

UK Dentistry 2011 Update

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Reaching the peak in 2011.

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Introduction

In this first newsletter of the year, I provide an update of where I personally feel where the opportunities are, and where the possible threats are to the sector, and what dentists need to be thinking and doing in their practices, to stand out from the crowd.

Now more than ever, in these challenging times, it is time to step up, lead from the front and be bold. Our economic times require you to be different and be bold leaders, come out of the shadow and just perhaps 2011 will be your best year yet!

Take 15 minutes out, have a full read, and take a look at my **21 Point Action list** at the end of this report, it is a pretty big brain dump on my part, but gives you an idea of the things you may want to consider this January.

As a non-dentist entrenched in UK dentistry, I hope you find my perspective useful to make 2011 your best year yet!

The UK Dental Market – Too Hot to Handle?



Don't kid yourself, in general the UK economy is no doubt in difficult times. The policy of raising extra revenue through VAT increases to 20%, and attempts to cut public sector spending will effect dentistry.

Firstly, the 20% VAT rate is not good for dentists, this is a cost that will need to be absorbed by practices, due to them being a VAT-exempt service. So the question rises, do you raise your fees accordingly, or do you absorb the additional cost.

There is no right answer here, but either way, you will be impacted whichever route you take. The right thing to do at this stage is to do your sums and then make a decision based on what the figures are telling you.

For the time being, the 20% VAT is here with us to stay, we now need to adjust our business models to ensure that we are not considerably effected by this change.

In our own practices, we have decided to keep our fees the same, and shout out to our clients that our fees are unchanged, despite the VAT rise – our aim is to be seen as the good guys – I guess only time will tell!

In addition, on your daily expenditures on things such as materials etc, look at what you really need, and not you may need one day. Being careful on day to day expenditure will help you in managing the increase in VAT in these tougher times.

Identifying Opportunities

Despite the economic challenges we are all facing, there are still opportunities aplenty in the dental sector.

In our own and some of our client sites, there is still strong demand for certain treatments. Well-marketed and branded practices are still doing brisk business. These innovators are ahead of the curve, embracing new ideas and technologies to gain market share, and grow their business.

Firstly, such practices are using more sophisticated marketing techniques including highly optimized websites, social media, including twitter and facebook, local network groups like BNI, and email marketing linked into landing pages on websites. (if you need some help take a look at www.samerastudio.com)

Brisk business in GDP oriented adult orthodontics continues, however, many are trying alternatives to Invisalign (with the cost of Invisalign being cited as one reason to move away), such as 6-month smiles and Inman Aligners.

Whilst adult orthodontics is still a growth area, we are seeing more practices taking on their own in-house specialist so they can keep the patient within their 4 walls but also grow their own revenue. I envisage this will be something that will develop further in the adult orthodontic market, as general practices try to grow their business in this economy.

This is the same for Dental Implants, which is still in demand from affluent over 50's. Many practices now have an implant-trained dentist within their walls, which contributes to the growth of the practice.

Changing Practice Dynamics

Whilst the array of treatments being offered is increasing in practice, we are also seeing the dynamics of dental teams changing too. Business Managers are now common in many a practice, and treatment co-ordination appears to be an important role too. In addition, the rewards on offer for the support team are changing, with many team members on performance related pay for part of their remuneration.

The Corporates are still growing (see later about NHS contracts) and there have been a proliferation of newer smaller corporates appearing on the scene, most aimed at the NHS marketplace. Some of the larger supermarkets have also entered the fray, opening up clinics in key locations across the UK, and I feel this will only continue further in the coming years.

The Market Continues to Polarize

But as I have said many a time, the market now more than ever is polarizing. We can see it everywhere around us. The rich are getting richer, whilst the poor are feeling or even getting poorer. From education, to living standards, to clothing, to dentistry, the divide is widening.

We have seen it in the retail markets, and have also seen it in the airline market, and now, seeing it in the dental market.

