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The State of Business in the South African Dental Industry

BC REPORT | JUNE 2020



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The State of Business in the South African Dental Industry

Overview

The purpose of this study is to understand how dental practitioners in South Africa are managing the business side of running a dental practice. While practitioners remain optimistic, the dental industry is facing considerable challenges. The report covers the following:

- Dental practitioner sentiment
- Activity in the South African dental industry
- Current challenges in the dental industry
- Financial performance and strategic planning

Methodology

The study included quantitative and qualitative analysis. Data included in this report was gathered from a proprietary survey and interviews conducted with dental practitioners across South Africa. In terms of participation, 66 practitioners from seven of the nine South African provinces participated in the survey, with the Western Cape and Gauteng accounting for 41% and 36% of respondents, respectively. Furthermore, BC interviewed several practitioners to better understand the current market environment and key challenges.

Key Points

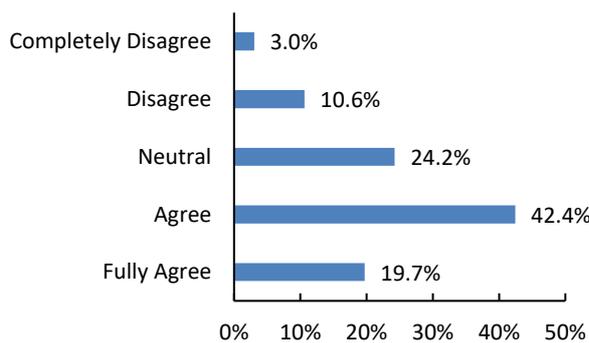
- **Several practitioners are transitioning from medical aid patients to private patients.** This is primarily due to the income potential of working with private patients. Additionally, patients have downgraded their medical aids and are opting for cheaper plans. Therefore, medical aids are covering less of the treatments and patients having to pay the shortfall which they do not want to do. As one practitioner put it, patients are therefore only doing damage control treatments, leading to less revenue for medical aid practitioners.
- **Despite time constraints, practitioners are now being intentional about finding time during the working day to perform administrative tasks.** While some dentists spend 100% of their working day seeing patients, several practitioners emphasised the importance of performing administrative tasks during the working day to create better work/ life balance. Practitioners who have made this transition noted that approximately 90% of their day is now spent seeing patients, while the other 10% is dedicated to administrative tasks and the management of the practice.
- **The decrease in disposable income of patients is a significant challenge for practitioners in the dental industry.** According to BC's survey, 31% of dentists indicate that a decrease in patients' disposable income is their most significant challenge (see Exhibit 6). Dentists are preparing several quotations; however, patients are not following through with the treatments, largely due to a lack of funds. Therefore, patients either select less expensive procedures or do not follow through at all. BC recommends that practitioners focus on providing exceptional client service and benchmark their treatments and the cost of their treatments against other practitioners in the market. In this way, practitioners ensure that they remain competitive.
- **BC research suggests that practitioners do not have the right support structures in terms of human expertise and technology tools to enable the successful running of their practices.** For instance, practitioners are often making decisions about the financial side of their business without having the necessary expertise or information to do so. Leveraging external accountants can assist with this. Accountants should not only be crunching numbers. Instead, they should also act as a strategic partner and advise on ongoing business challenges and strategic planning.

DENTAL PRACTITIONERS' SENTIMENT

Dental practitioners in South Africa are relatively optimistic about their potential growth. As shown in Exhibit 1, 62% of dentists agree or fully agree that they are optimistic about the growth of their practices. BC research suggests this is due to two reasons. Firstly, the dentists who are optimistic have been established for many years and have a regular patient base. Therefore, they are more confident in their ability to maintain and grow their practices.

Secondly, several dentists told BC that their optimism is due to the income potential of working with private patients. One large practitioner told BC that there are no price ceilings with private patients. If practitioners build strong enough relationships with patients and offer a good service, they will return and be prepared to pay. Consequently, several practitioners are transitioning from medical aid patients to private patients.

Exhibit 1: Optimism of Dental Practitioners



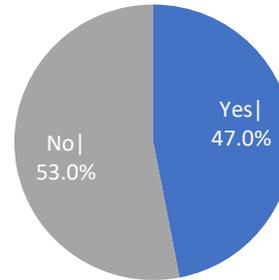
Source: Boraine Consulting

Analyst Note: Dental Practitioners were asked to what extent they agree or disagree with the following statement: I am optimistic about the growth of my Practice.

