



The Top 5 Dental Industry Trends to Monitor in 2023

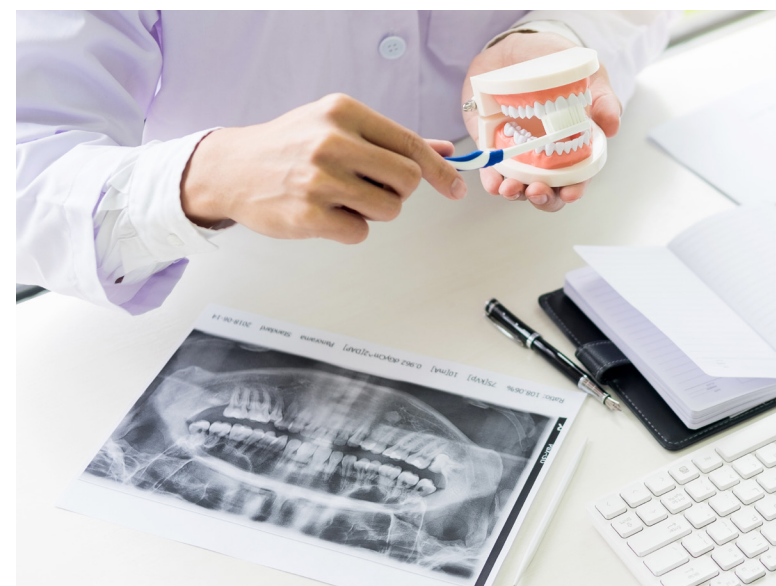
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Introduction

As the dental industry emerges from disruption that occurred during the COVID-19 pandemic, there are several areas of common impact and opportunity we continue to observe from dentists and dental groups.

With each of these shared challenges, there has been exciting evolution within the industry, and we look forward to tracking these forces throughout 2023.

