gain patients. The practice is entirely reliant on the principal dentist, and like all small businesses, failure is an ever present threat.

3. Business concerns and needs



The Bstar ‘Needs Assessment’ was the primary tool used in interviews with dentists. They were asked to rank their level of concerns on a list of key issues, together with their need to act on the issues. The table below provides a summary of the business concerns, ranked in order from major to minor concern.

BUSINESS CONCERNS



4. Major concerns



There is a common theme that emerges from dentists' major concerns. Dentists are worried about maintaining and growing their practices. Dentists are conscious of the toughening economic conditions and are concerned that their practices will be impacted.

They see the strategic threats from increased competition, the oversupply of dentists and the increasing corporatisation of practices.

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What are dental practices most concerned about?

- Slow growth in patient numbers
 - Oversupply of dental graduates
 - Competition
 - Relationship with health fund providers
 - Corporatisation of practices
-

Growth in Patient Numbers

In this context, it is understandable that dentists' most major concern is how to grow their patient numbers. Many dentists want growth in patient numbers, many have ideas on what they may do to attract new patients, but less than half (41%) have a growth plan. See the Growth Planning section for more details.

"I am just taking over the practice, with the previous owner finally retiring in October. I have plans to increase the number of patients."

There is some scope for growth in patient numbers across dentistry. In addition to general population growth, there has been a general trend of increasing visits to the dentist, and there is still capacity for further growth. The proportion of people aged five years and over who made a dental visit in the previous 12 months has increased - from 56% in 1994 to 62% in 2010 and 64% in 2013. Almost half of adults had regular check-ups with the same dental provider, 44% in 2013 and 46% in 2010.⁴

While 66% of dentists believed they had identified their practice's top growth opportunities, when asked, opportunities and ideas about marketing (ranked #2) and new patients (ranked #6) did not feature strongly. Instead, dentists believe that the best way to grow their gross patient fees (GPF) is by offering new services. See the Growth Planning section for more details.

The clear conclusion is that dentists are well aware of the strategic threats and increased competition, and the impact on their patient numbers. Dentists are concerned about patient numbers because they do not have strategies to attract new clients and retain existing clients.

As dentists have not addressed this concern themselves, they need external assistance, from advisers or experts, to address this need.

Oversupply of Dentists

The second major concern was the oversupply of dentists, including dental graduates (see the Strategic Threats section for more details). The oversupply of dentists caused a number of concerns, primarily relating to increased competition for patients, and concern about maintaining fees.

Going hand in hand with the increase in graduate numbers are widely held view that new graduates are less experienced, have fewer clinical hours before graduation than previously, or that the larger intake has led to graduates of generally lower quality.

"The oversupply of dental graduates can be good or bad. You can see it as more competition or as cheaper labour. There are more graduates to choose from, but are they any good?"

Conversely, taking on a new, junior dentist or graduate to handle the simple work, and allow the experienced dentist to take on higher value work was seen as a key practice growth opportunity.

But dentists indicated that there was a need for caution as there was an increased need to train and mentor graduates who were taken on, reducing the dentist's own productivity in the short to medium term. This led to reluctance to take on new dentists, and to take them on gradually, part-time whilst the new dentist gains experience and patient numbers grew.

4 Statistics are sourced from "Oral Health and Dental Care in Australia, Key facts and figure trends" reports of data for 2014 (Cat. No DEN 228) and 2015 (Cat. No DEN 229). Published by the Australian Institute of Health and Welfare, Canberra. See www.aihw.gov.au

The oversupply of dentists has led to reductions in their remuneration, either salary or revenue share, and significant amounts of under employment. Younger dentists may need to seek a series of roles as contracting dentists, part-time at different practices, instead of a single location. It is also leading dentists to set up their own practice earlier (see New Trend: The rise of the single chair practice on page 10 for more information).

Increased Competition and Corporatisation of Practices

The dentists we spoke to were concerned about increased competition (#3 concern), and two related threats – practices by health fund providers (#4 concern) and the growth in corporate practices (#5 concern).

“Competition is getting tougher. Corporates are aligning with health funds. Free enterprise is being squeezed.”

Generally these were seen as threats, but not simply as threats to practice profitability. Dentists saw these as threats to their core values. They complained about lack of transparency and unfairness associated with these concerns.

“Increasingly, competitive attitudes are causing unethical practices!”

There were also comments that dentists believed patients were being disadvantaged by increasing corporatisation and received poorer service and fewer treatment choices.

“The corporatisation of dentistry is a real concern. Corporates bring in capital and marketing but usually are poor at patient management and treatment. They are a competing force, but sometimes the structure is too money focused.”

Corporate groups also provided opportunities for dentists. Corporate groups are generally pursuing acquisition strategies. Groups such as Dental Corporation and Maven Dentist Group advertise prominently on their websites for dentists to join their groups, and sell existing practices to the groups.

Purchases generally include the principal dentist agreeing to remain with the group for a period, typically five years, and payments by instalments dependent on achieving KPIs. Dentists are aware of the possibility of selling to a corporate group as an option, but did not indicate it was a preferred option.

The corporate groups’ acquisition strategy in recent years is the basis for a sharp increase in the expected value of a practice, from a multiple of 1.5 or 2 times adjusted EBIT in 2006/7 to the current multiple of 5 times. This has contributed to a sellers’ market in practices, and increased expectations. It has made it correspondingly more expensive for younger dentists to buy, or buy into, existing practices. It is not clear whether these values are sustainable in the longer term, particularly if corporate groups pull back on their acquisition strategies.

“My plan for the practice is to reach the optimal level of revenue and either sell it to a corporate or sell shares to my employee dentists.”

The expectation that there will be a ready market for a practice has also contributed to low concern among dentists about selling practices. See the Minor Concerns: Succession Planning section for more information.

Dental Tourism

The size of the Australian dental tourism market is not clear, and accurate statistics are not kept. Anecdotal evidence is that many of those who seek treatment overseas do so because they are not able to afford to get treatment in Australia, and that there is little direct impact on Australian dentists.

By highlighting the difference in costs for dental treatment between Australia and overseas, the internet has made dental tourism more attractive, and much easier to source and organise.

There are several established medical tourism agencies that will organise overseas dental treatments for Australians, at much lower cost than equivalent treatment in Australia. In 2014 health insurer nib also directly entered the dental tourism market when it launched nib Options. This provides fixed price packages for a range of dental (and other medical) treatments in Bangkok and Phuket⁵, primarily aimed at uninsured patients.

There are also a number of online travel forums specialising in discussions and reviews of dental tourism, such as Trip Adviser and Lonely Planet. As evidence of its growing popularity, one travel insurer is now offering a dental tourism extension of cover, with specific cover relating to remedial

dental work, emergency overseas dental treatment and cancellation cover.⁶

The impact of overseas competition is not clear. Included within the increased number of dentistry graduates are overseas dental students. Some dentists expressed concern about overseas based graduates who gain 3- 5 years of minimal clinical experience in Australia, then return to their home country and establish a dental practice. While this reduces the supply of dentists in Australia, these Australian trained dentists continue to compete with Australian dentists by offering cheap treatments in Asian countries. The Australian qualifications are regarded as an asset, helping to create trust amongst Australian patients.

Relationship with Health Fund Providers

“The biggest concern for this practice is health fund providers. How ethical is it that they direct patients to their own preferred practices or pay less rebate to non-preferred providers, but they won’t allow us to become a preferred provider?”

Behaviour by health funds is increasingly causing concern amongst dentists. Health funds have been exerting control over health insurance rebates by creating preferred provider panels. Membership of the panel entails patient referral via the health fund, and often higher benefit payments. Dentists were critical of the methods used by funds in selecting practices, and the payment of lower benefits to non-preferred providers.

“We are competing with preferred provider practices. It’s hard.”

Other dentists saw an opportunity to grow, by becoming a preferred provider.

“My immediate growth plans involve becoming a preferred provider for some of the major health funds. This should provide a good referral source.”

However, health funds are now moving into direct provision of dentistry services, through ownership of dental practices. From May 2013 Dental Corporation has been wholly owned by Bupa Australia, which can use its website and member material to direct its insured members directly to its clinics.

⁵ See www.nib.com.au/nib-options

⁶ Go Insurance, Dental Tourism Travel Insurance offered by Go Unlimited Pty Ltd (ABN 74149217925) AFS License no 404782 (www.goinsurance.com.au)

5. Minor concerns



Practice Location and Fitout

The dentists in our survey group generally had low levels of concern with issues concerning practice premises. The location of the practice and the fitout ranked as the two most minor concerns, with half of all surveyed dentists rating these issues as of no concern.

This did not reflect the importance placed by dentist on these issues. When asked, 25% of dentists nominated premises as a key component of the ideal dentist practice.

“You need to have a great, accessible location for all patients.”

Many practices still gain significant numbers of new clients who simply walk into the practice. Premises locations in high traffic areas with good visibility and signage are valued. Dental practices are becoming more common in retail shopping centres. While premises in shopping centres often attract higher rents, they provide advantages such as greater foot traffic, exposure to new clients and parking as well as being convenient for patients.

“Our location is an asset – we’re in a busy shopping centre.”

The appearance of the premises is important, to provide confidence to new and existing clients. One area where dentists face strong competition from corporates is in new or updated premises and equipment. By comparison, established dental practices who fail to update their premises can project a tired or outdated image to patients.

“To grow, I need to improve the interiors, improve the infrastructure, and expand the consulting rooms.”

The surrounding community demographic is also important. It can affect whether a practice wishes to specialise in services for seniors or children.

“This is a growing area. Lots of families are moving in. They will need dentists and orthodontists.”

Another approach is to locate the premises with, or close to, other specialist dental services, and provide cross referral services. However, many dentists are now attempting to bring specialist services into their practices (see the Growth Plans section for more details).

“The growth plan is underway. We are going to relocate to a clinic with potential expansion to three dental chairs and extra-oral (OPG) x-ray.”

The low level of concern is more a reflection that dentists are generally happy with their current premises, and had little urgent need to change. Growth plans often included changes to premises, either to expand the number of chairs and rooms within existing premises, or acquire larger premises.

“I have a goal to have all three surgeries equipped and running. At the moment we only have two surgeries operational.”

Moving premises is an expensive exercise, due to the high capital cost of establishing premises.

“We are having to relocate premises due to a redevelopment of the existing practice building. It’s not our choice, but we are making the best of it.”

Owning premises is still an effective way for dentists to feel secure in their location, and have the confidence to invest in the high cost of specialist equipment and fitout. In the current low interest rate environment, with commercial property yields of 7-9% there is increased interest in owning premises. The practice premises can also form part of the owner dentist’s superannuation or retirement strategy.

“I am currently constructing our own building for the practice. When I retire, in approximately 30 years, I can look at selling the building as well as the practice.”

.....

What are dental practices least concerned about?