In addition to practitioners' optimism, several are looking to expand. Approximately half of respondents plan to establish another practice or hire additional dentists at their existing practices (see Exhibit 2). Acquisitions have become a key part of how dentists grow their businesses. One dentist told BC that they are always looking for opportunities to buy existing practices. Quite a few practitioners that want to expand cite demand for their services as the primary reason for wanting to grow their practices. In what seems to be a challenging period for several businesses across South Africa, results from BC's survey show that 12% of practitioners are too busy to accommodate all patient requests (see Exhibit 5).

Practitioners are therefore looking to meet this demand by expanding their current operations.

Exhibit 2: Plans to Expand Practice



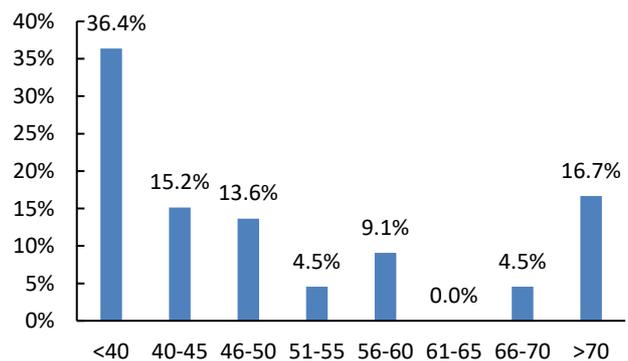
Source: Boraine Consulting

Analyst Note: Dental Practitioners were asked whether they have plans to expand their business by establishing another practice or hiring more dentists at their existing practices.

ACTIVITY IN THE SOUTH AFRICAN DENTAL INDUSTRY

The results indicate that most respondents (36.4%) see less than 40 patients per week, on average. Just 16.7% of practitioners see more than 70 patients per week. BC research suggests that several practitioners who see more than 70 patients per week are predominantly medical aid practices. These practitioners told BC that they need to see more patients compared to private practices to meet their revenue targets, due to reduced medical aid rates and benefits.

Exhibit 3: Average Number of Patients Per Week



Source: Boraine Consulting

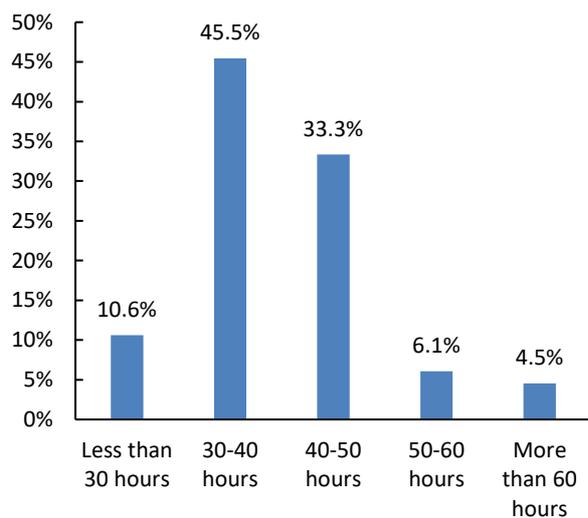
Analyst Note: Dental Practitioners were asked to indicate the average number of patients they see per week.

Approximately 79% of practitioners work between 30 and 50 hours per week, with 45.5% working 30-40 hours and 33.3% working 40-50 hours. BC research suggests that some dentists spend 100% of their working day seeing patients and do their administrative tasks after hours.

According to the practitioners that spoke to BC, the primary reason is that they are focused on revenue generating activities given the current economic climate and note that there is not enough time during the working day to manage administrative tasks.

Despite time constraints, practitioners are now being intentional about finding time during the working day to perform administrative tasks. For practitioners who have managed to make this transition, several noted that approximately 90% of their day is spent seeing patients, while the other 10% is dedicated to administrative tasks and the management of the practice. These practitioners carve out time on a daily or weekly basis to perform tasks such as preparation of quotes, dealing with particular patient issues and liaising with staff, to name a few.

