Benchmarks and the Business of Dentistry

Mini Dental School 2012

Brad Guyton, DDS, MBA, MPH

Chief Operating Officer, Jameson Management

Dentist, Cosmetic Dentistry of Colorado

Assistant Professor, UCSDM
Some people think I have lost focus, but they don’t understand...

HEY LOOK!

...A Squirrel.
Dude, we totally forgot our slogan.

American Medical Marijuana Assn.
Welcome Manufacturer and Distributor Friends…

Hint:

Homerun Product Idea!

(Remember this for the answer to the last question.)
Let’s get some cerebral momentum going...

3. Find x.

Here it is
QUIZ

YELLOW  BLUE  ORANGE
BLACK  RED  GREEN
PURPLE  YELLOW  RED
ORANGE  GREEN  BLACK
BLUE  RED  PURPLE
GREEN  BLUE  ORANGE
Today’s Agenda

1. Outside
2. Inside
Disclaimers:

- I am employed by Jameson Management.
- I am a faculty member of UCSDM.
- I practice dentistry at Cosmetic Dentistry of Colorado.
- Laptops are allowed during my sessions.
- It is considered rude to NOT interrupt me!
- Slides will not be posted.
My Journey Since Undergrad...
Professional Background

EDUCATION
- BS –Vanderbilt
- DDS--Baylor
- MPH--Harvard
- MBA—University of MA
- Geriatric Fellowship--Harvard

EXPERIENCE
- Director, Corporate Professional Services, Dentsply
- 4 Large/Small Private Practices
- Delta Dental Risk Based Practice
- Director Community Health Center
- Mobile Dental Business, Nursing Home

CURRENT
- Jameson Mgmt.
  Chief Operating Officer
- University of Colorado
  Asst. Professor
  Practice Mgmt
  Dental Ethics
- Cosmetic Dentistry of Colorado
  Consultant and Lecturer
Cultivating My Dental Legacy
- Family Die-Hard
- Learner
- Teacher
- PM Consultant
- Clinical Dentist
- Project Guy
- Remodeling/Design
- Hiker, Snowboarder
Course Objectives for Dentists and Dental Students

**BUSINESS SCHOOL**
- Entrepreneurship
- Statistics
- Economics
- Strategic Mgmt/Planning
- Accounting
- Finance
  - Financial Planning
  - Overhead
  - Debt
  - Payment Options
- Organizational Behavior
  - Human Resource Mgmt
- Operations Management
  - Quality Control
- Marketing

**CE COURSES**
- Practice Building Ideas
  - The 5 Ds
- Considering a Practice
  - Economics
  - Statistics
  - Demographic Stats
  - Financials
  - Valuation
  - Practice Purchase/Transition
  - Strategic Planning
    - Business Plans
- Practice Management
- Computers/ Technology
- Time Management
- Common Threads of Success
A Glimpse into the Dentist’s Career Path

Competence  Marketing  Mastery  Giving Back

Patients  Learning  Wealth Building
What has always defined my Practice Life?

- Trust
- Top Notch Dentistry at Fair Fees
- Classy Office – Lean to Gadgets Galore
- Built a great team—takes time
- Never let personal life interfere when at work
- Fun

Now?—Cosmetic practice in CO with top KOL Dr Gary Radz, great team, every bell and whistle
Our Office...
So what is “Practice Management?”

“Everything that goes on in a dental office other than the actual clinical treatment of the patient.”

Most Well-Known National PM Firms:

1. Jameson Management, Inc.
2. Levin Group
3. Pride Institute
4. Lots of mom and pops!
25 Management Systems of the Dental Practice

- Teamwork
- Effective Communication
- Mission/Vision/Goals-Strategic Planning
- Personnel Management
- Organizational Meetings
- Financing
- Insurance Management
- Collections
- Scheduling
- Overhead Control/Fee Analysis
- Establishing and Evaluating Business Monitors
- New Patient Experience
- Diagnosis/Treatment Planning/Consultations
25 Management Systems cont.

- Treatment Coordination and Acceptance
- Full Use of Technology and Equipment
- Patient Education
- Clinical Efficiency/Ergonomics
- Documentation
- Advanced Hygiene Program, Including Non-surgical Periodontal Therapy
- Hygiene Retention
- Sterilization/Infection Control
- Marketing/Practice Building
- Customer Service
- Building the Cosmetic Aspect of the Practice
- Leadership
There is one word in the dental office that is always pronounced incorrectly.

What is it?
A dental patient had 28 teeth. All but 15 were extracted.