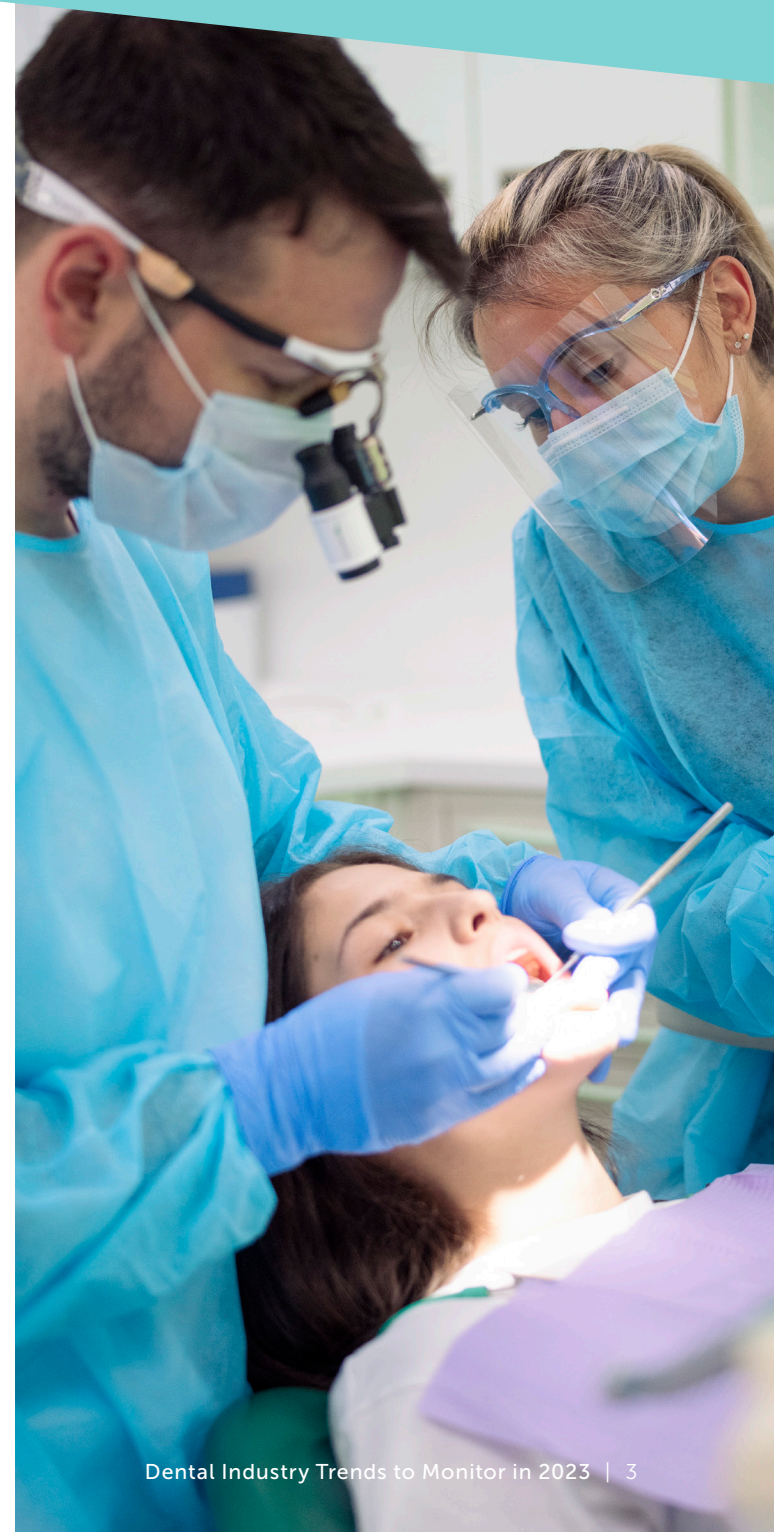


Labor Pressures

Throughout the United States, labor shortages and worker burnout are taking their toll on the medical field. Dental practices are no exception. As Americans begin to schedule services they delayed due to the COVID-19 pandemic, many face long waits for care due to a lack of adequate staffing in dental offices. While initial indications were that the staffing shortage was directly related to the pandemic, industry leaders now believe that this is only one part of the picture.

In 2022, the American Dental Association's Health Policy Institute (HPI) conducted a [workplace satisfaction survey](#) of thousands of dentists, dental hygienists, and dental assistants. The survey provides valuable insights into the staffing shortage, particularly for assistants and hygienists. The data collected indicates more than 50% of dental assistants and hygienists have been working in the field for more than 11 years, and roughly a third of survey participants say they are planning to retire in five years or less. Combine this looming exit with decreased enrollment in dental assistant and hygienist programs and it is likely staffing will continue to be a significant factor in practice growth.

What can you do to attract and retain staff in an increasingly competitive labor market? Consider what might drive dental assistants and hygienists to leave their jobs or the dental profession.





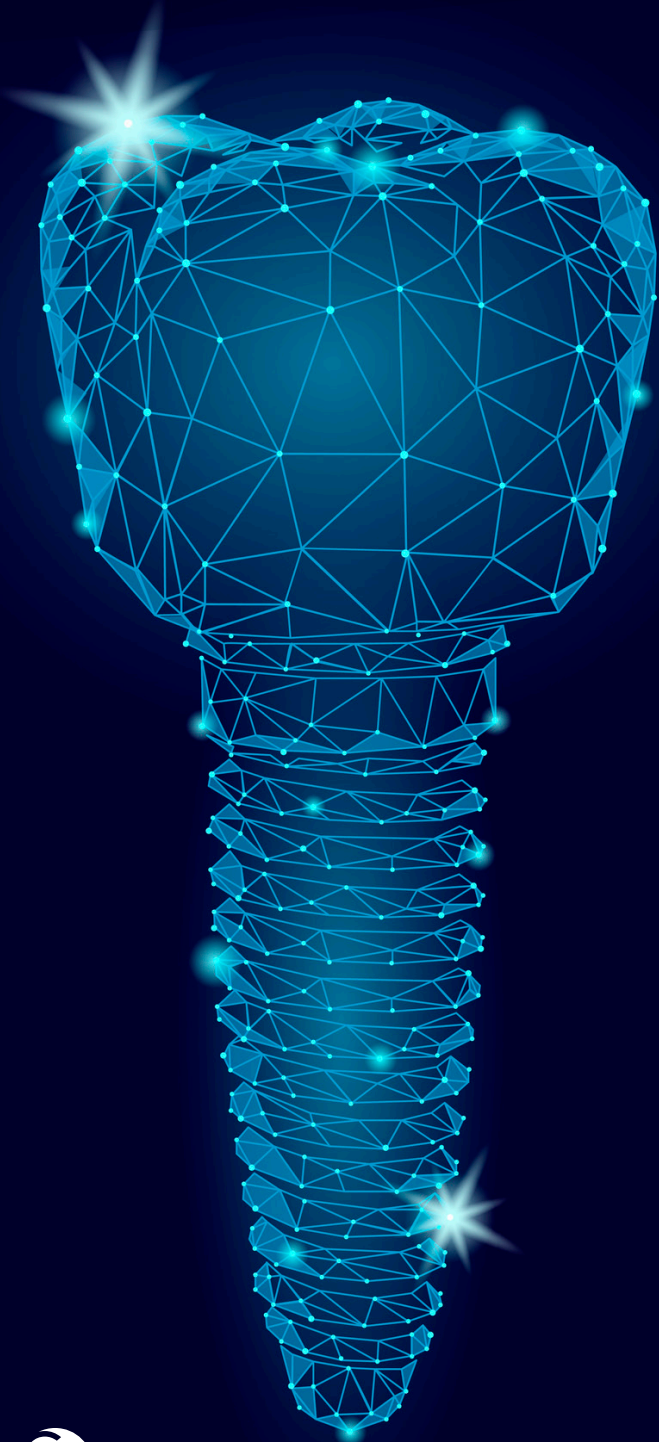
Labor Pressures (continued)