Exhibit 4: Average Number of Hours Worked Per Week

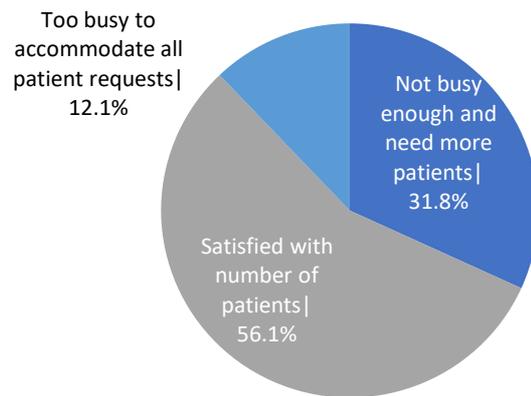


Source: Boraine Consulting

Analyst Note: Dental Practitioners were asked to indicate the average number hours they work per week.

Most dentists are satisfied with the number of patients they see. As shown in Exhibit 5, 56% of dentists are satisfied and 12% are too busy to accommodate all patient requests. Despite this, a significant 32% of dentists that completed BC's survey indicate that they are not busy enough. While most dentists are optimistic and several are looking to expand, many dentists are experiencing significant challenges in running their practises.

Exhibit 5: Busyness of the Practice



Source: Boraine Consulting

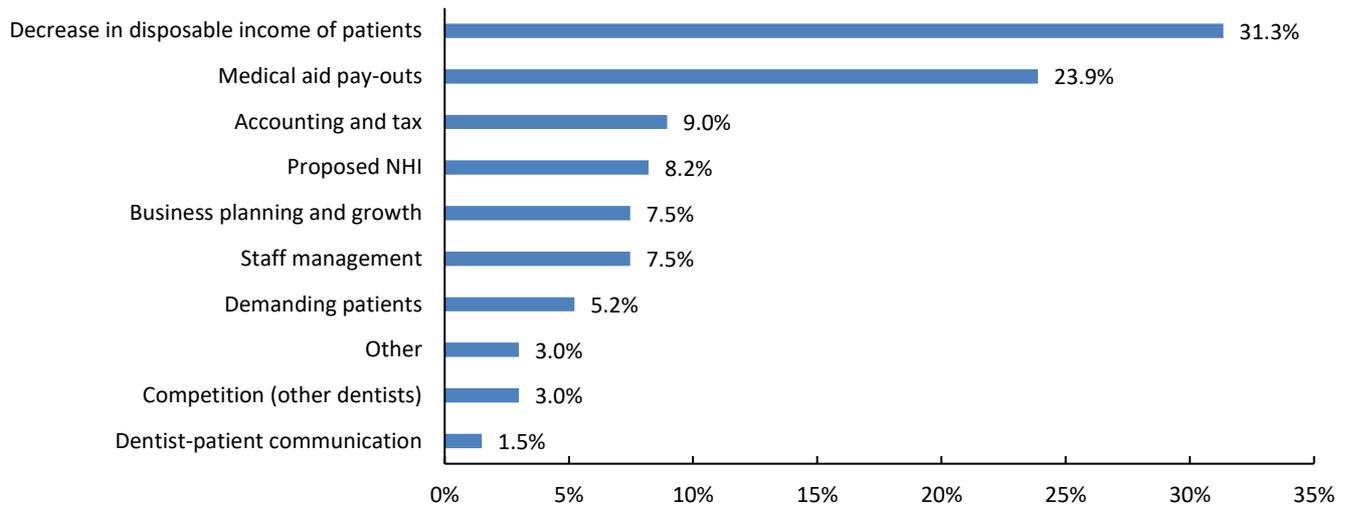
Analyst Note: Dental Practitioners were asked to indicate how busy their practices are.

CURRENT CHALLENGES IN THE DENTAL INDUSTRY

The decrease in disposable income of patients is a significant challenge for dental practitioners. According to BC's survey, 31% of dentists indicate that this is their most significant challenge (see Exhibit 6). Dentists are preparing several quotations; however, patients are not following through with the treatments, largely due to a lack of funds. Therefore, patients either select less expensive procedures or do not follow through at all. Several practitioners told BC that price becomes less of a concern for patients if practitioners offer exceptional client service. In fact, patients are unlikely to switch to a different practitioner even if fees are slightly higher, according to numerous practitioners. Additionally, BC recommends that practitioners benchmark their treatments and the cost of their treatments against other practitioners in the market. Understanding the competitive environment should be part of broader market research initiatives.

Furthermore, medical aid pay-outs remain a significant challenge with 24% of practitioners indicating it is their most significant challenge. There are two key reasons for this according to BC's research. Firstly, a theme that emerged when interviewing practitioners is that patients have downgraded their medical aids and are therefore opting for cheaper plans. Consequently, medical aids are covering less of the treatments and patients having to pay the shortfall. As one practitioner put it: "Patients are therefore doing damage control treatments rather than special treatments."