How many did he have left?
OUTSIDE

2012 US Dental Economic Benchmarks and Trends
What we said about the dental industry...

- Grows faster than overall economy (1.5-2X GDP)
  - 5-6% annual growth prior to recession
- Stable industry. Great outlook for Jobs over next decade.
- Improves lives!
- Recession Proof!
- The Platinum Era of Dentistry!
Oh SHIFT!
At the Bottom...What We Predicted in Early 2009

- Conservative fiscal spending from dentists
- Delayed investment in equipment
- Difficulty selling a practice—a buyers market
- Increased pressure on AR
- Dental labs challenged—consolidation and a drop in fixed, increase in removable
- For a manufacturer, differentiation is critical
- Dentists will keep more procedures in house to maintain top line
- Job loss will lead to fewer dental insured
- Inflationary pressures will trend dental fees up with a slowing demand for services
Dental Dollars Spent

2007 - $95.2 B
2008 - $102.3B
2009 - $102.2B
2010 - $104.8B
2011 # release Jan 2013

42 % Out of Pocket
  • .5% increase in 2010
  • 5.2% decrease in 2009

46 % Private Health Insurance

5% Medicaid

7 % Other—family, settlement, etc

NADP Stats:
Jan 2010—54% or 166M Americans covered by some form of dental insurance
2006-2008—57% or 176M (credit card debt declined during this period too)
Comparison of US Markets, 2008 VS 2010

• Health Care Expenditures
  • 2008--16.2% vs. 2010 17.9% of GDP
  • In 2010, that is $8410 per person

$2.3 T vs. $2.6T

• Dental Care Expenditures
  • 5.1% vs 4.0% of Health Care Exp
  • Dental went up in dollars spent but down in % of overall expenditures

$102.3B vs. $104.8 B
What has Happened Since?

Trends from Gordon Christensen...

- Worry, anxiety, and fear on part of population—WAF!!
- General population has been reluctant to spend
- Dentists are not as busy as before the recession
- Dentist retirement funding has reduced significantly
- Fewer patients are coming in for recare appointments
- Fewer patients are accepting “elective” treatment
- Patients want conservative treatment – “fixes”
- Patients resist spending significant funds
- Patients are more involved with treatment plans
- Patients are questioning treatment plans
- There are more second and third opinions requested
- Dentist revenue is less, as shown by ADA information and Clinicians Report survey of subscriber
- More composites are being done and fewer crowns
- During the last 12 months, 65% of restorations were composite and 35% were amalgam as summarized from all third parties by Limoli and Associates
2012—no robust recovery yet!

The 2012 US economy—
- Pop. 316.3M in 2012
- Stagnant growth in US--GDP
- The Recovery has lost Steam
  - Projections -2% to +2% in 2012
  - Unemployment remains 9-10%
  - Household savings at 5% of disposable income
  - Inflation at 2.1%
  - Housing prices may finally hit bottom
  - Bank loans will grow
  - The world is becoming increasingly cost conscious

Demands companies (and dental offices) make changes in the way they think and operate in 2012!
Increasingly Insurance Driven

- 57% of the US is covered by dental insurance

- Indemnity and DHMO plans declining
  - Indemnity: 2001=38%, 2008=14%
  - DHMOs: 2001=15%, 2008=8%

- 2008—100 million DPO enrollees for first time
  - DPO: 2001=39%, 2008=65%

..."shift happens..."
Demographics

- New dentists—55% female, All dentists 37% female

- Dental Schools are increasing class sizes
  - Greater # of Intnl. Students

- Number of unemployed men age 35-64 with college degree increasing
“shift happens…”

**Large group practice** — growing at 15-20%

2012

- 27 Companies
- 7000 DDS,
- 3700 DH,
- 32,600 other team members
- 27M Patient visits—account for 4-5% of total mkt

- ADPI (non-DGPA) – Nov 2011 -- acquisition of the Company by an affiliate of JLL Partners, Inc. The transaction was valued at approximately $385 million or $19.00 per share
- Venture Capital firms are interested in LGPs
“shift happens...”

**Patients**

- #1 Reason for patients not getting Treatment in 2011?

“it costs too much”

- What are dentists now doing to help patients?
  - 60% extending treatment to manage pt finances
  - 53% offering 3rd party pt financing
  - 47% offering discounted services
“shift happens…”

- **Marketing** needs have changed—
  - 50% of dentists no longer pay for **Yellowpages**
  - 64% of practices have a **website**—ADA 2011
  - 80% of new patients now come from **internal referrals**—good and bad— we suggest 70%
  - **Facebook** has @ 1 billion active users
Social Media

“Social media isn’t a fad; it’s a fundamental shift in the way we communicate.”

