

Eight Steps for Strategic Analysis of Dental Practices

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Dentistry has become increasingly competitive over the last decade. Some of the major causes are the increasing supply of new dentists, more dental substitutes (auxiliaries), changing patterns of dental demand and the increasing bargaining power and sophistication of buyers. Despite these competitive pressures, dentistry remains an attractive industry, and expenditures on dental services have increased substantially in Canada. Total expenditures are now over \$5 billion.¹ Demand can be expected to continue to increase over the next decade.

The combination of industry growth and increased competition suggests that dental practice strategy will be the key to success in the future for most dentists. However, there is almost no strategic advice for dentists that moves beyond simple bromides. Hard-nosed strategic analysis that leads to higher profitability and a better practice is difficult. Without some tricks of the trade, most dentists will find it difficult, if not impossible, to do effective strategic planning. This paper presents an easy-to-follow but reasonably comprehensive strategic approach.

Rather than advocating full-scale strategic planning, our more simple approach revolves around eight related key steps.² These steps can stand alone or can form the basis for a more comprehensive strategic plan. Particularly useful, these steps provide a way to start any strategic planning exercise.

The Eight Steps

Step 1: Understand and Categorize Your Services

The first step is to understand and document the different services provided by your dental practice. Inevitably, the set of services will differ from practice to practice. Indeed, a key way that dentists differentiate themselves from other dentists is by providing different services.

In practice, deciding on the nature and extent of service categorization is not always obvious. For example, should a service offered during evening hours be treated for strategic purposes as a different service from one offered during traditional hours? The answer is usually "yes" because many dentists do not offer evening service.

Step 2: Understand and Segment Your Customers

To market your services, it is essential to segment your customers carefully and to understand the needs of each customer segment.³ Ways to segment patients and obtain a patient profile include demographics, insurance comprehensiveness, benefits sought (severity/urgency versus cosmetics) and proximity to your location.

It is also important to recognize that while patients are almost always the end-users of dental services, they are not always the only customers. Other purchasers of dental services, such as insurance companies or the various referral sources of patients, should also be considered as customers and should therefore be segmented.

Step 3: Construct a Service–Customer Matrix

A service–customer matrix (SCM) combines the two previous steps into a matrix. Typically, the cells contain service–customer segment specific information. The cells may indicate whether or not the practice operates in each service–customer segment or, more usefully, may contain segment-specific information about revenues or some other strategic information. Thus, an SCM provides a clear picture of how different service categories and different customer segments fit together.⁴ It shows which kinds of customers purchase which dental services.⁵

An SCM can also show the importance of each service–customer segment. This analysis is the essence of strategic positioning. (Note that *strategic* positioning is defined in terms of service categories and customer segments, not geographic position.) Strategic position is the most important dimension of strategy: It drives practice style, profitability and growth.

A dental practice's strategic position may be chosen or it may emerge from previous, not necessarily well thought-out, decisions. Implicit positioning strategies may turn out well if the dentist is lucky, but chosen positioning strategies are more likely to be successful.

Step 4: Competitor SCM

Strategic thinking requires dentists to consider the actions of rival dentists (competitors). Intense rivalry detracts from everyone's profits. A useful first step in understanding rivals is to identify competitors and to position them on an SCM —

i.e., to specify the rivals in each service–customer segment. This may require expanding the practice-specific SCM to include services or customer groups handled by other practices (but not by the practice being analyzed). The resultant matrix is called a competitor SCM. Analysis of the matrix may identify that a dentist faces different competitors in different segments, or that competition is fierce or pretty easy.

There are four other reasons why competitor SCMs can be useful. First, different segments may have different growth rates or profitability prospects. A practice may want to exit unattractive segments and enter attractive segments. Second, different key success factors may prevail in different service–customer segments. It is important to consider whether your practice already has or needs to obtain the necessary key success factors or competencies. Third, practices may want to pursue different operational strategies in different segments. Fourth, a competitor SCM identifies the boundaries of the sector, which is necessary for industry analysis.