Increasingly consumers are either looking for cheap, or exclusive, and rarely anything in between. They shop at Primark but at the same time they may buy an exclusive handbag from Selfridges. They shop at Tesco's but they also shop at Waitrose. They travel on Easyjet but also sometimes splash out on a 5 star holiday or hotel.

The companies that sit in the middle of each market, are the one's feeling the real pinch in the market place. Why would anyone buy anything in the middle? The stuff in the middle is over-priced or under-exclusive. Given the choice most people will avoid the mediocre middle.

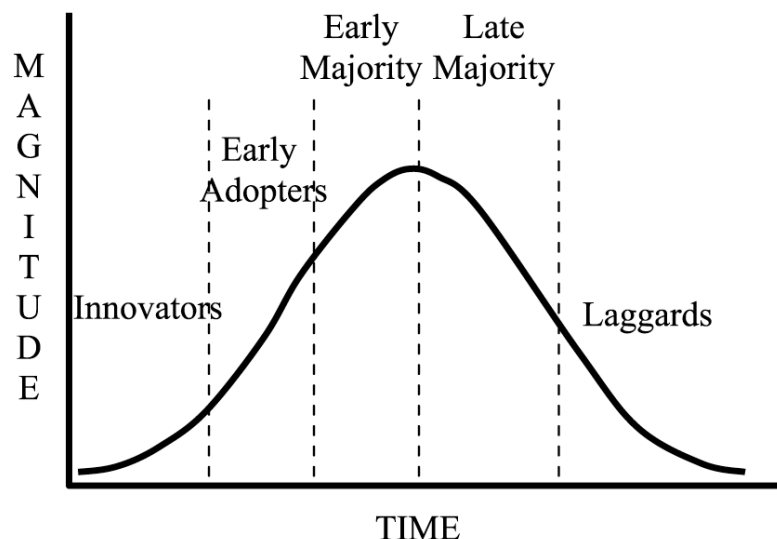
Tesco have figured out how to sell food cheaply (by massively scaling their business up so they have extremely strong buying power), whilst Waitrose have worked out how to make their products exclusive and expensive. The companies in the middle are struggling.

If a consumer doesn't care enough about a product or service to seek out the best, then 9 times out of 10 they want the cheapest. I know I have certainly have done this with flights, food, computers, cars...actually many things. Have you?

So what about dentistry?

Well in my view the same principle applies to dentistry. Patients are either seeking out cheap, by hunting down NHS practices or alternatively seeking out more exclusive offerings available in the private market.

I personally feel that by being in the middle ground or attempting to sell to the mass market you run the risk of not delivering cheap well but at the same time not providing an exclusive offering to those at the other end of the spectrum.



Source: Rogers (1962)

So what is the answer?

Re-engineer your business so well that you no longer sit in the middle. Build a practice that does cheap or expensive well, but not both and that appeals to customers that are seeking something different out.

Appeal to the innovators and early adopters in dentistry, and forget about the mass market, as the mass market (the early and late majority) is probably way too costly to market to.

CQC – Don't stick your head in the sand!



If you are a dentist, and have not heard or done anything about CQC in your practice already, then perhaps it is time to hang up the drill. Registrations should have been in by the end of December 2010, with registration beginning in earnest from 1st April 2011.

The indication is the charge will be from £1500 per practice, with those dentists lucky (or unlucky enough) to have more than one practice, paying further fees for each subsequent practice, albeit not the full whack per site.

Like it or not, it looks like the CQC will be with us in some guise or another for a very long time. The alleged aim to improve patient care. Will it? Maybe, in certain practices, but at a nice cost to most practices across the UK. *The timing of CQC introduction could not have been worse for UK dentistry.*

I can see on many faces of my clients a look of despondency as the increased red tape of running a dental practice grows.

Some are questioning is it worth the hassle!? Whilst others are just getting on with it.

We are in the latter category, just getting on with all necessary paperwork, ensuring we have all the necessary policies and procedures in place and a team who know what they have to do!

Is it a hassle? Of course. Is it costly? Absolutely. Just another thing to manage in UK dentistry today!