- practice location
 - practice fitout
 - succession planning
 - quality of dental care
 - practice alignment
-

Succession Planning

“I assume succession planning is important right from the start of a business, however I am not completely sure what this entails”

Succession planning was rated by dentists as their #3 minor concern. While eight in ten dentists have some understanding of succession planning (see graph to right), one in three dentists indicated no concern about succession.

“Given my age [mid 30s] I don’t need a succession plan at present.”

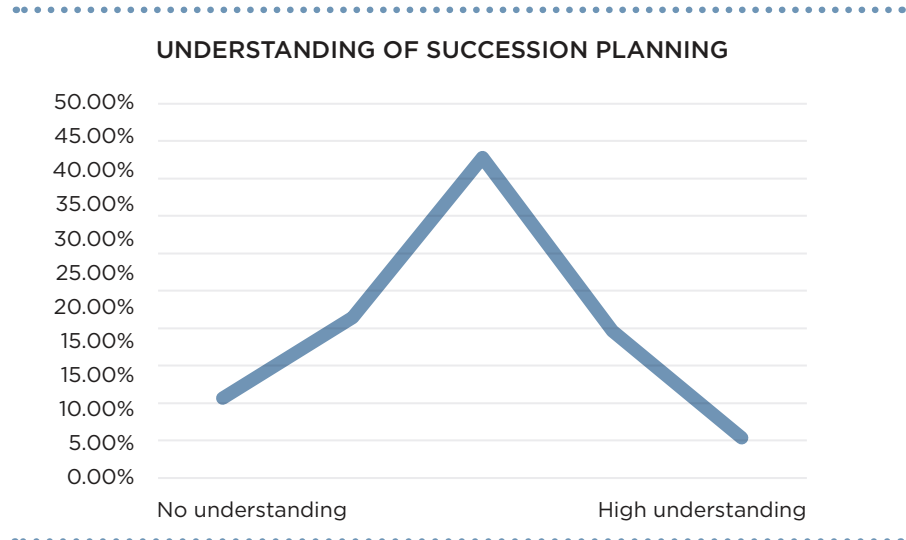
In general, the dentists we spoke to are not particularly interested in succession, reflecting that 87% of dentist interviewed are beginning or growing their practices. Two in three dentists are deferring consideration of ownership succession for at least five years.

“I am still working on a succession plan. My approach will vary if my daughter goes on to study dentistry.”

Ownership Succession

Generally, dentists regard dentistry as a lifelong career. They intend to continue to practice until retirement. As a result, for many, ownership succession only needs to be considered when an exit, such as retirement, is being contemplated.

“One partner is selling his chair in two years. We have already started meeting with a potential new



partner. This will mean no [other] succession plans are needed for approximately 20 years.”

Only 7% of dentists were highly concerned about ownership succession, closely linked to the 4% of the group who are planning their exit. One in eight dentists were focused on ownership succession in the next 12 months (see graph below). These dentists had usually chosen a straightforward exit plan.

“I don’t have a plan, but I know the options - hire another dentist and sell down gradually, or sell the whole practice to a corporate or another dentist.”

Most owner dentists were expecting their practice to transition to one or two owner dentists, with corporate acquisition a possibility. A minority

indicated they saw a trade sale or aggregation as the best option for future ownership succession.

A common approach was to directly identify a successor, and bring them into the practice for a transition in ownership.

“I have a younger partner, who plans to bring on new dentists and in three to five years he will take over 100% of the practice.”

Management Succession

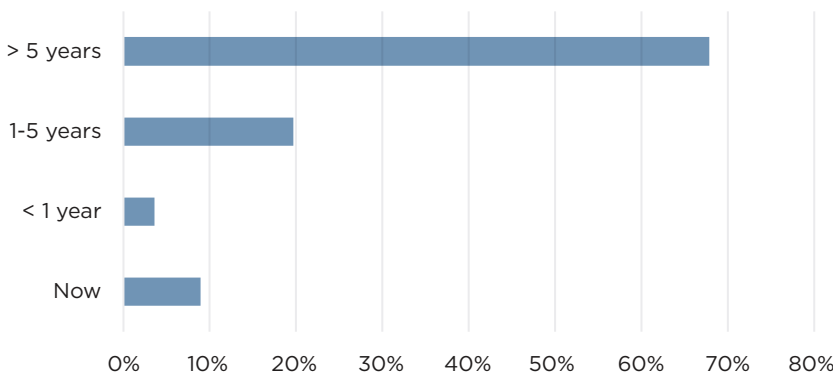
There is more interest in management succession, with 28.5% believing it to be important, and requiring some action within the next 12 months. Often, future managers are being identified internally and trained, rather than recruited.

“I want the practice to become an accredited general dental practice. My dental assistant will gain experience and will study with the aim to take on the practice manager role.”

Staff development and growth plans frequently go together.

“I am arranging ongoing training for my staff that will move them up to the next level of management. There will be growth in the practice, or perhaps we will make an acquisition, and that will allow the staff the opportunity to step up and take over key roles.”

WHEN DO YOU CONSIDER OWNERSHIP SUCCESSION PLANNING TO BE IMPORTANT?



However, almost half (45%) of dentists are putting management changes on the back burner for five years or more (see graph to right).

“I am 45 years old, and I want to keep practicing for another 10 to 15 years. I have an associate who is 10 years younger, but he doesn’t plan to succeed me, rather he is going to follow my lead.”

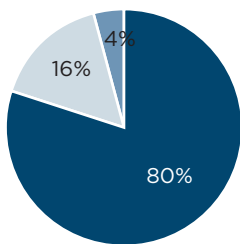
Often, other dentists in the practice were considerably younger, requiring mentoring or other support while gaining experience.

“I want to mentor the employee dentists in the practice. My philosophy is that this will encourage them to consider future involvement.”

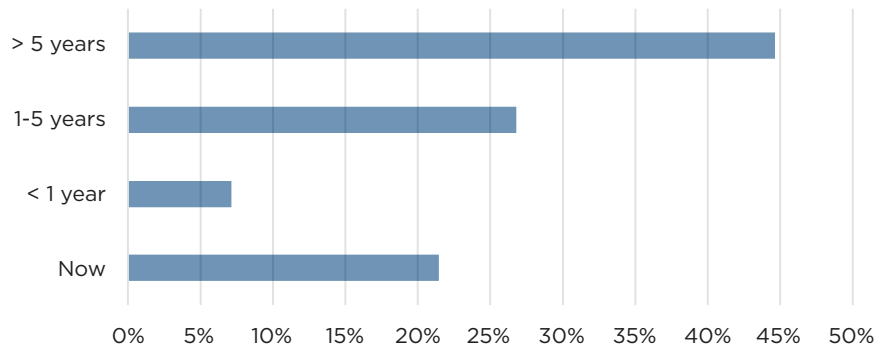
Unsurprisingly, as most dentists are intending to continue to practice for the medium term, only 4% of practices were ready for sale.

IS THE PRACTICE READY FOR SALE?

■ Yes ■ No ■ Unsure



WHEN DO YOU CONSIDER MANAGEMENT SUCCESSION PLANNING TO BE IMPORTANT?



Quality of Dental Care

25% of dentists nominated high quality care as a key characteristic of the dental practice of the future.

“Our clinic provides high quality dental care, that’s why I have very low concern about quality of dental care as an issue.”

In general, however, dentists indicate that they do not have high concern about the quality of dental care they or their practice is providing.

“There is no compromise on the quality of care. We always try for our patients. Profit margin is not even a close concern.”

Issues relating to the quality of care were rated by one in three dentists as of no concern, and of high concern to only 10% of dentists. This reflects their view that issues relating to quality of care are currently under control.

Practice Alignment

Given the high number of practices operated by a single owner-dentist, it is not surprising that practice alignment was rated a low concern. Most of the dentists surveyed manage their practice themselves, and while 10% of dentists nominated team work as a key feature of a successful practice, they did not see lack of alignment, whether amongst dentists or support staff as a current concern.

“We have a good team. Our focus is on quality, individualised, personal care, above all else.”

Alignment is mentioned more frequently when dentists are considering finding successors but, as with succession, was not rated as an urgent issue.

“Ultimately, my succession plan is to recruit ambitious and aligned dentists to possibly buy in to the practice.”

6. Staff issues



The top feature of a great dental practice (nominated by dentists) related to excellent patient experience, which must be delivered by all practice staff. Increasing services was regarded as the #1 growth opportunity for practices. Recruitment of new dentists or dental support staff such as hygienists, were consistently nominated as key components for increasing services and gross patient fees (GPF). Equally important is retention of key staff.

“A successful practice is all about good, long term, motivated staff.”

For all these reasons, staff issues remain a solid, mid-range concern amongst dentists, and were ranked #7 as a major business concern.

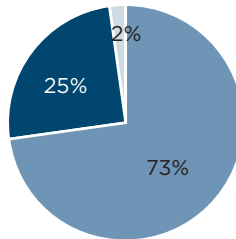
“The practice is in the building and growth phase. I need to ensure good staff for the long term and invest in them.”

As dentistry is a personal service, practices are heavily reliant on their owners, dentists and a small number of support staff to deliver consistently and efficiently. Patients judge a practice on all the staff, not only dentists, and respond well to stable, polite and well trained teams. There can be significant patient loyalty to the practice’s dental support team. Conversely, one bad experience can be enough to prevent a patient from returning. The impact of ineffective recruitment or the loss of a key person is much higher in a small practice.

Staff Management and Incentives

ARE AGREEMENTS WITH NON-PROFESSIONAL STAFF DOCUMENTED?

■ Yes ■ No ■ Unsure

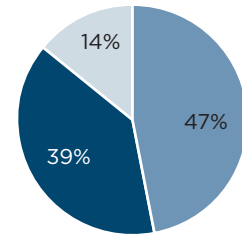


While 73% of practices had documented agreements in place with non-professional staff, less than half of practices were doing any more to manage staff. Only 47% of practices had strategies for staff attraction, retention or motivation. However, this is materially better than SMEs generally, where only 30% had equivalent strategies to manage staff.

Around half of practices (54%) provide some type of incentives for staff, most commonly cash payments or bonuses. However, incentives included cash, non-cash rewards or a mixture of both (see graph below).

DO YOU HAVE STRATEGIES FOR STAFF MANAGEMENT?

■ Yes ■ No ■ Unsure

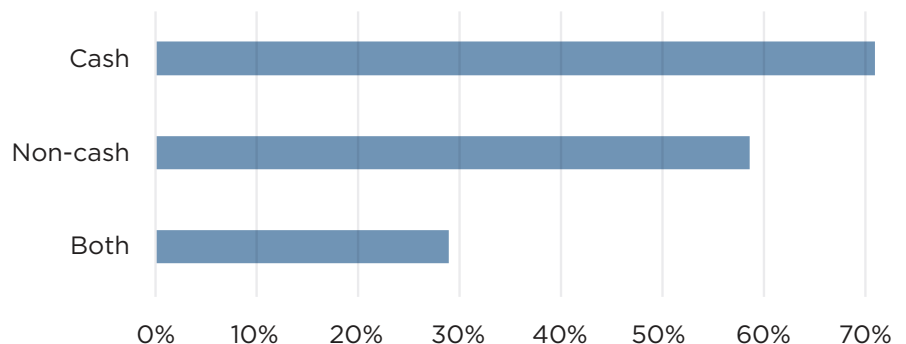


“We do agreed activities as incentives, like skydiving! Sometimes there’s some cash paid.”

