Comprehensive Corporate Dental Practice: Part 1
A Contemporary Analysis Driven by Porter’s Five Forces

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Introduction

In 1979, the Harvard Business Review published Michael Porter’s article, “How Competitive Forces Shape Strategy.” Porter’s Five Forces has become the gold standard for strategy and business modeling, and it often drives and designs frameworks for competitive advantage. According to the Harvard Business Review, Porter’s Five Forces have shaped a generation of academic research and business practice. For decades, physicians and hospitals have recognized the need for best business practices in large corporate settings, while concurrently ensuring patient-centered care. As health care undergoes a period of distinct disruption, dentists should be aware of similar phenomena headed for their market segment. Dentists are critical health care providers, and must acknowledge and embrace change. According to J. Blaes, one-third of dentists are searching for a new business model to increase profits and productivity. The long-term outlook for dental practices has become much brighter, but only for those who change the way they do business. Doctors who quickly adapt to the new market conditions by replacing their outdated systems will be the ones who enjoy the highest levels of success.²

Porter’s business model offers a strategy for change based upon solid and proven academic theory. The Five Forces Model (Fig. 1) includes: 1) Threat of New Entrants; 2) Threat of Substitute Products or Services; 3) Bargaining Power of Suppliers; 4) Bargaining Power of Buyers; and, 5) Rivalry Among Existing Competitors. Using these Five Forces, this article will offer a compelling argument for how dentist owned comprehensive corporate dental practices (CCDPs) can create a powerful and sustainable market strategy. Using Porter’s strategy, this treatise proposes a corporate model of large group dental affiliations inclusive of all dental disciplines under one roof, much like many present day dental schools.

![Fig. 1 - Porter’s Five Forces]

Threat of New Entrants

The threat of new entrants to the dental field is viewed by many as a narrow door consisting of dental school admission and graduation, followed by licensure by state or regional dental boards of examiners. After a dental student obtains state or regional licensing, the common route to practice is to open a new practice, purchase an existing practice or enter an associateship. But this paradigm has shifted. Many states and regions no longer require that licensed doctors own practices, and instead have established statutes that allow non-dentist entities such as dental service organizations (DSOs) to own and manage dental offices. The Threat of New Entrants is multifaceted and as suggested by Porter, consists of eight distinct segments.

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1. Supply-Side Economy of Scale
It is obvious that firms that produce larger volumes can supply products at lower costs. This is because they can spread fixed costs over more units, employ more efficient technology or command better terms from suppliers. DSOs, because of their large size, are able to exploit economies of scale. These organizations are creating successful models that are directly challenging solo practitioners and small groups. It seems logical then, that CCDPs can own better technology, command better supplier contracts and create a more efficient value chain than previous and accepted archetypes. Current trends indicate that solo practitioners cannot give customers the best value for their money, commonly referred to as being the best-cost provider, and so must seek brand differentiation to justify fees. CCDPs have distinct leverage by being able to exploit economies of scale.

2. Demand-side Benefits of Scale
This force arises when a customer’s willingness to pay for a company’s product increases with the number of buyers who patronize the company. For years, dentists have relied on “word-of-mouth” referrals, yellow pages and print media limiting their consumer network and market segment. The dentist’s local community brand reputation dictated his volume of business and referrals. This home-team advantage has eroded because marketing has expanded to social and online media, internet advertising and mass mail. Business can now reach an unlimited number of customers in an extremely short time. Brands can be established at lightning speed — stunning entrenched solo and small group practices. When large groups of customers begin to trust branded company stores, traditional dental practices lose market share.

3. Customer Switching Cost
This is a simple concept: If it costs a lot to switch dentists, patients will most likely stay with their existing provider. But today’s price-conscious consumer has little brand loyalty and costs of switching practitioners are insignificant. Fees for transferring to another dentist are nominal, as in most states, records are the patients’ property and offices can only collect token fees for duplication and transmission. If a best-cost provider enters the market, it is certain that most customers will switch if there are few sunk costs with their existing provider. If a customer already is with a best-cost provider, there is low motivation to switch. Once a consumer has identified the greatest value, they usually remain loyal until another product of similar quality and lower price appears. Best-cost providers are difficult to dislodge.

4. Capital Requirements
Costs of dental education continue to rise, and setting up private practice can exceed $500,000. Assuming that the new entrant will be able to finance their fledgling business, large financial obligations make it extremely hard to realize net profits or retained earnings for many years. As the cost of goods sold and fixed costs continue to rise, it can be challenging for a new dentist to retire debt in a timely manner. Capital requirements deter new entrants from competing with established companies. This author believes that because of staggering capital requirements for new entrants, dentists should feel compelled to begin CCDPs to preserve the future of the profession and maintain the integrity and quality of patient care.

5. Incumbency Advantages
Porter suggests that large companies may not always have a strategic advantage and that incumbency may provide an edge. He states, Regardless of size, incumbents may have cost or quality advantages not available to potential rivals. These advantages can stem from such sources a proprietary technology, preferential access to the best raw material sources, preemption of the most favorable geographic locations, established brand identities or cumulative experience that has allowed incumbents to learn how to produce more efficiently. Entrants try to bypass such advantages.

Porter’s statement has merit because established dental practices often have the best locations, understand local culture, have a well-trained and loyal staff, employ the most competent lab technicians and possess tacit knowledge that large entrants may not possess. Many large corporations purchase and absorb established private practices to acquire and maintain market leverage.

6. Unequal Access to Distribution Channels
To distribute goods, dental offices must have access to third-party payers, conveniently accessible facilities, efficient suppliers, skilled practitioners and staff, and engage in multifaceted brand awareness campaigns to build consumer interest, generate appointments, schedule treatment and establish loyalty. Insurance and union contracts may be exclusive or have narrow windows of enrollment time that severely limit a new entrant’s ability to distribute their service within those segments. Because of these disparities, businesses may not be able to expediently produce positive net operating income. Unequal access creates a potential incumbent advantage.

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7. Restrictive Government Policy

Historically, state and regional dental licensure has been the hurdle most dentists have had to deal with to gain practice privileges. For many years, this issue has been challenged and litigated based upon free trade laws. Many states countered free trade arguments by defending their entrance requirements with patient protection claims. Today, access to care has moved to the forefront of the health care industry and many governmental bodies are now relaxing requirements for state and regional licensing to meet the needs of equal access.

8. Expected Retaliation

How potential entrants believe incumbents may react also influences decisions to enter or stay out of an industry. If reaction is vigorous and protracted, the profit potential of industry participation can fall below the cost of capital. Rivals through various channels may begin signaling false or misleading data or aggressive defensive strategies to discourage competition. Incumbent warnings may include how vigorously they will defend their market share. One method employed by incumbents is promotional price reductions, which may elicit destructive price wars. Many practices have experienced price wars via television ads, direct mail, digital media blitzes and promotions. It is becoming increasingly difficult for new entrants to respond to hostile pricing strategies. Price wars can cause irreversible brand dilution, resulting in long-term negative earnings and limited survival.

Conclusion

Porter’s Five Forces is a credible and timeless model for businesses to use to thrive in an increasingly competitive global market. This portion of a two-part article outlines how the threat of new entrants can be managed and integrated into CCDPs. Part 2 will appear in the Sept/Oct issue of Today’s FDA and will discuss the remaining four forces and how they can contribute to the success of large group dental practices.

Works Cited


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