Competitive Environment



Since 2006, when many dentists left the NHS, the competitive environment in UK dentistry has grown significantly.

Both new private and NHS practices have emerged across the UK, but particularly in the main urban centres. Price wars are not uncommon (Invisalign for example in London) and patients are certainly shopping around.

Although price is certainly a factor, especially in this economy, competing on price alone, is a sure fire strategy of failure. Patients who are looking for investing in their dental treatment, don't just base things on price, they are looking at what is on offer. The team, clinical ability, customer care, environment etc....all the usual things which must clearly differentiate your practice from others. They are looking for cheap or exclusive, and nothing in between!

The rise of online services such as Group-On have certainly seen many dentists offer heavily discounted services to patients whilst Group-On have taken a nice 30%+ cut of the heavily discounted fee.

For many, the net result has been new patients, with the hope of repeat business from these patients in the future. Although great for companies like Group-On, building a practice based on customers searching for cheap dental deals is not potentially good for the long term.

The outcome of this remains to be seen but I still feel building a business based on differentiation rather than price is key to longer term success. Yes, agreed, it may be hard, but who said business was meant to be easy? If it was, everyone would be doing it!

Landing an NHS Dental Contract



In the last few months of 2010, it appears there was a spurt of PCTs across the UK issuing new NHS tenders for dental contracts, perhaps due to the planned changes in the new NHS contract model.

Although available for any budding dentist to apply for, the whole contracting process (which in my opinion is so unwieldy) is set up against the young budding dentist wanting to get an NHS contract.

From my experience, I have seen most NHS tenders being awarded to practices with existing NHS contracts in a local area, or to corporates that will have an army of dental contract specialists and be willing to accept any size of contract for any low value of UDA.

Call me a cynic but it really is tough for any Associate Dentist looking to land their first NHS contract award. It is not impossible, but a lot of ground work must be done before you even consider putting in a bid for such a contract.

So the only option really available for many dentists is to buy a practice with an NHS contract in place, (many a time overpriced and difficult to fund in this climate) prove you have made it a success (from the PCT point of view) and then apply for any tenders that come up in your local area, if they ever do arise, and hope you have not got any of the larger Corporates stacked against you.

It has only been a few years since getting an NHS contract was an easy thing for any budding dentist, but now the cards are heavily stacked against the dentist wanting a contract, and much more in favour of a larger organization.

The days of being just a dentist, in the NHS, really are numbered.

**Please sir, can I
have some
money?**



If done right, in the right location, with the right brand and marketing, and the right team, *nothing beats* the return on investment of setting up a squat dental practice. Get one of these wrong, and then it's a very different story.

But even this has begun to slow in the last 6 months, as banks hold onto their money and are less keen to lend to start up private practices, even though the person behind the offering has a credible record.

A lot of what will occur in dental practice life over the next few years will be heavily dictated by the economy, but also the major banks lending policies.

Two years back, in a low interest rate environment, dentists could borrow at around 1-1.5% above the prevailing base rate. Now, even though we are still in a low interest rate environment, banks are now offering loans to dentists at much higher rates – from 2.5%-6% above the prevailing base rate. Rates more common to other businesses.

This rising in rates, certainly highlights their risk aversion to lending at the moment, which will effect the development of the sector as a whole.

How can you save more tax?



In a tightening environment that we live in, taxes are on the rise. As we already know VAT has been raised to 20% from 17.5%.

From April 2011, National Insurance rates are going up by 1% and the basic rate band is dropping to £35,000 from £37,400 – not good news for employers. These have not hit employers yet, but they will!

So what is the answer? Well one possibility could be incorporation. Corporate tax rates for small businesses are actually falling to 20% from 21% in April 2011, so perhaps now is the time to consider making the moving into a limited company.

Of course, each situation varies from client to client, but now more than ever operating in a corporate structure appears much more compelling.

In addition, If you are having some issues of cash flow in paying your tax bill due in January, you may want to talk to HMRC early on, so they can help you with a tax payment plan, at an attractive interest rate.

21 Actions for 2011



With a Dental Sector undergoing so much change, it would be hard to actually come up for air. But one must do.