The majority of incentives described were not formal, documented incentive schemes. Instead, they were usually discretionary, involving the personal judgement of the owner dentists. The timing was often tied to Christmas or staff birthdays.

“We don’t have an incentive scheme per se, but we do have birthday and Christmas cash bonuses and numerous staff and partner dinners throughout the year.”

STAFF INCENTIVES



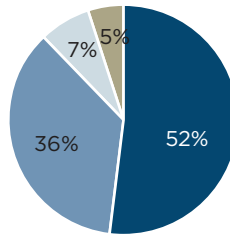
Performance and Improvement

Staff productivity is a key input to practice success and growth. However, only 21% of practices were comparing the practice's dental support team to benchmark performing practices. In most cases, practices did not have access to productivity benchmarking information.

While a clear majority of dentists believe their practices rank in the top two measures for dentist performance (88%) and dental support team performance (87%), over half rated their performance in each category as 'OK' (see charts). Not surprisingly, the most commonly nominated areas needing improvement within the practice were related to staff performance and productivity (see the What's worrying dentists section for more information).

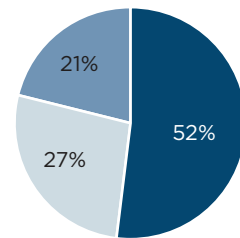
DENTIST PERFORMANCE

■ We're Top 20% ■ We're Okay
■ We're Not So Good ■ Not Sure



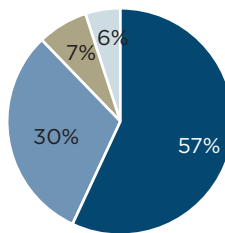
DO YOU COMPARE THE SUPPORT TEAM TO INDUSTRY BENCHMARKS?

■ Yes ■ No ■ Unsure



DENTAL SUPPORT TEAM PERFORMANCE

■ We're Top 20% ■ We're Okay
■ We're Not So Good ■ Not Sure



7. In their own words



The best way to understand dentists is to listen to what they say, in their own words.

“The practice is still new. I plan to offer more dental services in-house and do more high productive procedures.”

“My growth plan is to stabilise patient numbers and then grow by expanding services.”

Where we need to improve

“I need to improve our attraction of new patients. This will mean I can increase the hours for my associate dentist. I also need to retain our existing patients. This all means concentrating on good patient care and high quality of care.”

“My goal is to develop high quality services and provide them to the people of the community. I would like to further expand our services to a number of locations.”

“We have a total of 12 staff. All my staff are part-time, due to their personal situations. Patient fees are lower at the moment, due to one of my production staff being on study leave, (currently studying three years part-time) and another is on maternity leave.”

Planning for Growth

“I am building this practice up to four chairs. My ultimate aim is to manage the practice from offsite.”

“I need to operate the practice efficiently. It is essential that we book appointments for optimal time utilisation and maintain an efficient recall system. This is all in order to allow the employment of another dentist in our unused surgeries.”

“This is currently a two chair practice. We have a planned fitout in the next two months to increase that to four chairs. I am currently working on internal and external marketing. We are planning how we will offer new treatments, to provide high growth in fees.”

Premises

“We are moving to a new location. I am hoping to increase the number of patients when we move to the new premises.”

“My growth plan is all about quality - high tech, high standards of premises, high quality of work and, high quality of staff.”

“We are expanding to accommodate new patients - we will expand to five chairs and we will expand our practice hours from 7am to 7pm, four days per week.”

Succession Planning

“I don't have any succession thoughts at present - the practice is only five years old.”

“I need to find the right dentist to take over the practice.”

“I want to build my practice. I intend to employ another dentist or two and then offer to sell the practice to my employees in 10-12 years' time.”

“It is a question of finding the right staff to take over from me.”

“I want to have a busy, fully compliant practice which appeals to potential purchasers. I also want to mentor the employee dentists in the practice. My philosophy is to encourage the employees with the possibility of future purchase opportunities.”

No plans for change

“It's too soon to make big plans. I am still getting established.”

“I don't have a current growth plan. I am a semi-retired dentist, and I am happy with that at the moment.”

“Succession is too far in the future to be considered. When the time comes, I will advertise for an associate and wind back on my hours.”

“I would consider a young dentist joining the practice or just selling the practice in the future.”

“I don't have any need for a growth plan.”

“I am going to keep on doing what we are doing and improve what we are doing.”

“I don't have any special plan. I am going to keep working and do good work. My aim, don't kill any locals! (smiley face emoji)”

“I don't care for competition. I don't care what other dentists are doing. I know I'm not the best, but I will always try my best and that is imperative if you work for me. No cutting corners. Profit margin is not important. I don't care how much I make as long as the bills are paid.”

8. Business indicators and planning

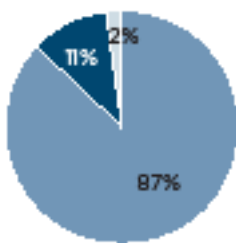


“We have a business plan in place, and we review it every six months.”

Business planning starts with understanding how the practice is operating. 87% of dental practices indicated that they are producing accurate and timely financial reports, materially better than SMEs in general (65%).

WE PRODUCE ACCURATE AND TIMELY FINANCIAL REPORTS

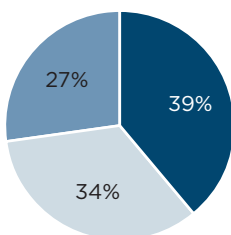
■ Yes ■ No ■ Unsure



However, this may be too optimistic a view. Bstar has been developing dentist industry specific benchmarking data. Our observation from reviewing actual practice management financial records is that the quality of reports is not particularly high. Most practices do not use industry specific management reports, breaking down direct and indirect costs. Dentists do not use systems to track productivity, or understand their costs to provide services (the ‘cost to serve’). See the Solutions section for more information.

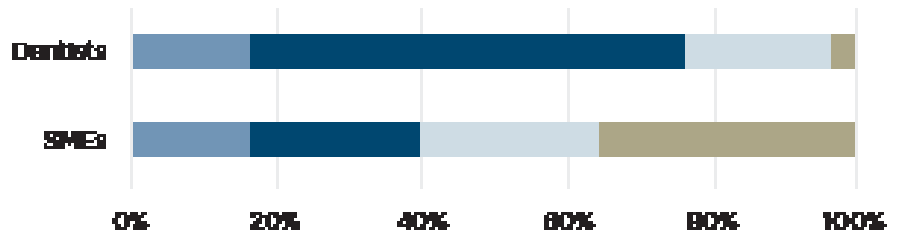
DO YOU COMPARE THE PRACTICE TO BENCHMARKS?

■ Yes ■ No ■ Unsure



PROFITABILITY

■ We're Top 20% ■ We're Okay
■ We're Not So Good ■ Not Sure



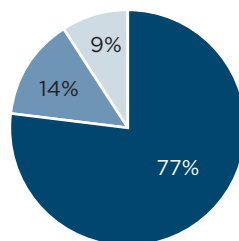
This was supported by our research. While dentists generally believe that their practice performance is ‘Okay’ (see chart above) only 34% of dentists knew how their practice compared to industry benchmarks (see graph to the left below). Dentists lack information – a majority of dentists didn’t know how they compared in key areas of practice operating costs or practice capitalisation rates, and 77% of dentists did not believe their practices were operating at peak efficiency (see chart below).

Dentists are moderately optimistic about their practice performance

We asked dentists for their view of how their practice compares to six key dentist industry benchmarks. While only 34% are comparing their practice to benchmarks, on four key measures, the majority were moderately optimistic about their performance. While similar to SMEs generally on whether they are ‘Top 20%’, significantly more dentists believe their performance is ‘Okay’ than SMEs generally.

IS THE PRACTICE OPERATING AT PEAK EFFICIENCY?

■ Yes ■ No ■ Unsure



This was particularly noticeable for profitability where 57% of dentists rated themselves as ‘Okay’ (SMEs: 27%) and 19% were ‘Top 20%’ (SMEs 17%).

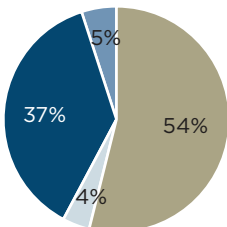
“To improve, I want to use the down time for brainstorming with the staff on ways to increase practice growth.”

The view on patient fees growth was similar (see chart to right). 54% of dentists rated their practice as 'OK' compared to an equivalent 35% for SMEs and Sales Growth and 25% of dentists regarded their practice as 'Top 20%', almost identical to 24% of SMEs.

Older, established dentists, with recurring levels of gross patient fees may have a feeling of complacency about profit levels. But dentists' optimism does not extend to practice operating costs, and business capitalisation rates – more than half (54%) don't know how they compare – indicating a need for information, particularly in relation to operating costs, including wages and material costs (see chart to right).

PRACTICE OPERATING COSTS

■ We're Top 20% ■ We're Okay
 ■ We're Not So Good ■ Not Sure

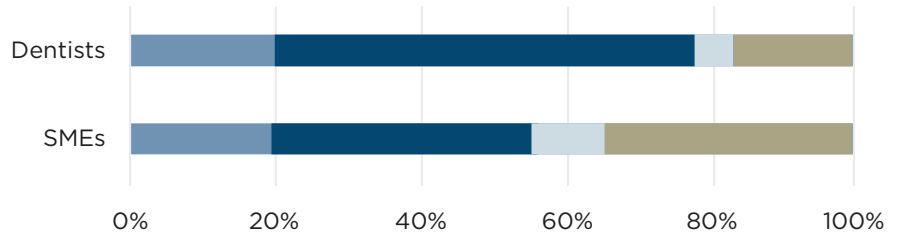


As indicated in the Staff Issues section, a majority of dentists rank their practices in the top two measures for dentist performance (88%) and dental support team performance (87%). While over half rated their performance in each category as 'OK', this was also (at 77%) the most commonly nominated area needing improvement within the practice.



