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An outlook of dental practices – drivers, barriers and scenarios

Adental care reform in 2001–2002 changed the operational environment of the private dental industry in Finland. The reform stimulated the demand for dental services in both the private and the public sectors. The dental practices employed dentists, rented premises for self-employed practitioners or did both. Therefore, the business concept was often twofold: to offer dental care services for patients and working facilities to dentists.

The aim of our study was to perform an industry analysis on the private dental care market. We aimed to describe and analyse practice performance and specify determinants of competitive advantages of the private dental practices. We focused on analysing the outlook of the dental practices – their strengths, weaknesses, opportunities and threats in the short

and long-run. The effect of the dental care reform in 2001–2002 on the performance of the 100 biggest practices during 2000–2005 was also evaluated. A theoretical framework suggested by Porter was used.

Twelve managers from the biggest dental practices were interviewed using frameworks. Financial data for years 2000–2005 were collected for the 100 biggest dental practices, including revenues and key financial ratios. Complementary aggregate industry data were collected including number of dentists, industry's total revenue and the amount of publicly subsidised care provided.

The performance of the dental practices was strong throughout the study period of 2000–2005 with average return on invested capital (ROIC) varying in the range of 25.4–32.5 % and operating profit in range of 11.9–14.2 % . The price adjusted industry volume increased by +16.2 % despite a decrease of –8.5 % in the number of private dentists. The share of publicly subsidised care was 70 % of the industry volume. The reform or the care guarantee legislation did not cause statistically significant deviations from the industry growth trend. It seemed that the reform did not reallocate demand from private sector to the cheaper PDS. One key reason for this was the PDS's inability to satisfy the grown demand.

The particular strength of the dental care industry was the highly educated and skilled professionals. A recall system with personal dentists-patient relationships was seen as an efficient strategy to induce demand for dental services. Ageing and retirement of the workforce causing labour shortage as well as a lack of managerial among the dentists skills were the major obstacles to growth. Intensity of competition was described as weak.

EXECUTIVE SUMMARIES

The managers interviewed believed that the size of dental practices will continue to grow in the future. We found evidence that the bigger practices were able to grow faster than the rest of the industry during the study period. However, it seems that external pressures will be needed to spur the industry to proactively seek for scale advantages. Such pressures could arise from an entry of foreign competitors to the Finnish dental care market or an emergence of outside investors willing to invest in the dental practices. From customers' point of view, the Social Insurance Institution (SII), which represents the state as the financier, could create so called 'yardstick competition' supervising the interest of customers and publicly benchmark prices and quality of private dental care services. A better informed customer would also be able to compare prices and drive the industry to compete. ■