Ignoring the changes is not an option, but fearing them isn't either. Being practical is the only option.

Create a plan, and then take action. This is what you need to do, don't hesitate, just do it, and be bold. In no particular order, a 21 point brain dump of actions you should be doing this January:

Vision, Planning and Team

1. Make a decision that 2011 will be your best year yet – despite the doom and gloom
2. Set some key SMART goals for 2011. If you don't know what SMART is – find out!
3. Get your team on board, Hold an initial team meeting and communicate to them your plans and how they can help you in 2011 – focus on the future not the past.
4. Create a master plan for your practice, and identify who can help you with taking action on it.

Marketing

5. Identify your target market – don't be everything to everyone. Look at your existing patient list and see what type of patients you are attracting. Find out why they are seeking you out...ask them!
6. Review your practice brand. Is it appealing to you, your team, your patients? If not, consider a new brand. Don't underestimate the importance of a strong brand – which should be appealing, consistent across all your channels and have longevity!

7. Review what were your top 3 most effective marketing efforts in 2010, and just focus on these, don't waste your time and money on unimportant issues....develop a low cost marketing strategy.
8. If you have a website, measure its effectiveness, is it doing what it should be doing? Getting new patients for your practice. If not, review your online presence. If you don't have a website, get one!
9. Get involved in social media, but don't spend too much time here, this is just one small aspect of your overall marketing, focus on the big picture, have a social media strategy but that does not mean spending all day on twitter!
10. Look at where you can develop your revenue, can you grow it further with new services? Can you grow it with new specialists? Have you considered in house orthodontists or implant experts? If not, why not?
11. Build a practice and brand which is different! Differentiate yourself from the other practices. Ask yourself the question, how can we be different? Do not blend into a sea of blandness.
12. Don't be in the middle. Offer something either expensive, or cheap. Remember people either want exclusive or rock bottom cheap – how does your offer stack up?
13. Get your team involved in the sales process. Get them fired up, motivate them, offer attractive incentives if you hit target!

Financial

14. Chair utilization – how busy are your dental chairs? If they are sitting empty – why? How can you get them busier, should you get a motivated associate, hygienist or therapist?
15. Prices – have you reviewed your pricing? How does the 20% VAT rate affect your prices? Are certain treatments being taken up by patients? Whilst others are completely off the radar? Take stock, and re-consider your pricing to firstly see you are profitable, but also competitive. Don't kid yourself, even in the top end practices, people still want to feel they are getting value for money. Make sure your prices reflect excellent value for money – whoever may your customer be!
16. Cost management – keep a close eye on your costs. If not already, make sure you have monthly accounts for your practice, and then each month monitor progress – don't put your head in the sand, be aware of the true reality, and make decisions on what the figures are telling you!
17. I personally envisage managing cashflow will get harder in 2011. Have plan in place to manage your cashflow, whether it is additional overdraft facilities, increased borrowing, or a great

uncle's will, make sure you have a plan so your cashflow is managed.

18. Look at your current financing, is it worth considering fixing your interest rates, or have you got a good deal already? There has been talk for a while that interest rates will be rising this year, will this impact you considerably? If so, is it time to fix your rates?

CQC

19. CQC – make sure you have all your policies in place and air tight, and make sure your team is ready and trained. Don't forget, this is not a one off, this is here to stay, so you will need to ensure you have an ongoing training programme in place for your team! Be prepared.

Tax

20. Manage your tax effectively. With a 50% rate tax for higher earners, consider being a limited company to help you save tax and ultimately help you with your cashflow.

Always Monitor....

21. Finally, constantly monitor your performance on all levels – financial, marketing, clinical, team.....**as what gets measured gets done!**

Don't wait to do this (and I am sure you have many more things too on your list!) You won't be able to deal with all these issues on your own, you will need an internal and external support team that will you will need to lead through 2011.

So grab the bull by the horns, and step up, as if this is the most important thing in your career.

We are always here to help, on all fronts!

Have a fabulous 2011!

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