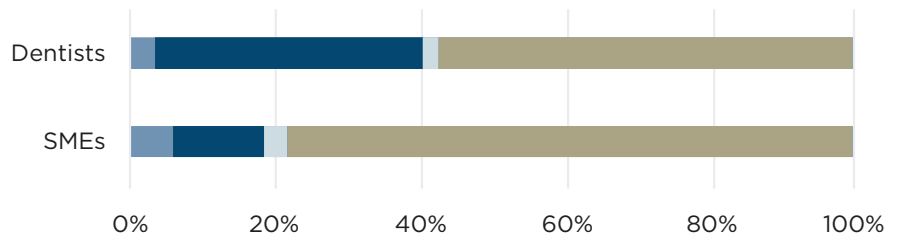
FEES / SALES GROWTH

■ We're Top 20% ■ We're Okay
 ■ We're Not So Good ■ Not Sure



BUSINESS CAPITALISATION RATE

■ We're Top 20% ■ We're Okay
 ■ We're Not So Good ■ Not Sure



9. Growth planning



“Our present growth plan is based on good service and a modern practice premises and modern clinical techniques. Advertising also forms a small part of our plan to grow the practice, mainly online such as our website and social media. In the past we have also tried sport club sponsorship.”

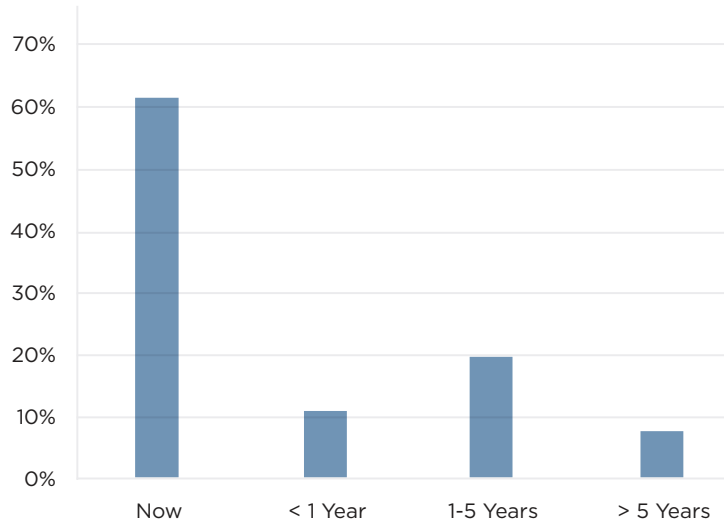
“We are adding a third dentist later this year. We will add a third hygienist next year. The practice will reach its maximum potential within two years, based on our projections of gross fees.”

Three in four dentists believe growth planning is required immediately (62%) or in the current year (11%). We asked these dentists how they intended to grow their practice. While 82% were able to talk about their ideas for growth, only 41% of dentists had made a plan for how to achieve it (refer to the charts on this page).

Effective growth planning requires both the initial ideas for how to grow, as well as the skills and discipline to establish, implement and monitor the plan. Lack of skills is not the major cause of this failure to plan. When asked, 77% of dentists indicated that they have ‘some’ to ‘moderate’ understanding of growth planning.

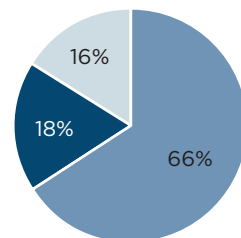
Two in three dentists had identified the key growth opportunities for their practice but less than half had taken the next step and prepared a plan to take advantage of these opportunities.

WHEN IS GROWTH PLANNING IMPORTANT?



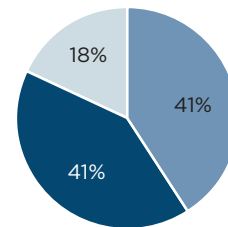
DO YOU KNOW THE KEY GROWTH OPPORTUNITIES FOR THE PRACTICE?

■ Yes ■ No ■ Unsure

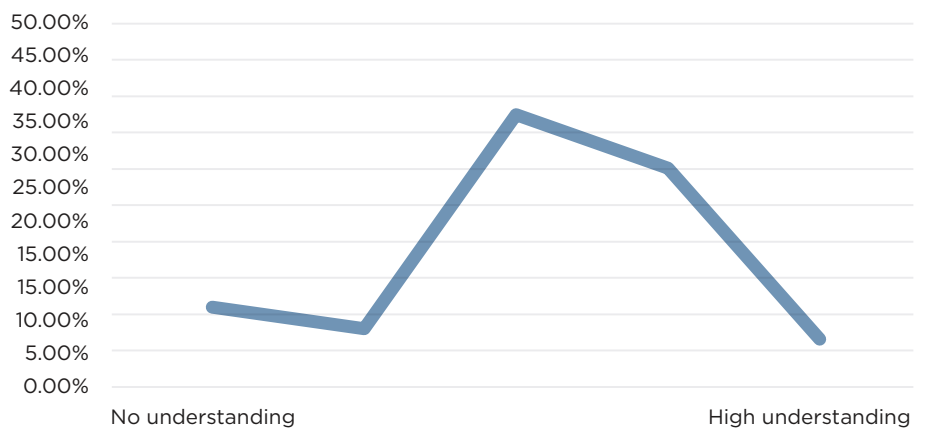


DO YOU HAVE A GROWTH PLAN?

■ Yes ■ No ■ Unsure



UNDERSTANDING OF GROWTH PLANNING



Where are the growth opportunities?

Increased services

Dentists identified offering a wide range of clinical services within the practice (a 'one-stop-shop') as one of the key characteristics of a successful practice. Overwhelmingly, they also see growth flowing from offering those clinical services within their practice.

In particular, dentists believe there are good growth opportunities where the practice offers specialist dental services. These services offer higher patient fees, increasing the earning ability for individual dentists and the practice.

Specialities mentioned as growth opportunities were orthodontics, implant dentistry, cosmetic dentistry and aesthetic management.

"My best growth opportunity is in kids' dentistry, including orthodontics."

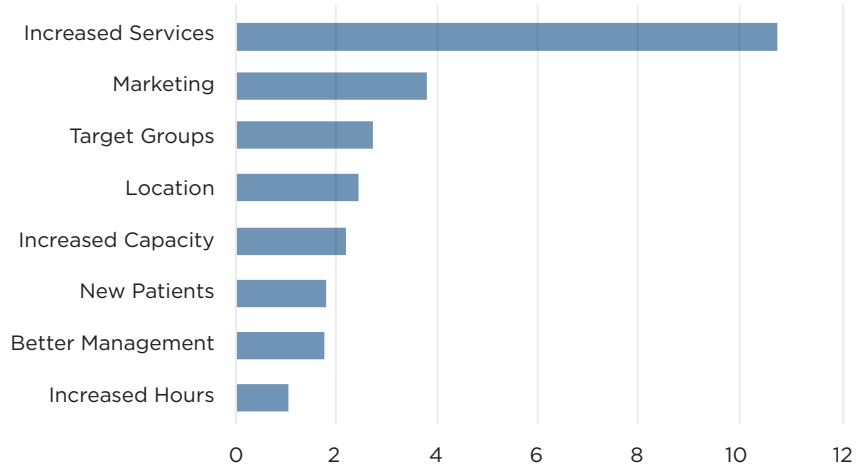
Several dentists mentioned their goal was to offer all necessary dental services within their practice, and avoiding the need to refer to other specialists. Retaining higher fee treatments was seen as a way to increase productivity, and improve profitability.

"We are providing patient focused services. Quality care with the integration of technology. We offer comprehensive, individually focused treatment planning. We are also marketing - both digital and within the local community."

Others saw opportunities to diversify into other fields, such as Botox and other facial injectables, or to combine premises with other health specialists.

"We will expand both dental and non-dental treatments. Diversification is key."

TOP GROWTH OPPORTUNITIES



Scale in Dental Practices

"We have recruited a second dentist to start in the practice, part-time. The aim is to have the second dentist full-time within 12 months. Then we will recruit a third dentist, again initially operating part-time, building up to full-time within two years. The next stage will be the gradual fitout of fourth and fifth surgeries over this period. I will assess the feasibility of a hygienist or therapist in the fourth room when the third dentist starts."

A key reason for dentist to increase services within a practice relates to the basic economics of operating a practice. Practices require scale to generate sufficient gross patient fees (GPF) to repay capital costs and provide a satisfactory return to owners.

- Practice premises usually allow for multiple treatment rooms (or chairs) allowing the sharing of costs between several dentists.
- Contracting dentists generally receive an agreed percentage of their generated GPF.
- The remaining GPF is paid to the practice to cover costs, as a service fee.
- As a rule of thumb, an individual dentist working full-time can

expect to generate in the range of \$500,000 to \$700,000 GPF.

- Dentists offering specialist services or operating with a dental support team can generate higher GPF.
- Multi-owner practices, or multi-chair practices can use economies of scale to reduce operating costs (and their cost to serve) and increase service trust profits.
- Larger practices develop practice goodwill, rather than the individual dentist's personal goodwill.

Attracting and Retaining Dentists

There appeared to be a general view amongst dentists that despite the increase in graduates, there were fewer high quality, experienced dentists available in the market. While many dentists spoke of recruiting a dentist to expand into under-utilised rooms, fewer were reporting that they had done so.

"We need more dentists in the practice, but there are no good ones [available]!"

Once an experienced and effective dentist has been recruited, practices also need to consider the risk of losing their key contracting dentists, and how to manage it.

Strategies for retaining employees or contracting dentists include agreeing incentive programs, in return for meeting established KPIs. These can include incentives that start after an agreed period in the practice (e.g. one year or more) and include amounts of profit share, or increased commissions once above set levels of GPF.

“I am developing and supporting my current dentists. I am showing them more support, and giving them decision making responsibilities. I want to develop the dentists to a level where they can easily manage their patients, without my direct involvement.”

Dentists are also motivated by benefits other than purely financial. Practices can retain dentists by understanding what else is important, and providing that, for example a clear career path, or a plan to use bonuses or profit share to buy into the practice.

Marketing

Marketing was nominated as #3 area for improvement, and #2 growth opportunity. Dentists are most concerned about acquiring new patients, but haven't made a plan on how to attract them⁸.

Marketing is a natural way to support new clinical services, by making existing and potential patients aware of the treatment options available. Effective marketing is key to attracting new patients.

Marketing requires understanding and promotion of the strengths of the practice or a significant 'point of difference' which attracts patients. However, dentists

generally haven't asked and don't know what their clients value about their practice. They don't use those strengths to find new patients. A proven way to gain understanding is to ask patients, by surveying them. By finding out the practice's strengths from the patients' point of view, those strengths can be used to market to new clients. To ensure genuine feedback, surveys are best conducted on an anonymous basis. These are areas where practices can benefit greatly from external assistance to identify and implement changes.

Existing Marketing

There were a mixture of ideas for how to market the practice. Traditional advertising remains important, with practice signage, letterbox inserts and community sponsorships all being used. Targeted print advertisements in local publications, school newsletters or similar publications were also mentioned.

“We are attracting new patients through external marketing (social media, print and referrals) and internal marketing (excellent service, relationship development and constant feedback).”

“We are going to gain new clients through marketing to our current clients and to the public. Our strategy is to differentiate the practice by moving into a specialist segment.”

There were also a significant number using social media, and building an online presence, through the practice website, Google reviews and other internet advertising.