In the HPI survey, assistants and hygienists cited the following reasons for dissatisfaction as well as factors that led them to quit:

- **Insufficient pay and inadequate benefits** — Pain points included lack of health insurance and paid leave, along with compensation that does not keep pace with inflation. Employees of larger practices and practice networks were generally more satisfied with their benefits than peers at smaller practices.
- **Communication issues and negative workplace culture** — A positive work environment is perhaps the most obvious factor for daily job satisfaction, but in smaller practices that lack dedicated HR staff, it can be overlooked. Staff who left the profession cited feeling underappreciated, overworked, and disrespected as factors that contributed significantly to their decision to leave.
- **Lack of growth opportunities** — Professional development can often be limited within a dental practice. Many dental care team members want to be challenged and develop new skills, but such opportunities are not consistently extended to them. Finding ways that everyone within the practice can grow within their areas of interest and skill sets — while not always easy — demonstrates a willingness to invest in employees who may then be more loyal.

While implementing changes to address these pain points may not be possible overnight, practice leaders can start by simply having conversations with their staff to assess areas of concern. Tools like anonymous employee satisfaction surveys can provide a solid baseline for planning next steps to retain key employees.





Technological Advances and Artificial Intelligence

Dentistry has experienced a technological revolution that is likely to continue and accelerate as new treatment methods and technologies enter the market and become feasible for even smaller clinics to implement. New technologies are changing not only clinical practice, but also the way dental practices receive and digest data in everyday decisions.

Teledentistry increased during the COVID-19 pandemic and is likely to remain a key component of dental care in the future. Practice owners are increasingly looking for ways to incorporate teledentistry into their practice base and fill key gaps in their schedules.

Particularly powerful for populations where access to dental care is more challenging, teledentistry allows dentists to perform consultations virtually, either in real-time via video call, or asynchronously using patient-provided images. Virtual consultations help determine required courses of treatment, as well as whether an in-office visit is necessary, or a patient's concern can be resolved with an over-the-counter remedy. With in-office visits increasingly difficult to schedule due to staffing issues, handling minor issues through teledentistry can help relieve pressure on overworked personnel.

Artificial intelligence is more than just a buzzword when it comes to dental practices. AI can be used in many ways, including analyzing imaging, developing treatment plans, and assessing degrees of periodontal damage.