Exhibit 6: Most Significant Industry Challenges



Source: Boraine Consulting

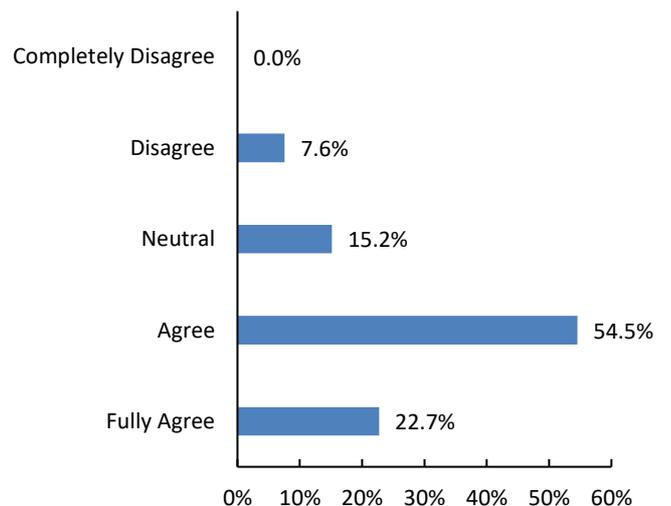
Secondly, the increase in the medical aid benefits on a yearly basis is less than the increase in the costs for practitioners. For instance, several practitioners told BC that the increase in the cost of materials is greater than the increase in benefits from medical aids, leading to a shortfall that the practitioner needs to fund. In many instances, these additional costs cannot be passed on to patients, leading to significant cost pressure and therefore lower profit margins of practitioners.

Furthermore, several practitioners stated that finding good talent is a significant challenge. One large practitioner told BC that it is challenging to find qualified dental assistants and oral hygienists. To overcome this challenge, dental practitioners should continue to build their pipeline of potential employees if they need to grow their practice in future or hire when existing employees resign.

STAFF MANAGEMENT

Dentists are confident in their ability to manage their staff with 77% agreeing or fully agreeing with the statement (see Exhibit 7). The practitioners that are not confident note that the lack of time is their main constraint. Practitioners spend most of their day seeing patients and therefore do not always have time to dedicate to managing staff. While most administrative tasks can be completed after hours, staff management must be done during the working day, presenting a challenge for practitioners.

Exhibit 7: Dental Practitioners' Confidence in Their Ability to Manage Staff



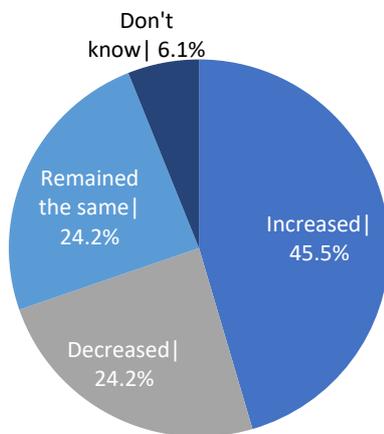
Source: Boraine Consulting

Analyst Note: Dental Practitioners were asked to what extent they agree or disagree with the following statement: I am confident in my ability to manage the staff at my Practice.

FINANCIAL PERFORMANCE

Most dental practitioners' revenue has increased over the past three years. According to BC's survey, 45.5% of practitioners saw an increase in their revenue, while 24.2% saw a decrease and 24.2% remained the same (see Exhibit 8). When examining net profit, just 33.3% of practitioners saw an increase in their net profit, while 31.8% saw a decrease (see Exhibit 9). The practitioners that experienced growth in revenue and net profit are generally well-established players.

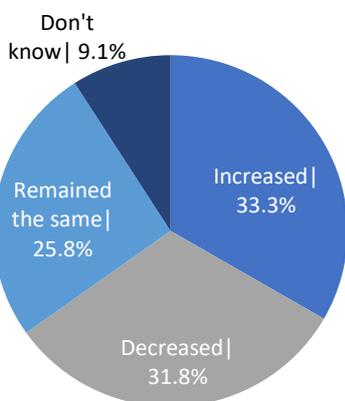
Exhibit 8: Dental Practitioner Revenue Change Over the Past Three Years



Source: Boraine Consulting

Analyst Note: Dental Practitioners were asked to indicate how their revenue has changed over the past three years.