“We need to make ourselves better known in our rapidly changing area, which is transitioning from commercial to residential. The best way will be to make a strong social media and internet presence. Make the quality of our service known!”

Some practices were intending to target particular types of clients. The most popular opportunity was seen in targeting children (and families), particularly for orthodontic services. Other suggestions included targeting seniors as new clients or through strategic alliances with other local businesses, to access client bases or sports clubs and community groups.

“We are growing with deep focus on patient retention, and visiting specialists, which will lead to growth into three more treatment rooms. The new patient numbers are already high enough to reach this goal in the next 12 months.”

To take advantage of these opportunities requires increasing capacity and skills within the practice. Leveraging all the practice resources and fully utilising the dental support team is a cost effective way to increase capacity and productivity, without relying on the principal dentist's personal time and effort.

“I am partnering with a local primary school to offer dental hygiene talks.”

⁸ As dentists are regulated health professionals, all marketing must be in accordance with the National Law, and the Guidelines for Advertising and Social Media Policy adopted by the Dental Board

10. What's worrying dentists about their practice?



“It’s only an idea. To get another dentist and advertise more aggressively. I don’t really have a plan.”

Areas for Improvement

The majority of dentists (77%) believe their practice is not operating at peak efficiency. We asked dentists to tell us their top three areas where their practice needed to improve. While the particular answers varied, there were key themes that emerged.

Typically, these were not areas that were currently being worked on and there was no plan for change. Dentists knew where they should be focusing, but were not taking action. Dentists typically did not have access to specific industry benchmark information which would assist them in targeting improvements. Only 34% were comparing their practice to benchmarks, and even fewer (21%) were using benchmarks to assess or improve support staff productivity.

“Current financials are skewed as I am financially supporting some staff members above and beyond their clinical productivity.”

Staff and Productivity

With dental practices typically having small numbers of staff, staff productivity is a key input to practice success and growth. Dentists recognise this – and indicated that their top need for improvement in their practice is in staff and productivity.

“We can improve revenue. Some chairs are not in full-time use.”

A significant focus for increasing productivity related to simply increasing capacity – increasing the hours worked by dentists, or employing more dentists. Typically, this involved increasing use of existing infrastructure, such as unused or underutilised rooms and chairs.

“My aim is full utilisation of my current resources.”

This was closely related to the need to improve scheduling of appointments, systems for patient recall and attracting new clients. Essentially, these are all improvements aimed at growth.

“As principal, I need more time off the tools to direct the staff.”

There were also a number of specific comments related to making the best use of support staff, needing to ensure that their time was fully utilised.

Leveraging Dental Support Teams

By increasing the productivity of dentists and their dental support teams, owners make their practice more profitable and valuable. Junior dentists can provide simpler or routine clinical treatments, allowing the principal dentist to perform higher fee work themselves.

“I want to improve treatment planning. I need to set daily goals for my associate dentist.”

However, successful dental practices do more. They break down dental services into components and then leverage all their resources to deliver dental care procedures and services. By allocating responsibility for delivering components of the dental service to each team member, responsibility for generating patient fees is spread and shared.

“I need to improve staffing. There is not enough work for my support staff.”

The greater the proportion of fees generated by employee or contracting dentists and dental support staff, the more sustainable the practice. Diversifying income streams also reduces risk in the practice.

By recognising the strengths of each team member, both dentists and the dental support team, there is also reduced reliance on the principal dentist’s personal time and effort.

Use of Benchmarks

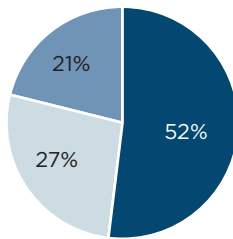
While two in three practices do not access practice benchmarking information, 8 in 10 practices do not compare the practice’s dental support team to benchmark performing practices. They suspect, but don’t know, their strengths or their weaknesses. In general, they don’t know where they are inefficient, or the concrete steps needed to improve their productivity.

TOP AREAS FOR IMPROVEMENT



DO YOU COMPARE THE SUPPORT TEAM TO INDUSTRY BENCHMARKS?

■ Yes ■ No ■ Unsure



Efficiency of Systems

“I am considering moving into computerised accounting records. It would increase efficiency.”

Another key area where dentists are struggling for improvement is in general management, control of inventory and operating costs and creating efficient systems. As is the case with SMEs generally, while dentists have the technical skills to provide quality patient services, they frequently lack the general business management skills. Even where dentists have these skills, patient treatment takes priority.

A simple cost audit of the practice against industry benchmarks can provide valuable information on where to target changes. But dentists indicated that they didn't have access to this information.

What do dentists need?

“I need better inventory systems.”

“Stock control.”

“Less waste.”

“Budgets.”

“Reduction in materials costs.”

Marketing

“I need a marketing strategy!”

Dentists are often time-poor, and business management, including marketing, is left to be handled outside practice hours, in competition with rest, family and recreation. Implementation of

changes is extremely challenging. Marketing attempts were often ad hoc and unplanned. Often, there had been no review of the existing marketing, or advertising, to see if it was effective. See the more detailed discussion about marketing in 'Growth Planning'.

Patient Recall

“We need to increase active six monthly patients.”

Gaps in appointment books represent lost opportunities for dentists to earn revenue. When dentists spoke about productivity and efficiency, the most common measure for this was to what degree the appointment book was full. Regular attendance by existing clients is the foundation.

“I am aiming for both dentists to be fully booked and fully booked two weeks in advance. I need to maintain 20+ new patients each month with more than 90% of the new patients returning to the practice.”

A good starting point in planning for growth is to develop a plan around existing patients. Dentists rely on patients returning, and key to this is an effective patient recall system. Systems vary greatly. The traditional reminder card in the post is still being used.

“We have to improve short notice cancellations!”

Cancellations and missed appointments were a source of frustration as well as lost fees. Some dentists have updated systems which issue automatic SMS reminders, improving communications with patients without requiring contact from staff. As well as improving efficiency, these systems are also reducing missed appointments.

“We need to ensure all patient recall appointments are organised, and confirmed.”

However, many dentist often do little more than issue reminders to patients to make the next appointment, relying on patient

action. Retention of existing clients is typically easier, and cheaper, than attracting new clients. A better way to manage, and improve, patient recall is to measure patient retention. Most dentists don't, even though existing patient systems software is able to do so.

New Patients

“I have a plan to attract more patients with specific, focused marketing.”

Most dentists want to grow their patient book organically. The most commonly mentioned sources of new patients are referrals from existing patients, or by generating new patient contact through marketing and advertising.

However, as already indicated, dentists generally haven't asked and don't know what their clients value about their practice. They don't use those strengths to find new patients.

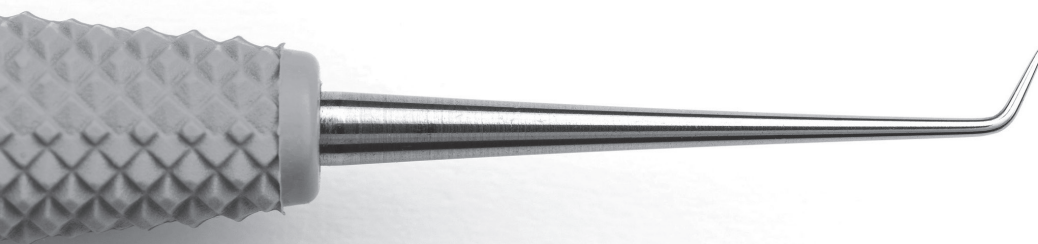
The best quality referrals are genuine, personal recommendations, and generally from existing patients. Some dentists indicate that they obtain new clients from existing patient referrals. A few indicated that they reward patients who refer others with small gifts such as movie tickets.

Other dentists have successfully taken a more formal approach.

“We have a system. We keep existing patients through an effective recall system and loyalty discount. We also encourage existing patients to refer friends and family to visit the practice as new patients, by offering cash back on their next treatment.”

Other than referrals from their own patients, dentists indicated that they were targeting patient referrals from community sources and within the dentist's personal network.

11. How dentists can take action



In the current very competitive climate, dentists need to be as efficient as possible, but the majority of dentists (77%) believe their practice is not operating at peak efficiency. Dentists want to grow, and believe growth planning is required immediately (62%) or in the current financial year (11%).

Find out about available advice services

Where can they start to find solutions? By asking for help, finding out what services are available and beginning with their existing advisers. 58% of dentists have identified a trusted business adviser. For more details, see 'Help from a Trusted Adviser'.

It is recommended that dentists partner with specialists in their industry. The dental industry is changing and becoming more competitive. Dentists need to operate as efficiently as possible to stay ahead of the competition. Practices need relevant, targeted solutions to increase their productivity and profitability.

Two Adviser Model

Dentists can start small. Rather than changing existing accounting arrangements, find a second, specialist adviser and try some advice or business improvement solutions. This allows an adviser to demonstrate how their services add value, while the practice manager or owner manages any possible risks.

Leading accounting practices are targeting business clients for advice services. These practices have developed specialist skills and have practical experience with other clients. They are usually happy to take on a business client for business improvement solutions and advice, with or without the client's compliance or tax work. They are also usually happy to start

by providing initial advice, hoping to grow their offering over time as they develop their client's trust.

What to look for in an adviser

While there are similarities between practices, each is unique. The best advice takes into account the strengths, weaknesses, opportunities and threats of each practice. It has to take account of what is both important and urgent.

The first step is to find an adviser who has the ability to listen and find out about the business. Often the best place to start is with benchmarking the practice, to identify where the practice is not performing well. It is critical that the adviser chosen is prepared to work with the practice owner or manager to identify their top need(s). The adviser should also be flexible, and able to meet with the practice owner and manager at suitable times, or after practice hours.

The second step is to match the advisory skills and solution to the top need.

Even the 58% of dentists who have identified a trusted adviser may find that their adviser doesn't have the skills to match their need. They need to locate a specialist adviser who can meet this need, and do so within the practice's budget. Their trusted adviser can be a valuable source of referrals to other experts who can provide a solution.

The third step, once a solution is recommended, requires commitment to follow through on the planned solution.

For implementation to be successful, it is essential that there is genuine trust and buy-in from the dentist and staff within the practice. The practice owner must understand and agree with the approach for it to succeed. Without trust and commitment, implementation is likely to be patchy or incomplete.

Ask whether the adviser provides:

- Industry specific benchmarking
- Cost audits
- Business growth planning
- Chief Financial Officer programs
- Board of Advice programs
- Succession planning
- Business valuations
- Alignment and risk SWOT workshops
- Dental support team bonus programs
- Profit sharing plans for contracting dentists
- Other advice services

The next steps involve the actual implementation. This may be a lengthy process. Good plans often fail at this stage, when the real work begins.

To succeed, it is important to match the advisory skills and solution to the practice's need, and ensure ongoing support during implementation.

