The Impact of the Financial Crisis on the U.S. Dental Industry

Vijay Sikka – President and CEO
Sikka Software Corporation
Gustaf Savin - Analytics Manager
Sikka Software Corporation

Sikka Software Corporation is the leading innovator in developing Business Intelligence Software for small and medium sized healthcare providers. Their software products enable healthcare offices to take control of the business and clinical aspects, which over time has become more complex and involved. The data analyzed in this article is extracted from over 9,000 dental clinics in Sikka Software’s vast client network.

The financial crisis of 2007-2009, which is regarded as the worst crisis since the Great Depression, had devastating effects on U.S. economy and lead to the global recession of 2009. More specifically, unemployment surged, financial institutions collapsed, and consumer confidence slumped as a result of the crisis. In addition, the economic downturn also had negative effects on the U.S. dental industry causing patient visits, practice collections, and net income to plummet.

The U.S. Dental Industry

When the financial crisis hit the U.S. economy, the dental industry was already in a bleak financial state. According to a recent study by the American Dental Association (ADA), the average net income for general practitioners has exhibited moderate or no growth since the early 2000s. In addition, net income, which measures how profitable it is to run a dental practice, started to decline sharply in the mid-2000s. More specifically, the average net income dropped 13% between 2006 to 2009 (from $219,501 to $191,495). The decline in net income is attributed to several factors including: (i) declining utilization of dental care by the adult population, (ii) less out-of pocket payments and increased financing by public programs, and (iii) a change in procedure mix. For example, dental expenditures per capita started to slow down in 2002, several years before the financial crisis. The declining utilization of dental care is driven by the increase in the amount of people lacking dental benefits and the austere financial climate.
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The Financial and Clinical Impact of the Crisis

Critical performance measures such as practice collections, patient visits, and doctors gross production plummeted in the wake of the financial crisis. For example, practice collections alone dropped 5% between 2009 and 2010, see figure 1. However, the dental industry has exhibited strong growth since the crisis. Collections are up 8%, doctors gross production 12%, and patient visits 7% since the slump in 2010. The recovery is driven by a steady increase in both patient flow and gross production per visit, which is a result of a better overall economy. For example, the U.S. unemployment rate has decreased from 10% in 2010 to 7.5% resulting in an increase in the amount of people with dental benefits. According to Sikka Software’s client data, the percentage of cash patients in the dental industry has decreased from 20% to 17% during the same period, which constitutes a drop 15%.

When the financial crisis hit the U.S. economy in 2008/2009, the dental industry was initially not affected, see figure 1. It took over a year before the economic downturn finally hit the industry leading to more no-shows, fewer patient visits, and a lower case acceptance rate. As figure 1 also illustrates, practice collections closely follows the disposable income per capita. There is a close relationship between collections and disposable income because the end consumer is responsible for a significant portion of the overall dental costs. For example, two-thirds of the population over 65 and one-third of the population between 21 and 64 lacks dental coverage. As a result, these people are solely responsible for the considerable out-of-pocket expenses associated with dental treatment.
addition, dental care is in times of crisis often regarded as optional rather than crucial. Consequently, a lot of people postponed their dental treatment to after the financial crisis had past. However, this could have disastrous effects on the long-term oral health in the country.

![Figure 2: Doctors and Hygiene Gross Production](image)

Doctors gross production dropped considerably between 2008 and 2010, which was a consequence of fewer patients visits rather than lower spending per visit. In comparison to doctors production, hygiene production increased slightly during the crisis, see figure 2. More specifically, patients postponed more expensive procedures such as restorations in favor of cheaper, preventive care. For example, restorative procedures dropped 5% between 2009 and 2010 while performed prophylaxes increased during the same period. Lastly, both doctors and hygiene gross production have shown strong growth since the financial crisis. Doctors production is up 12% and hygiene production 8% since 2010. The growth in doctors production is driven by more patient visits and increased spending per visit.
As figure 3 illustrates, patient visits declined during the financial crisis while gross production per visit increased. The decrease in patient visits during the crisis is a result of the harsh economic climate coupled with an increase in the amount of uninsured patients. According to data from the ADA, the increase in gross production per visit might be driven by increased per-patient spending by patients in the age group 65+ that purchased more dental services than younger generations. Finally, patient visits are up 7% and gross production per visit 5% since 2010.

**Conclusion**

In sum, the financial crisis hit the industry hard leading to more no-shows, fewer patient visits, and lower practice collections. However, collections, patient visits, and spending per visit have exhibited strong growth since the crisis. There are several key lessons to take away from the financial crisis that will help dentists to thrive during the next economic downturn. Three of these lessons are: (i) analyze the practice’s operations, (ii) remove financial barriers, and (iii) market the clinic’s services.

Firstly, analyzing the practice’s operations will provide valuable insights and guidance, which will help to improve the financial as well as the clinical performance. By focusing on reporting, performance monitoring, and benchmarking it’s possible to become more cost-efficient, identify new business opportunities, and increase resource utilization. Secondly, dentists need to remove financial barriers that prevent patients from receiving treatment. For example, the dentist should offer competitive
fees, affordable payment plans, and collaborate with insurance companies. In addition, the dental practice should provide phase treatment by breaking up expensive treatments into a series of smaller, more affordable procedures. Lastly, the dentists need to focus on attracting and retaining patients by consistently marketing the clinic’s services to both new and current customers. By following these lessons, dentists will be able to thrive during the next economic crisis.
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Sikka Software Corporation

Vijay Sikka is the President and Chief Executive Officer of 9 years old Sikka Software Corporation. He is a healthcare informatics expert with more than 20 years of software development and quality experience including large scale projects with National Institutes of Health, Glaxo Smith Kline, Roche, and UCSF affiliates. In 1996, Vijay founded IBrain Software, Inc., a business intelligence company, and served as its CEO until its acquisition in 1998 by Entigen Corporation, that later become a part of Roche.

If you are interested in using a business intelligence tool for your practice, you can download a free one from Sikka Software called Dental Practice Monitor™. It integrates seamlessly with all major practice management systems and all versions and installs with a few clicks (www.dentalpracticemonitor.com) and shows you a basic set of KPIs that you can use immediately. You can also purchase Sikka Software’s most advanced business intelligence solution called Dental Practice Optimizer® that includes the Fee Optimizer Fee Schedule Optimizer®