Exhibit 9: Dental Practitioner Net Profit Change Over the Past Three Years



Source: Boraine Consulting

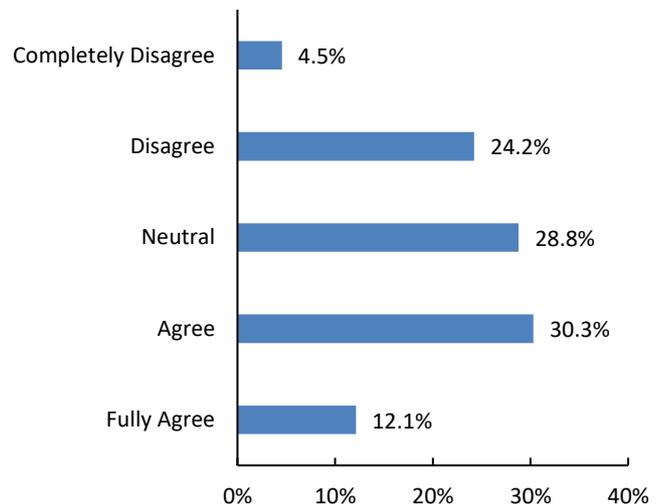
Analyst Note: Dental Practitioners were asked to indicate how their net profit has changed over the past three years.

In terms of confidence about the financial future of their practice, the responses from practitioners are mixed. While 42% of practitioners are confident, 58% of practitioners are neutral or do not have confidence about the financial future of their practices (see Exhibit 10). BC research suggests that there are two main reasons for this statistic.

Firstly, practitioners are not trained on the business side of running a dental practice and therefore find this challenging. BC recommends that practitioners undergo some formal training to overcome this challenge.

Secondly, BC research indicates that practitioners do not have the right support structures in terms of human expertise and technology tools to enable the successful running of their practices. For instance, practitioners are often making decisions about the financial side of their business without having the necessary expertise or information to do so. Leveraging external accountants can assist with this. Accountants should not only be crunching numbers. Instead, they should also act as a strategic partner and advise on ongoing business challenges and strategic planning.

Exhibit 10: Dental Practitioner Confidence About the Financial Future of Their Practice

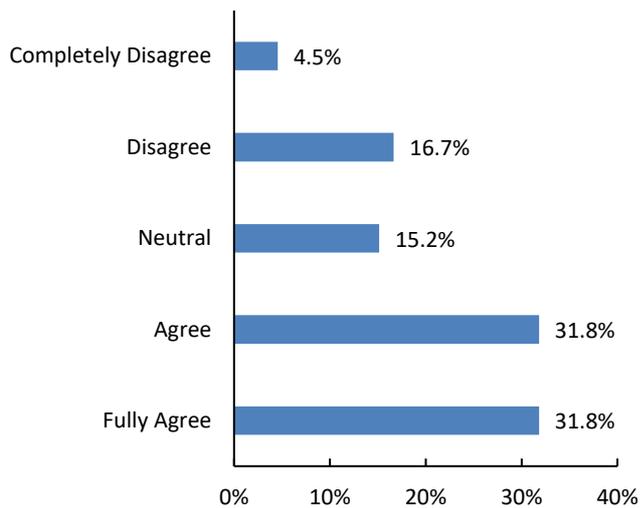


Source: Boraine Consulting

Analyst Note: Dental Practitioners were asked to what extent they agree or disagree with the following statement: I am confident about the financial future of my practice.

The benefits of cloud accounting software are not being realised by dentists. In terms of the availability of financial information, 64% of practitioners agree or fully agree that they can check their sales, expenses, profit, and cash flow at any time (see Exhibit 11). While many practitioners have financial information available, several told BC that they are dependent on their accountants or third parties to provide this information. Cloud accounting software provides flexibility in that practitioners do not need to physically be in the practice to check financial information. When data is in the cloud, practitioners and accountants always have a completely up-to-date view of the current financial situation and therefore, there is less dependence on the accountant manually sending this information.