Socialnomics, Erik Qualman
Social Media

- Flicker
- Blogs
- Delicious
- Wikipedia
- Facebook
- YouTube
- Digg
- Twitter
....“shift happens…”

2011 DE Report

- Total Gross DDS Production +5.8% (635K)
- Average Hygienist Production +3.9% (163K)
- DDS Income +4.5% (230K)

![Graph showing income trends over years with 2008 data highlighted.]
LA Times Article Dec 1, 2011

- Revenue drop over past 3 years (7852 practices)
- Q1-Q3 2011—avg 3% decline in revenue and profit.
- ADA August 2011--45% of dentists said they were "not at all confident" about future economic conditions.
- The downturn has forced dentists to:
  - Cut hours,
  - Lay off staff and
  - Cut their own pay.

Late 2011 Data
So….is dentistry…

Recession Proof
or
Recession Resistant?
Dental Market vs S&P 500 Index

1. We pace with the overall market—dentistry is not recession resistant

2. Dental Market Index
   - 3M Co.
   - Align Technology, Inc.
   - American Dental Partners, Inc.
   - American Medical Technologies, Inc.
   - Becton, Dickinson & Co.
   - Birner Dental Management
   - Cantel Medical
   - Danaher
   - Dentsply
   - Eastman Kodak
   - GlaxoSmithKline
   - Henry Schein, Inc.
   - Koninklijke Philips Electronics
   - Patterson
   - Procter & Gamble
   - Union Dental.
   - Young Innovations, Inc.
So is “flat” the new “up”?

“Hey, Awesome Performance.”
No!
The sun hasn’t set on dentistry....
Instead, a new era is rising...

- New science and technology will move dentistry from a primarily surgical discipline to one that is medically and surgically oriented and practiced.

- The 21st Century will see the advent of molecular biology based clinical solutions.

- Industry support is needed to provide products to achieve this type of dental practice.
The new era...

- Future of dental industry will move from primarily a device business to a more pharmaceutical/biologics industry.

- Characteristics of end users must be understood to facilitate adoption of any new technology.

- Industry, Academia, and Institutes will serve as platforms to teach end-users about new science and technology by creation of “learning communities”
Dentistry: a stable growth profession?

Long-term Outlook

- Worldwide demographics drive more demand in cost effective solutions
- Esthetics will continue to be important
  - PRICE SENSIVITY
- Automation/digital dentistry continues to advance
  - PRICE SENSIVITY
- Increase in chair-side procedures by dental team members
A female dentist gives her patient a root canal. The dentist is the patient's sister, but the patient is not the woman's brother.

Why?
INSIDE

Before, During, After
BEFORE: Hurdles New Dentist Face

- 4 yr Public School Debt: $200K
- 4 yr Private School Debt: $400K
- Cost of denovo 4 op equip and build out: $500-600K
- Average Sale of Practice: $400-500K
- Average Solo Practice: $825K
BEFORE: Options for Dentists

- Solo Practice Denovo— $500k
- Practice Purchase— $300->$1M
- Partnership
- LGP—varied
- Public Health
- Academia
BEFORE: Practice Purchase

- WILD GUESSES
- RULES OF THUMB
- ASSET SUMMATION
- DISCOUNTED CASH FLOW
- CAPITALIZED EARNINGS
- DIRECT MARKET DATA
BEFORE: Rules of Thumb

• 60% OF GROSS REVENUE
• 1.5 TIMES NET INCOME
BEFORE: Broker Scattergram

- Number of Broker Transactions: 1,313
- Average Price to Gross: 60.9%
- Standard Deviation: 18.6%
- 67% of Practices Sell Between: 40% to 80%
BEFORE: INSTITUTE FOR BUSINESS APPRAISERS

- Number of Transactions: 2,383
- Median Price to Gross: 61%
- 25% Sold Below: 51%
- 25% Sold Above: 71%
BEFORE: Pratt’s Stats: Price to Gross

59%
BEFORE: Goodwill Registry: Price to Gross

61%
What does a US dental practice typically sell for?

60% of Revenues
**DURING: Benchmarking--Measure what Matters!**

1. Quality of Care/Patient Experience
2. Financial Health of Practice
3. Team
1. Infection Control—“The true mark of a professional dedicated to infection prevention is what he or she does when no one is looking” Dr. Charles Palenik, Indiana University School of Dentistry

2. 4 Key Measures of Quality in Dentistry
   James Bader 12-09, 2005 JADA
   • Technical Excellence of Restorations
   • Patient Satisfaction
   • Service Use—based on CDT code
   • Subjective measures of circumstance
     • “Best Practices” x-ray shielding, rubber dam for endo, etc
The New & Existing Patient Experience

- First Impressions Count
  - Curb Appeal

- Warm and Inviting Reception & Reception Area

- Greet Patients By Name

- Office setting should match desired image
The New & Existing Patient Experience

