

Learning & Adapting from Last Time

- We Can Do It!



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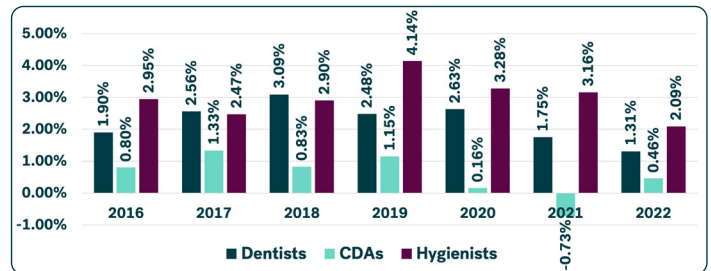
When the great recession hit in 2008/9, dental gross/net incomes had a short bump up because of recession-delayed demand. People who were worried about losing their dental plans rushed in to get postponed or delayed treatment plans completed. Subsequently, dental net incomes dropped year over year until 2014 due to personal financial pressures patients were experiencing. There was a delayed consumer reaction we can all learn from.

What's Different This Time Around

We haven't even hit the recession in the USA or Canada, however, consumers facing high inflation are pulling back quickly from discretionary purchases, including dentistry. Unfortunately, many of the factors driving high inflation (e.g., food, energy, transportation) aren't under the control of central banks. Canadian families of all income levels are stressed by the rapid rise in everything they need to put food on the table and a roof over the heads of their families.

According to the American Dental Association's Health Policy Institute: "In the USA, dental practice schedules were about 83% full in October 2022, a decrease of three percentage points from

Figure 2: Oral Health Professionals: Growth



the month before. The main factor preventing their practices' appointment schedules from reaching 100% was 'no-shows' and cancellations with less than 24 hours' notice, cited by 82% of responding dentists, followed by 46% indicating low patient demand. Dentists were nearly evenly split when asked whether staff shortages (44%) or not having enough patient demand (40%) concerned them the most looking ahead the next six months"

We're seeing the same issues north of the border. *Figure 1* confirms that BC dentists (associates and owners) are experiencing the same pressures on short notice cancellations and unfilled appointments. *Figure 2* confirms that virtually every dental practice is short on all types of employees. There's cautious optimism that slowly, some staff will come back, but that will not allow all practices to run with a full complement of staff. Don't expect wage rates to drop – they will likely continue to increase (slowly) until central banks get inflation back to the 2-2.5% range – that may be 2023 or 2024+. No one knows if and when the next recession is going to hit. *Bloomberg* predicts the chance of a USA recession at 100%. Are they right? What we know is that if the USA gets a financial cold, the rest of the world gets financial pneumonia.

New Normal?

Dental office production functions have changed for the next five to ten years, and possibly forever, as there may never be enough registered/certified dental assistants and dental hygienists for all dentists. All dentists need to rethink their strategy and operations in light of a scarcity of employees. *Figure 4* has strategies for increasing staff productivity during these challenging times.

Figure 1: Province-Wide Responses

Source: Impact Economic Consultants

	Yes	No
Owner - Short Notice Cancellations	76%	24%
Owner - Unfilled Appointments	60%	40%
Of the 76% Who Had Cancellations	1-5	6-10 11+
Owner - Number of Short Notice Cancellations	62%	29% 10%
Of the 60% Who Had Unfilled Appointments	1-5	6-10 11+
Owner - Number of Unfilled Appointments	58%	30% 13%
	Yes	No
Hygiene Cancellations	82%	18%
Unfilled Hygiene Appointments	57%	43%
Of the 82% Who Had Cancellations	1-5	6-10 11+
Hygiene - Number of Short Notice Cancellations	53%	34% 12%
Of the 57% Who Had Unfilled Appointments	1-5	6-10 11+
Number of Unfilled Hygiene Appointments	70%	22% 8%

Figure 3: Small Efficient Practices

- Minimum efficient scale at the practice level is two-three chairs/practice.
- Small efficient practices net about 11% more than the average practice and see about 8% less patients.
- Large practices net about 15% more than small efficient practices however, they see about 33% more patients and have many more staff.
- Small staff teams are easier to manage, less complex inter-team interactions.
- Small staff teams are easier to coordinate which directly affects productivity. Small teams can focus on reducing waste (more efficient on using supplies) and optimizing the schedule on a real time basis to address short notice cancellations.
- Less capital investment.
- Less space, less rent.
- More time for patients.
- Two dentists keeping a small practice open six days a week can both work 1,600 hours without ever seeing the other dentist one working Monday to Thursday (Wed/Thur. half days) and the Wednesday to Saturday with the opposite half days on Wed/Thur. Almost all the economies of scale and scope are captured and the cost savings would fund a significant retirement fund – talk to your CDSPI financial advisor or your accountant.

Our employees have specialized training, so we'll continue having to pay high market wages to attract employees. This will put pressure on dentists to return to the 1950's/1960's dental practice styles where there were few large practices and many small efficient practices. "Small efficient practices" today see 8% fewer patients but their net income is 11% more than the "average dentist". *Figure 3* outlines their characteristics.

The 1950's/1960's dentists often ran small efficient practices with two or three staff and three or four operatories in small premises – averaging 2.84 operatories vs large practices with 7.35 operatories. They ran "cost leadership stance" practices where they decreased costs through efficiencies, but increased quality from the patient's perspective. In your patients' eyes, staff are "where" quality happens.