Practice owners should be realistic about their available time for implementation, and consider obtaining support in putting planned solutions into effect. Often tasks can be allocated across the team of dental and non-dental staff within a practice.

Plans should also be reviewed regularly, to ensure they are still appropriate and relevant.

Value Improvement Benchmarking Advice (viba)

Bstar's viba advisory process is a proven method which helps advisers to assist their SME clients, by becoming their most trusted adviser.

Accounting and advice businesses that have received accreditation in the 'viba' process can offer integrated advisory services to their SME and dental clients. They have undertaken specialist training to assist dental and medical practices. These viba advisers can advise dentists on how to grow the value of their practice so they can achieve financial independence.

The viba process involves:

- Needs assessments
- Engagement materials
- Business valuations and value gap analysis
- Benchmarks to validate values and to identify improvement opportunities
- Growth, improvement (profit/cash flow) and succession planning solutions
- Board of advice services (implementation support)

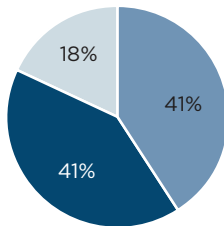
12. How do advisers help dentists?



Three in four dentists believe growth planning is important now, but only 41% of dentists have a plan for growth.

DO YOU HAVE A GROWTH PLAN?

■ Yes ■ No ■ Unsure



Most dentists have indicated that they want to improve efficiency, particularly in staff and productivity and systems. Most practices are not getting specific advice on how to improve productivity or how to grow. To understand how to be more efficient, dentist need to understand what the possibilities are, and how to get the targeted assistance they want.

Tailored Advice Based on Practice Lifecycle

While there are constants, such as the operating of an efficient practice and minimising risks, dentists have different needs, depending on where they are in the practice lifecycle.

By getting the right assistance when establishing a practice, particularly around asset protection, a dentist can ensure that the best legal structure is adopted to minimise risk, together with personal advice on insurance and estate planning.

- **‘Starting’ practices** are particularly interested in understanding what level of gross patient fees (GPF) are required to reach break-even point, and how to manage costs.

- **‘Growing’ practices** are concerned about growth in GPF, maximising staff productivity and improving efficiencies. Benchmarking actual practice costs to industry benchmarks ensures that the dentist receives the greatest returns on their efforts. They also need to have a plan in place to attract quality dentists to their practice.
- **‘Going’ practices**, where one or more dentist is considering their exit, are concerned with succession planning, practice valuations and the level of GPF at which the practice will transition from personal to practice goodwill. There is interest in maximising practice value, planning the transition to new ownership and ensuring identified successors are aligned with the practice’s goals and plans. Strategies to retain quality contracting dentists in the practice also have appeal.

Specialised advice services for practice lifecycle stages

Starting	Growing	Going
Asset protection	Benchmarking	Alignment and risks SWOT workshop
Due diligence	Cost audits	Practice valuations
Management accounting	Practice growth planning	Management and ownership succession planning
Chief Financial Officer	Staff value program	Contracting dentist retention program
	Chief Financial Officer	Board of Advice

Management Accounting

Accountants are encouraging clients to adopt 'cloud' accounting for their financial accounting, tax and compliance reporting but many accountants have not used the technology to do any more.

There is no consistency in the financial accounts structure for independent dental practices. Many practices maintain general financial accounts, primarily for tax purposes, and do not use management accounting or cost accounting of any kind. Even where cloud technology has been adopted, accountants have not encouraged practices to adopt cloud based standard charts of accounts for the dental industry.

Cloud technology allows accountants to assist practices by regular, real time updates to their financial data by using management accounting. Management accounting can greatly assist practices, particularly those without a practice manager, by taking the practice's financial records beyond bookkeeping, and adding tracking and measuring against industry KPIs and benchmarks and the practice's own budgets. This is all information which can help dentists to make quick and informed business decisions.

Dentists need to ensure the accountant chosen has specialist experience in the dental industry and is able to assist the practice with their specific business improvement needs.

Sounding Board Services - the CFO and Board of Advice Solutions

Most practices are too small to warrant employing a Chief Financial Officer (CFO), but can benefit greatly from expert assistance with their financial actions. A CFO is responsible for managing financial risks, analysing financial strengths and weaknesses and proposing correcting action. Other responsibilities include tracking cash flow and financial record keeping and reporting.

One solution is to source an external CFO on a part-time basis, perhaps quarterly or half yearly, to provide expert analysis of the practice's accounts and make recommendations for improvement.

Board of advice services are another flexible solution where the practice owners establish an informal board, made up of practice owners, the practice manager and their trusted adviser(s), to set goals and assist with implementing changes. Regular board meetings provide independent and objective advice, tailored to meet the practice's specific circumstances.

The strength of these hands on solutions is that they can be tailored to any practice size and matched with each individual practice's priorities and goals. By working together, the owners and practice manager gain experience from the CFO or board of advice members, and develop their own skills.

Where there is a need for other expert assistance, for example to develop a marketing plan, the CFO or board members may also assist by identifying an expert and supporting the practice owners through developing the plan.

Advice Based on Accurate Benchmarking Data

A good business adviser can provide significant assistance to dentists at each stage of the practice lifecycle. The use of very accurate dental industry benchmarks, including practice operating benchmarks, is a particular example where the value added through advice can be easily seen.

The most significant costs, apart from dentists are salaries and wages (non-dental), rent and dental supplies. However, there is a wide variation in these costs as a proportion of GPF between poorly and effectively performing practices.

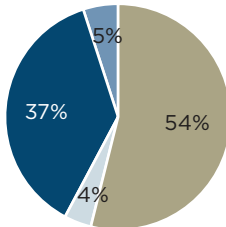
Use of accurate benchmarks allows easy comparison of an individual practice to both equivalent and benchmark top 20% practices. Advisers can work with dentists to pinpoint areas of poor performance, and target improvement which will increase profitability.

Dentists also want to know at what GPF amount their practice will transition from personal to practice goodwill. Bstar's value improving benchmark data is able to identify this amount. Dentists can then plan how to reach the appropriate level of GPF.

Dental Practice Operating Costs

PRACTICE OPERATING COSTS

■ We're Top 20% ■ We're Okay
 ■ We're Not So Good ■ Not Sure



Dental practices frequently operate through a separate practice entity such as a service trust (for sole dentists) or trading trust (for larger practices). However, more than half (54%) of dentists don't know how their practice costs compare to other practices.

"I need to control my operating costs."

Bstar has developed benchmarks of dental practice operating costs, based on actual dental practices' financial accounts, which allows dental practices and their advisers to develop dental practice specific KPIs (see list to the right).

Tracking the practice's performance against these 19 KPIs allows dentists to identify areas where the practice can become more efficient, and improve profitability.

Cost to Serve

Dentists are concerned about difficult economic factors, and the impact it is having on patients and their practice. They see their major growth opportunity to be in providing more services but they don't understand their costs to provide that service.

"There are increasing costs of service delivery versus patients with stagnant wages and less disposable income."

The concern and uncertainty is increased because the majority of dentists, particularly owner operator dentists, have little understanding of their existing business costs.

Part of owning a successful dental practice is understanding the practice operating costs. While 87% of dentists produced financial reports, only one in three knew how the practice compares to benchmarks. Dentists don't know what it costs to provide their service to existing and new patients, or what their patient maintenance systems cost.

"In general, our overheads are around 40% to 50% - minus all car loans."

Understanding the cost incurred in serving patients, and maintaining the patient base reduces this uncertainty, and allows dentists to be ahead of the curve, and understand where they can best improve their operations, and how to effectively grow.

For example, when planning to add a new service, or increase the number of chairs in a practice, the plan should include an understanding of the break-even point for that service. GPF generated by the new service must cover the variable costs of the dentist (or specialist dentist), and applicable dental supplies, as well as any other on-costs.

The starting point is to identify and allocate variable costs (VC) and fixed costs (FC) as a % of GPF and total service fees (TSF).

Dental Practice Operating Costs KPIs

(both as a % of TSF and GPF)

- Accounting expenses
- Advertising and marketing expenses
- Computer expenses
- Cleaning expenses
- Depreciation expenses
- Electricity expenses
- Freight expenses
- General insurance expense
- Laboratory expense
- Motor vehicle lease expense
- Postage expense
- Printing and stationery expense
- Purchases - dental supplies
- Rent expense
- Repairs and maintenance expense
- Staff salaries, wages and on costs
- Staff training and development Costs
- Telephone
- Travel

13. Help from a trusted business adviser



Dentists often practice alone, and frequently do not have someone they trust to discuss business issues with. There are many names for this role – mentor, guide, coach or adviser. It may be a friend, colleague or family member or a variety of people. We use the term trusted adviser.

Dentists are highly educated, but in their specialist field, not in business practice. In general they have no specific business management training or qualifications. The typical career path for dentists involved learning ‘on the job’ in one or a succession of practices before establishing their own practice. As well as clinical skills, they learned how to operate a business by observing other dentists. So, while dentists have acquired business management skills and practices, they don’t necessarily know the best way to run a business.

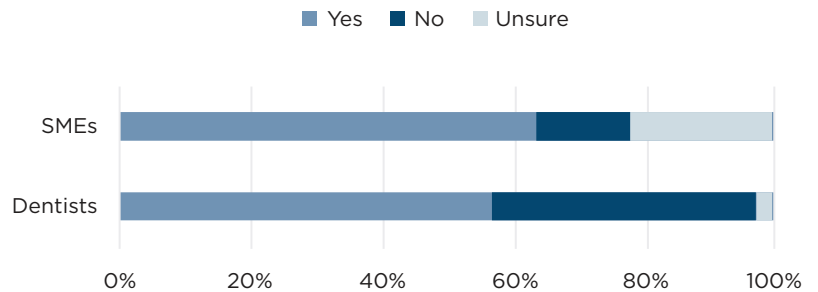
External business advisers can be used to supplement dentists’ own skills and experience, and are able to assist with business improvement and growth planning. However, only 58% of dentists had identified a trusted business adviser, less than the 69% of SMEs in general.

Most commonly, dentists indicated this role was filled by their accountant (71%) or a business coach (41%). Interestingly, one in three dentists with advisers had found a specialist adviser (the ‘Other’ category), sometimes specific individuals recommended through networks, or through trusted business advisory groups.