Exhibit 11: Availability of Financial Information for Practitioners to Make Decisions



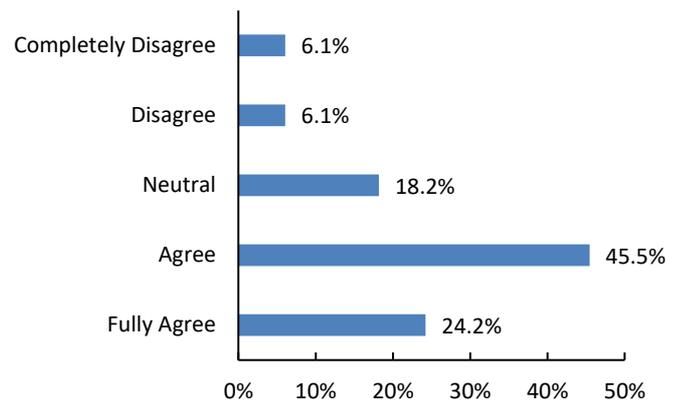
Source: Boraine Consulting

Analyst Note: Dental Practitioners were asked to what extent they agree or disagree with the following statement: We can check our sales, expenses, profit and cash flow at any time.

STRATEGIC PLANNING

As shown in Exhibit 12, most dental practitioners regularly review their business strategy. However, several practitioners that spoke to BC noted that they do not have a documented strategy. Additionally, they are often speculating about what to do in terms of their strategy rather than using a structured framework to develop their strategic plan. Marketing is key to a successful business; however, several practitioners do not have a marketing strategy. Many are relying on their reputation and the fact that they have been in a specific location for numerous years.

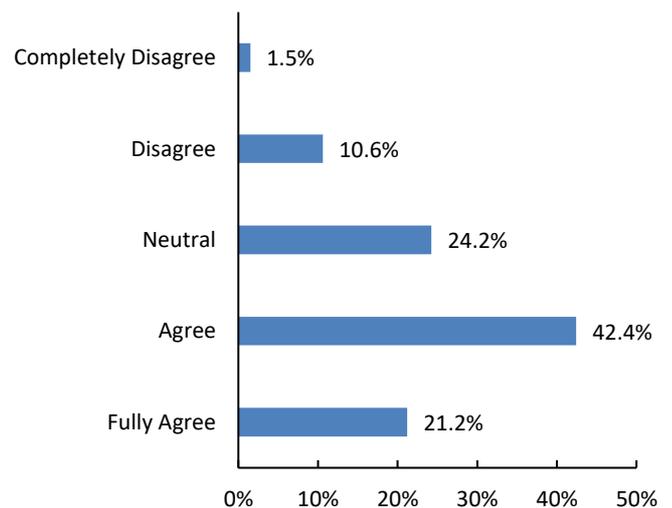
Exhibit 12: Regular Review of Strategy



Source: Boraine Consulting

Analyst Note: Dental Practitioners were asked to what extent they agree or disagree with the following statement: I regularly review the strategy of the practice to ensure that it is still relevant and viable.

Exhibit 13: Practitioners Level of Comfortability in Planning and Executing Strategies

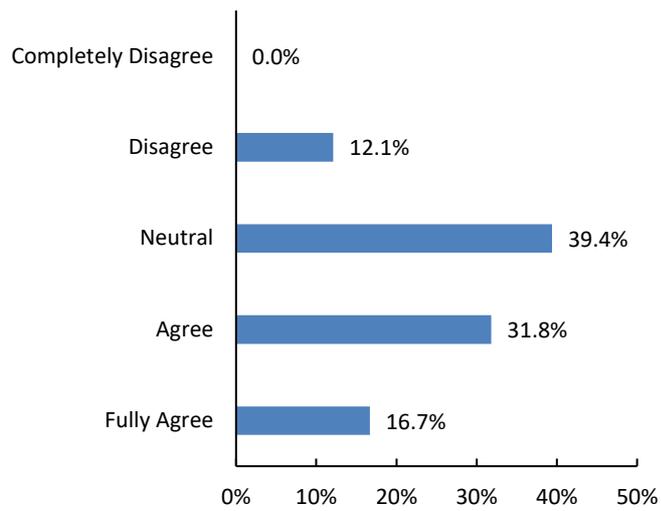


Source: Boraine Consulting

Analyst Note: Dental Practitioners were asked to what extent they agree or disagree with the following statement: I am comfortable that I can plan and execute strategies to ensure a viable practice in future.

The practitioners who do not have confidence in their marketing strategy (see Exhibit 14) likely do not have a plan in this regard. The practitioners who do market their services do so using a mix of online and offline channels. Online channels include social media, website content and email marketing. In terms of offline marketing, this mainly includes sponsorship of local events.

Exhibit 14: Confidence in Marketing Strategy



Source: Boraine Consulting

Analyst Note: Dental Practitioners were asked to what extent they agree or disagree with the following statement: I am confident in our marketing strategy and ability to get new patients to the practice.



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