We need to treat each patient and every staff member as jewels. They are all scarce and priceless to our success.

1950's dentists maximized the "last dollar in" by adding one patient per day or one procedure more per hour if the clinical need was there for some appointments. Often, they booked an extra 15 minutes on each re-care appointment which they did themselves. If there was a simple one- or two-surface filling (patient willing), they would freeze during the cleaning and now add one more procedure per hour. Or if booked later, provide one more unit of needed scaling. The profitability of adding one more required procedure without another seating saves the "seating time cost" (*Figure 5*). Let's do some simple math. All your fixed costs and step variable costs (staff) are covered in

Figure 4: Improving Staff Productivity in Challenging Times

- Cross-train staff, so RDAs/CDA's can work in reception and receptionists can act as chair-sides.
- Staff present only when needed.
- Use technology (e.g., voicemail, suctioning devices) to run with fewer staff.
- Use AI programs where appropriate to run with fewer employees.
- Use block booking (scheduling similar procedures back-to-back, e.g., two endodontic procedures one after the other) to run with fewer staff, increasing efficiency.
- Longer appointments, if appropriate, reduce seating costs and increase staff efficiency.
- Determine peak demand periods and schedule staff accordingly. Match periods when patients want to come in with your team schedule. This may change if patients worry about employment and want more after-hours or weekend appointments to avoid missing work.
- Many practices today with scarcities can only find staff for regular hours, not evenings or weekends when patient demand is high. Dentists may work longer hours with only one part-time assistant during these times. The profitability of running with one assistant for a routine hygiene appointment is about 80% vs 33% for the average practice with the full team. Profitability for an hour of restorative would be around 85%. Lock the doors, voicemail on, see a few patients, single team member; the contribution to your net is significant. Dentists may have to work an extra half or full day to thrive through challenging times.
- Move to cassettes and ensure enough cassettes to run entire day.
- Decouple part of operations like sterilization/seating patients (use part time students or retired persons).

Figure 5: Dental Wage Growth (%)

	BC Consumer Price Index	CDA	Hygienist	Receptionist
2010 - 2017	9.8	11.1	2.2	8.0
2017 - 2020	5.8	14.3	9.0	4.5
2021	3.5 (Sept)	6.3	4.8	3.8

your day already, if you add a simple quick filling, the profitability of each dollar for the fillings is \$1.00 less 8 cents (8% dental supplies), or 92% profitability. The seating cost for BC dentists is \$22.00 to seat a patient no matter what you do, so if you did a \$100 filling, the profit is \$92.00, and because you avoided a second seating cost, you saved a further \$22.00. Savings go directly to your bottom line.

Flexible is the New Black

The first question we all need to answer for our practice is: are we in an area where all of our staff have returned and do we feel confident we can replace our team members if they leave? If employees are plentiful in your area, a large practice is a viable option, if you are in an area where there is a staff constraint, you'll need to consider changing your operations/strategy.

Every dentist needs to ask themselves three questions to be positioned for success over the next decade – *See Table 1 on the next page*. The answers to these questions will lie ►

Table 1:

1. What is your inherent efficiency as a practitioner? The average dentist can produce three procedures/hour, while the most efficient can produce six+ procedures/hour.
2. What are your practice management skills, were you born charming or learned how to be charming, and are you a good manager or trained to be a good manager?
3. What's the size of your contestable patient base, are there enough patients to build a practice? Is your patient/doctor ratio 1,500/1 or greater or are you in one of the more competitive urban areas where the ratios are 500/1 or less? What would happen if more new dentists moved into your area?

on a continuum, but some dentists will want to think about small two-three chair practices where they have minimal staff, minimal overhead, and are in highly competitive areas where new patients are hard to find. A dentist who produces at three procedures per hour should have less staff than one doing six procedures per hour. It's the dentist's productivity that determines how many staff they should have, not the other way around. The larger the team, the harder it is to control office expenses and dental supply costs.

Some dentists will have large contestable patient pools, a plentiful supply of employees now and in future, great management skills and "fast hands" doing six procedures/hour. For these lucky dentists, five-plus chairs with large teams (multiple hygienists/associates) will be the ticket to maximizing their productivity.

Changing production functions may require strategy and operational changes. If you don't have a business degree as well as a dental degree, you'll need professional guidance; management consultant, financial advisor, accountant or take a training program e.g. Sauder Certificate in Dental Practice Management, www.sauder.ubc.ca/dentist or courses through your Association.

High debt loads and the rapid rise in interest rates has sideswiped many Canadians and dentists. This will go away, but it's not going away soon. Running more productively and profitably until it does will lessen the stress just a bit – priceless today.

My next article will be about **how to survive and thrive through the coming recession**. What you measure matters and what you measure gets done, but few dentists actually run financial reports monthly. Current information will be critical over the next few years, allowing you to track expenses and revenues and set up budgets, set up an emergency fund, and work on team retention treating each person like the "gems" they are. How to evaluate your debt levels, if you have too much leverage (debt), what are your management options? The importance of talking to your key advisors: CDSPI – investments/retirement savings, accountant, banker sooner rather than later. Finally, how do you keep saving for your retirement as your interest costs go through the roof? ■

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