1. Ideally, initial interview and evaluation with doctor. Radiographs, dx models, and photos taken at this appointment.

2. Full periodontal charting and cleaning at next appt.

3. For treatment over your office limit ($1-3K) consider presenting treatment in private consultation room.


5. Schedule the next appointment
DURING: Benchmarks - Financial Health

- Production
- Collections
  - Accounts Receivable--Goal: no more than 1/2 times the average monthly production
- Expenses—70-72% OVERHEAD NATL AVG.
- Patients
  - New patients--Track them
  - Patient Churn rate/reason for leaving
  - Case acceptance
    - Scheduled an appt and financial agreement
  - Broken appts/no show %
    - % Filled
    - % Rescheduled
- # of Days Worked per month
- Insurance programs?
- Health Care Financing
DURING: Benchmarks - Financial Health Hygiene

- 33% of overall practice production coming from hygiene
- 50% of hyg prod = periodontal therapy
- 90% of all active pts in recall

*It is always more expensive to find new pts than to keep current ones*
DURING: Benchmarks - Financial Health - Overhead

<table>
<thead>
<tr>
<th>Category</th>
<th>Low %</th>
<th>High %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hygiene</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Salaried Staff</td>
<td>13</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>28</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Benefits</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Total Salary &amp; Comp</td>
<td>23</td>
<td>37</td>
</tr>
<tr>
<td>Lab</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Dental Supplies</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Rent</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Marketing &amp; Promotion</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Lease/Loan for Equipment</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Total Major</td>
<td>44</td>
<td>82</td>
</tr>
<tr>
<td>Minor</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>(Office Supplies are 1-2% of the 10-15%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Operating Overhead</td>
<td>54</td>
<td>97</td>
</tr>
</tbody>
</table>
DURING: Benchmarks - Financial Health

3 WAYS TO INCREASE PROFIT MARGIN

- Increase production
- Decrease costs
- Increase fees
DURING: Benchmarking—Team

- Appropriate number of team members?
- Current written job descriptions?
- Current personnel policy manual?
- Team meetings productive and dynamic?
- Incentive bonus plan?
Get the right people on the bus
Get the wrong people off the bus
Get the right people in the right seat

- Jim Collins, *Good to Great*
DURING: Benchmarking—Team

1. Get the right people on the bus
2. Loosen controls without losing control
3. Invest in them
   - Time
   - Skills
   - Money
4. Communicate with them regularly
Communicative skill is the bottom line to your success

Cathy Jameson
AFTER: Devoted to **Long Term Planning**

- **Retirement Planning**
  - Saving—you need 12X your income to retire (plus social security).
  - Need to save 12-15% of salary
- **Retirement Income Sources for Dentists**
  - 62% from Family retirement savings
  - 13% Social Security
  - 12% Sale of Dental Practice
  - 4% Inheritance
  - 9% Other—other pension, military, etc.

![Graph showing ratios of savings to salary over different years.](image-url)
AFTER

• Focus on Happiness
  • Wounds heal 2x faster
  • Less likely to catch colds
  • Increased productivity

• Studies all over the world agree—4 most important happiness factors:
  • Gender
  • Personality—extroverts/neurotic
  • External Factors—employment/kids
  • Age

The death of ambition and the birth of acceptance
And at the end of the day....

• **It is all about people**
  - Your family and friends
  - Your team
  - Your CLIENTS and PATIENTS
  - Your community
“Things are not always as easy as they seem…”

My Mistakes

- Burnout at 30
- CE at 30 hr/yr.
- Blew off Oral Histology and Hygiene
- Lost track of Classmates
- Didn’t maximize lunch/specialist time
- PhD for 1 yr.
- Community Involvement early on
- Recognize my Strength/Weakness
- Passion is challenge, building, and change
- Where to live?
You take 2 dental handpieces from 3 dental handpieces.

How many do you have?
You walk into a dental office restroom and see this...

What does it mean?
Q&A—SYSTEMS OF THE DENTAL PRACTICE
25 Management Systems of the Dental Practice

- Teamwork
- Effective Communication
- Mission/Vision/Goals-Strategic Planning
- Personnel Management
- Organizational Meetings
- Financing
- Insurance Management
- Collections
- Scheduling
- Overhead Control/Fee Analysis
- Establishing and Evaluating Business Monitors
- New Patient Experience
- Diagnosis/Treatment Planning/Consultations
25 Management Systems of the Dental Practice

- Treatment Coordination and Acceptance
- Full Use of Technology and Equipment
- Patient Education
- Clinical Efficiency/Ergonomics
- Documentation
- Advanced Hygiene Program, Including Non-surgical Periodontal Therapy
- Hygiene Retention
- Sterilization/Infection Control
- Marketing/Practice Building
- Customer Service
- Building the Cosmetic Aspect of the Practice
- Leadership
Benchmarks and the Business of Dentistry

Mini Dental School 2012

Brad Guyton, DDS, MBA, MPH
brad@jamesonmanagement.com

Chief Operating Officer, Jameson Management
Dentist, Cosmetic Dentistry of Colorado
Assistant Professor, UCSDM