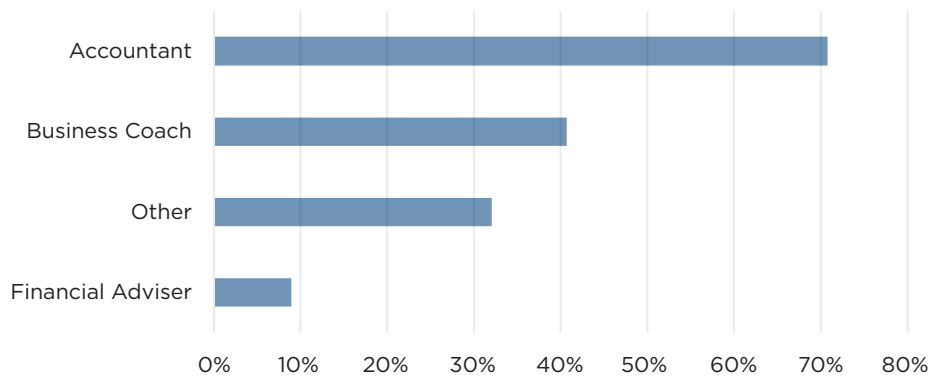
Dentists need to use their trusted advisers to help them focus on how to improve their practice, and find solutions for the areas they identify for improvement.



DO YOU HAVE A TRUSTED BUSINESS ADVISER?



**WHO IS YOUR MOST TRUSTED ADVISER?
(can be multiple answers)**

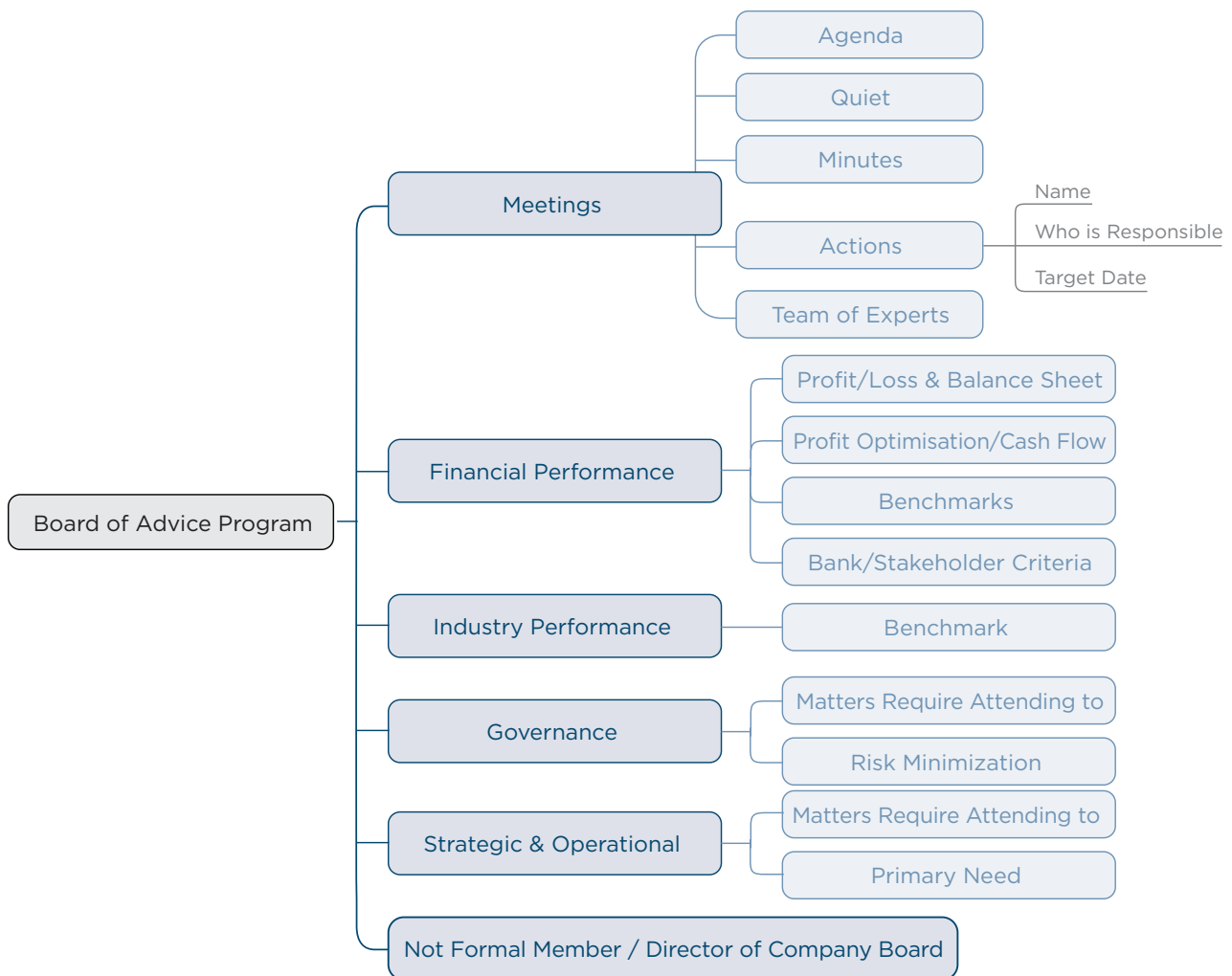


APPENDIX 1- Sounding Board Services

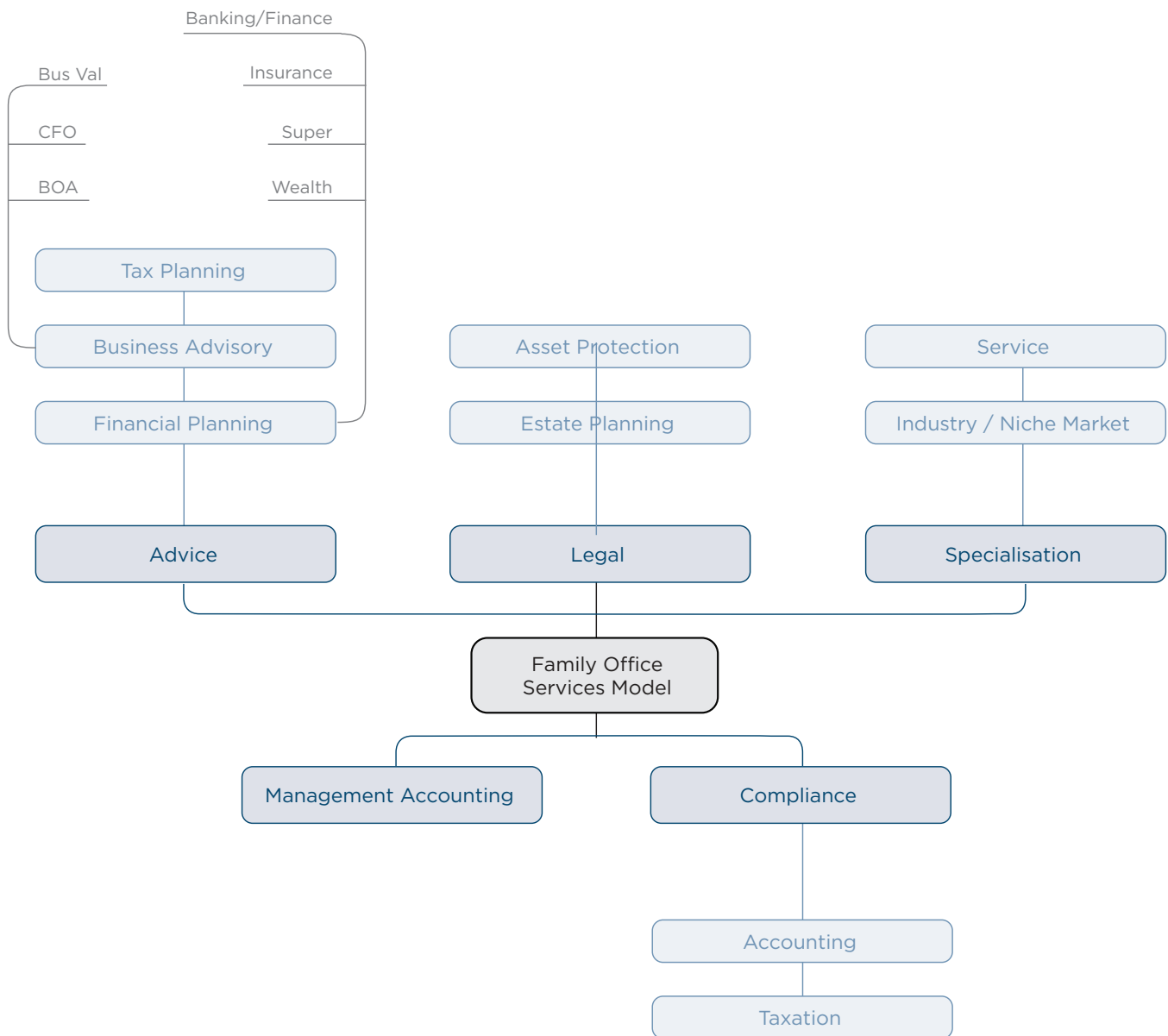
The Chief Financial Officer (CFO) Program



The Board of Advice (BoA) Program



Family Office Services Model



APPENDIX 2 – For advisers

Part A: Engaging Dental Practices

The degree of trust required to secure an advisory services engagement is far greater than required for traditional accounting, compliance or financial services advice.

In dental practices there is no 'one size fits all' approach. Advisers need to understand the fundamental differences between building trust with practices owned and operated by one or two dentists and the larger multi-owner practices.

Owner Operator Practices

A small practice is essentially the result of the one or two owners' personal effort, and any attempt to advise or support the practice requires the engagement, and personal trust, of the principal dentist(s).

Bstar believes that establishing relationship and product trust with the principal dentist is the essential precursor to engaging them or the practice as a client.

To become a dentist's trusted and valued business adviser, the adviser will need to demonstrate their knowledge and expertise, and show that they are an equivalent professional in their own field.

The Bstar 'needs review' process

builds personal relationship trust. It ensures that the adviser firstly listens to the dentist, and discovers the features of their individual practice and their current concerns, and only then offers solutions tailored to meet that concern, i.e. what's keeping them awake at night.

There are two stages in a needs review process, step one is to complete a 'needs assessment' with the principal dentist and step two is to assess and suggest solutions for the most pressing needs in a later 'needs to solution' meeting.

Completing a 'needs assessment' provides structure and allows the adviser to identify the important and urgent needs of that dentist.

Once you have determined what the dentist needs, you are able to identify and suggest solutions to those needs. In engaging the dentist to make changes, it is key to highlight the opportunity for value improvements, and to demonstrate the advisory outcomes, through examples of reports or benchmark data or from the experience of other clients. Always demonstrate how the solution will meet the need that the dentist has identified as both important and urgent.

Set expectations, and determine what support will be required for implementation of solutions.

Multi Owner Practices

There is a different approach required to engage larger, multi-owner practices. This requires firstly engaging the practice manager, before then gaining an introduction to the owner dentists.

Bstar has discovered that a proven method of engaging practice managers is to build trust and demonstrate the value of the adviser's services by conducting a risk and SWOT analysis of the practice with the practice manager.

This can be used to build trust in the adviser's expertise, and can demonstrate the adviser's knowledge of dental practices and their operations. The analysis can also provide the adviser with information on where the practice is not performing effectively, and to suggest tailored solutions to assist with practice improvement.