Step 5: A Location-Proximity Map

Dentistry is a location-driven business — this is the key strategic differentiating decision.⁶ Dental practices always compete to some extent against other dental practices that are in close physical proximity. Location also affects the size and demographic characteristics of the practice's customer base.⁷

Since the location site decision is a long-term fixed investment, the disadvantages of a poor location decision are difficult to overcome. Moving involves significant transaction costs. Longer distance moves mean that the dentist has to give up an established client base, which is expensive to develop anew.

To evaluate a dental practice's current location (or any other potential location), a useful first step is to construct a location-proximity map, which plots all rivals onto a map of the practice's catchment area.

Step 6: Identify Close Competitors

Profits decrease as the closeness of competitors increases. Closeness has two dimensions: geographic and strategic. Geographic closeness can be determined by laying iso-time bars on the location-proximity map.⁸ (An iso-time bar represents typical travel times to your practices, such as 15 minutes or 30 minutes.) Strategic closeness depends on the similarity of service categories and customer groups of rivals, which can be extracted from the competitor SCM.

Dental practices compete most against other practices that are closest in terms of both geographic closeness and strategic closeness. A practice in the same building that provides similar services to a similar customer base is the most intense rival. A practice in the same building with different services or customers is less of a threat. For example, a cosmetically oriented practice faces less competition from a family-oriented practice located nearby than from another cosmetically oriented practice further away.

Step 7: Identify the Competitive Stance of the Closest Competitors: Differentiation Versus Cost-Leadership

Dental practices that are close both geographically and strategically should be analyzed further. Although practices may be similar on these dimensions, they may yet pursue different competitive stances. There are two classic competitive stances. One focuses on increasing customer satisfaction and the amount customers are willing to pay for dental services — a differentiation stance. The other focuses on lowering service or practice costs — a cost-leadership stance. Both cost leadership and differentiation are relative concepts — they are only meaningful in comparison to rival dentists. Thus, it is necessary to examine the strategic stance of all close practices.

Competitors that have the same competitive stance as your practice are more problematic and have more impact than competitors that have a different stance.

Step 8: Understanding Your Practice's Competitive Strategy: Ways to Increase Demand or Reduce Costs

Differentiation is driven by what customers value (or what they can be persuaded to value!). You may not be able to convince the public that it needs more dental services in aggregate, but you can convince the immediate public that your dental office provides better dental services than competing practices. Practices may increase the demand for their services (pursue a differentiation stance) by superior experience or expertise, attractive physical appearance of the office, excellent interaction skills, effective communication and marketing, and better leadership and administration.

Cost leadership is all about lowering costs. Practices may reduce their costs (pursue a cost-leadership stance) by achieving economies of scale or economies of scope, benefiting from learning, superior coordination and scheduling, reducing input costs and through efficient office design.

A practice does not have to compete in the same way for all of its services, or indeed in the same way for different customers purchasing the same service. However, many practices do follow a similar competitive strategy over all services and customers. They may focus on being a low-cost provider for all services. Alternatively, they may focus on a differentiation strategy (increasing perceived quality) for all their services. There are several reasons for such strategic consistency. There is considerable jointness of supply over services — the same dental facility is used to deliver all services. Another reason is that it is difficult for organizations to hold different ideas or adopt different practices concurrently — such as offering high quality for some services but focusing on lower costs for other services. For example, most practices find it is difficult to offer capitation services in the same facility as elite services such as cosmetic dentistry. Of course, there are potentially tremendous benefits to a practice if it can successfully provide high quality at low cost.

Conclusion

Although the eight steps for strategically analyzing a dental practice outlined above do not constitute a comprehensive strategic analysis, they do relate to many of the most important strategic issues. Most importantly, these steps are not particularly difficult and can be conducted by any dentist who wants to get started in a strategic analysis. ♦

A series of articles examining the eight key steps and the tools dentists can use to analyze their practices will be published in CDA's *Communiqué*.

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