Part B: About Dentists

Dentists are highly intelligent, highly educated, self-motivated professionals. Depending on the path taken, dentistry requires a minimum of five to seven years university study.

Consistent with other health practitioners, dentists are taught to be professional in their dealings with patients, and to have high standards of personal conduct, and build relationships based on respect, trust and good communication and to work in partnership with patients or clients. There are also high expectations placed on dentists under the national law and its associated code of conduct and policies and guidelines.

Dentists care about the wellbeing of their patients, and achieve satisfaction from improving patient health, and relieving pain and stress. As a result of their training, dentists develop strong values, going beyond just the need to make money from their practice.

Successful dentists require high levels of precision and attention to detail. The Australian Dental Council has set out six main areas of competency for becoming a dentist. These are professionalism, communication and social skills, critical thinking, health promotion, scientific and clinical knowledge and patient care⁹.

Duty of Care

“Practitioners have a duty to make the care of patients or clients their first concern and to practise safely and effectively. They must be ethical and trustworthy. Patients or clients trust practitioners because

they believe that, in addition to being competent, practitioners will not take advantage of them and will display qualities such as integrity, truthfulness, dependability and compassion. Patients or clients also rely on practitioners to protect their confidentiality.”

Extract from clause 1.2 of the Code of Conduct (May 2014) developed under the National Law by the Dental Board

Health and Welfare

It is a cliché that dentists are subject to high levels of burn out, due to occupational stress and the physical challenges of practicing dentistry. Dentistry is a largely sedentary occupation, with dentists spending long hours couped up in their practice rooms, frequently working through lunch hours to accommodate patients.

Causes of occupational stress include the daily work environment, as dentists frequently practice alone, and deal with anxious or fearful patients.

The very characteristics that make good dentists can also lead to self-imposed stress. Dentists are conscientious and impose very high expectations on themselves. As a consequence, they are often highly frustrated when they are unable to reach ideal treatment goals, for reasons such as financial restraints, lack of patient acceptance or difficulties with health funds.

As with all businesses based on personal service, there are economic pressures associated with allocating time efficiently. Dentists often feel that they cannot

afford to take time off, because of the reduction in income.

“I want to decrease my hours. I am training a new dentist, to increase their skills and take over part of my work. I need to maintain fees within the practice.”

Treatment procedures are physically and mentally taxing, and dentists frequently report musculoskeletal problems, such as shoulder and both upper and lower back pain during clinical work.

While these negative aspects receive attention in the media, there are many positive aspects to dentistry as a career.

There is also evidence that dentists are happy with their career choice.

A major study¹⁰ of South Australian dental graduates from 1960 to 2003 found that 88.9% of dentists remained in practice. While the report found significant levels of burnout, the majority of dentists surveyed either agreed or strongly agreed with the following statements:

- In general, my career has matched my expectations (74.6%)
- I am satisfied with dentistry as a career (86.2%)
- Working with clients gives me great satisfaction (78.2%)
- Overall, I enjoy my work (84.4%)
- I can set my own working hours (73.7%);
- I can influence decisions that are important for my work (85.4%)
- I am content with the amount of work that I get done (83.7%)

⁹ “Professional Attributes and Competencies of the Newly Qualified Dentist” (June 2010) see www.adc.org.au

¹⁰ “Career Study of South Australian Medical, Dental and Physiotherapy Graduates” by Szuster, F & Carson, E (Social Policy Research Group, University of South Australia) dated February 2007 (www.unisa.edu.au)

- Most days I feel enthusiastic about my work (71.1%)
- If needed, I can talk with some of my friends about my work-related problems. (83.6%)
- I encourage young people to consider a career in dentistry (66%)

By comparison, only a minority of dentists agreed or strongly agreed with these statements:

- I find it hard to work with clients (7.8%)
- I find it frustrating to work with clients (8.2%)
- Most of the time I have to force myself to go to work (9.1%)
- I work longer hours than I would like (37.9%)
- If I could, I would like to move into another occupation (22.4%)

Regulation

From 1 July 2010, the practice of dentistry has been regulated by National Registration and Accreditation Scheme (National Scheme) which aims to protect the public by ensuring there are standards and policies for 14 health professions in Australia. The National Scheme is established by the Health Practitioner Regulation National Law, made up of consistent, individual State and Territory Acts.

The National Scheme establishes the Australian Health Practitioner Regulation Agency (AHPRA) which acts in conjunction with 14 National Boards regulating registered health practitioners, and ensures a consistent approach across Australia, for example, through developing national standards, codes and guidelines for health professionals to assist in applying the National Law. Complaints are handled by health ombudsmen or commissioners in each state and territory.

The AHPRA supports the Dental Board of Australia. The Dental Board's role is to regulate dental practitioners in Australia under the National Scheme.

The main functions of the Dental Board are:

- Registering dentists, students, dental specialists, dental therapists, dental hygienists, oral health therapists and dental prosthetists;
- developing standards, codes and guidelines for the dental profession, such as the *Code of Conduct, Social Media Policy and Guidelines for Advertising*;
- handling notifications, complaints, investigations and disciplinary hearings;
- assessing overseas trained practitioners who wish to practice in Australia; and
- approving accreditation standards and accredited courses of study.

Under the National Scheme, all dental students enrolled in an approved program of study or who are undertaking clinical training must be registered as a student with the Dental Board.

As at March 2016 there were 21,657 dental practitioners registered in Australia, including 16,220 dentists.

Type of Dentist (by Registration Division)	Total Registered
General	14,078
General and Specialist	1,626
Specialist	30
Limited	70
Non-practising	407
General and other registration	9
Total	16,220

**As at March 2016 (Source: Dental Board of Australia)*

Dental Practitioners (excl Dentists)	Total
Dental Hygienist	1,400
Oral Health Therapist	1,626
Dental Prosthetist	1,240
Dental Therapist	1,015
Dental Hygienist and Dental Therapist	479
Other (multiple registrations)	17
Total	5,437

The Dental Board regulates 13 areas of specialisation for dentists:

Specialty	Total Registered
Dento-maxillofacial radiology	10
Endodontics	163
Forensic odontology	26
Oral and maxillofacial surgery	202
Oral medicine	35
Oral pathology	24
Oral surgery	51
Orthodontics	601
Paediatric Dentistry	129
Periodontics	223
Prosthodontics	212
Public health Dentistry (Community Dentistry)	16
Special needs Dentistry	16
Total	1,708

**As at March 2016 (Source: Dental Board of Australia)*

The Dental Board also requires separate registration for dentists who wish to use conscious sedation in the practice. As at March 2016 there were 97 dentists endorsed in this area.

Accreditation of dental practitioners under the National Scheme, is managed by the Australian Dental Council (ADC), which is the designated independent accreditation authority for the Australian dental professions. The ADC has developed accreditation standards, policies and procedures for study programs and assesses study programs for general or specialist registration. The ADC also oversees assessment of overseas trained dental practitioners seeking registration in Australia.

The main professional association representing dentists is the Australian Dental Association (ADA), a voluntary association with branches in each state and territory.

Structure

Independent dental practices frequently operate through a separate practice entity such as a service trust (for sole dentists) or trading trust (for larger practices). Care must be taken in establishing trusts and company structures to meet ATO rules around personal services income and to meet legal requirements relating to trust and company operations. Care must also be taken that the structure justifies the costs of establishing and operating the entity – company or trust – involved.

“Eventually I want to sell down my practice. Once the right candidates come along, I will need to change the practice structure to reduce the tax burden.”

In the case of a small practice, the usual structure involves the dentist retaining dental income as personal services income, and paying a service fee to the service trust, which operates and pays all the practice costs such as providing premises, staff, materials and consumables. The fee can be fixed

at a percentage of dental income, usually up to 60%, and can involve a mark-up of operating expenses. The dentist earns (and pays tax on) a similar amount to an employed dentist, and the profits generated within the service trust are distributed to the trust beneficiaries, usually the principal dentist and family members.

Larger practices that fall within the ATO’s definition of ‘business’ can operate through a trading trust. In this case the trust receives all patient income, and pays all operating costs, including a commission to the principal dentist(s) and other dentists, usually at around the ATO suggested maximum level of 40%. The trading trust can distribute profits generated in the business to trust beneficiaries such as the principal dentist and family members.

When implementing a service arrangement, the dentist needs to take care to ensure service fees and charges are correctly calculated. The ATO has issued some guidance¹¹ on these points, but the onus is on the dentist to substantiate the charges by the nature and value of the services provided or by comparison with arms-length service arrangements.

Bstar has developed benchmarking for dental practice operating costs, and dental practice specific KPIs (see ‘Solutions’ for more information).

Dental Services Use Statistics

Use of dental services

In 2013, 64% of people aged five and over had visited a dental practitioner in the previous year. Almost half (44%) of adults aged 18 and over had regular dental check-ups with the same dental provider (a favourable visiting pattern). The rate of potentially preventable hospitalisations due to dental conditions was lowest for *major cities* (2.6 per 1,000 people) and highest for *very remote areas* (4.0 per 1,000 people).

Paying for dental services

In 2013, half (50%) of people aged five and over had some level of private health insurance with dental cover. More people living in *major cities* (53%) had insurance than in *inner regional* (45%) and *outer regional* (44%). People living in lower income households were less likely to have dental insurance than those in higher income households.

In 2013, most (77%) adults with some level of health insurance that covered dental made co-contributions towards the cost of dental visits. One (1) in 10 insured adults (10%) paid all their own expenses. Of these, approximately 19% reported that this caused a large financial burden.

Total expenditure on dental services (except those in hospitals) in Australia was \$8,706 million in 2012-13, an increase from \$5,945 million (adjusted for inflation) in 2002-03. The largest source of funds for this overall dental expenditure was individuals, paying directly out of pocket for 58% of total dental costs.

(Extract from “Oral Health and Dental Care in Australia: key facts and figures, 2015” published 28 January 2016 by the Australian Institute of Health and Welfare, Canberra (Cat. no DEN 229) www.aihw.gov.au)

¹¹ See “Your service entity arrangement” (NAT 13086-04.2006) available at www.ato.gov.au

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Client service centre
T 1300 160 160
boqspecialist.com.au

Adelaide
Suite 5
121-129 Hutt Street
Adelaide SA 5000
T +61 8 8203 9100
F +61 8 8227 0066

Brisbane
Level 8
Riverside Centre
123 Eagle Street
Brisbane QLD 4000
T +61 7 3018 8100
F +61 7 3018 8108

Melbourne
Level 49
120 Collins Street
Melbourne VIC 3000
T +61 3 8660 1000
F +61 3 8660 1010

Perth
Level 3, Suite 31
22 Railway Road
Subiaco WA 6008
T +61 8 9214 4500
F +61 8 9214 4545

Sydney
Level 23
The Chifley Tower
2 Chifley Square
Sydney NSW 2000
T +61 2 9293 2000
F +61 2 9293 2166