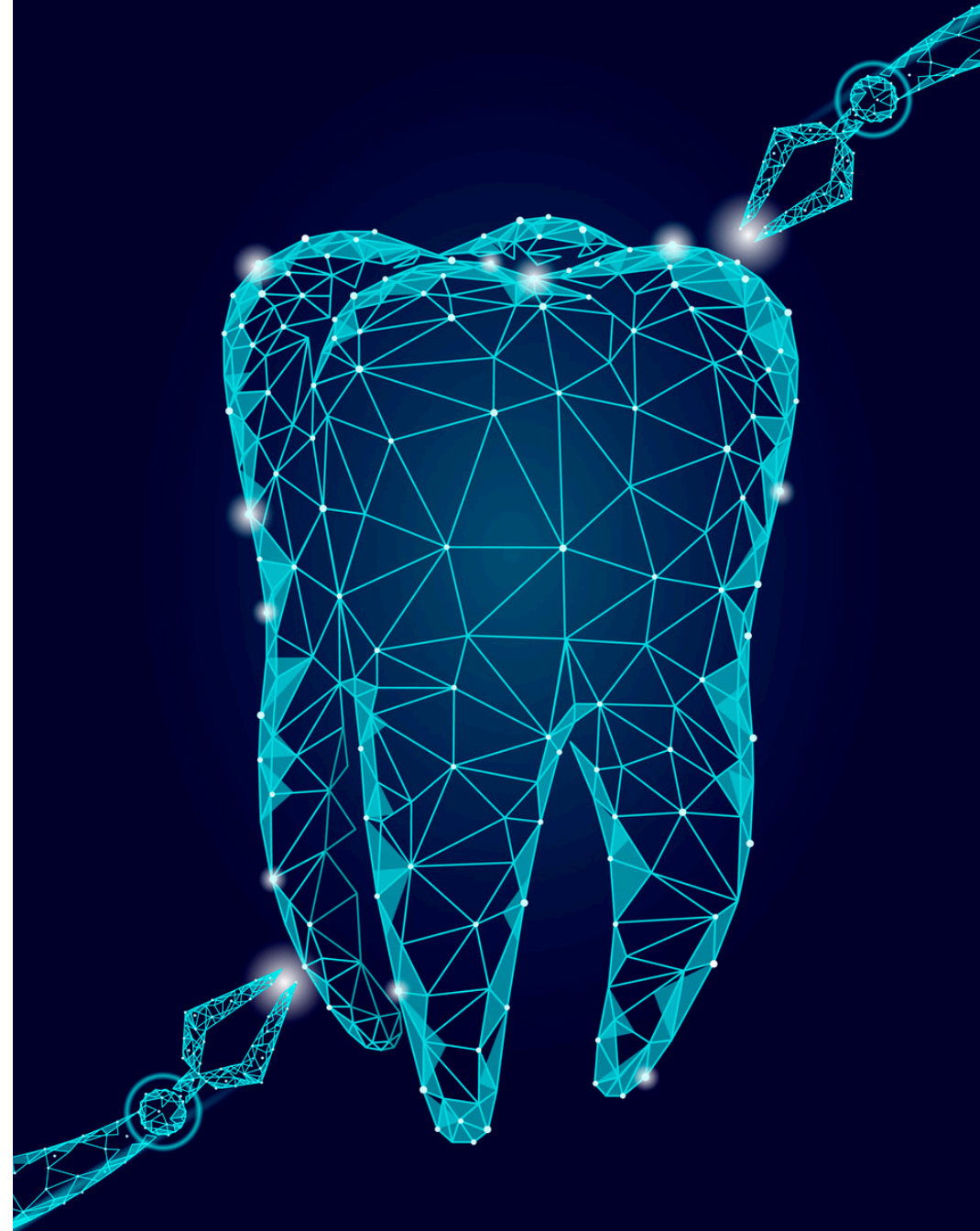
While AI applications are currently limited to situations where there is a large amount of existing data for the software to "learn" from, researchers are developing programs that can help in other ways, such as detecting early warning signs of oral cancer. AI can also put patients at ease, as it may provide an immediate second opinion when dentists are presenting treatment options. We are seeing this technology used in diagnostic treatment settings and as a second check for clinical assessments within their patient base.



Technological Advances and Artificial Intelligence (continued)

Computer-assisted design and manufacturing (CAD/CAM) provides exciting opportunities in the world of restorative dentistry. In the past, procedures like installing crowns, implants, and dentures took multiple visits and required the placement of temporary restorations while the permanent fixtures were manufactured.

CAD/CAM systems allow dentists to scan affected areas, manufacture required components, and place them in a patient's mouth in a single visit. Additionally, manufacturing fixtures in-house in real time allows for more precise matching of color and other characteristics, providing a more cosmetically desirable outcome



A Focus on Cybersecurity Is Key

While new technologies provide exciting opportunities for treatment, they also bring increased risks to security. The health care industry is one of the most targeted by malicious actors, due in no small part to the amount of personal identifying information (PII) available to cybercriminals during an attack.

While it may seem unlikely a small practice would be targeted, no organization is safe from cyber threats. It is incredibly important for leadership from practices large and small to take proactive measures to decrease the likelihood of a successful cyberattack, as well as put a plan in place to react quickly and effectively in the event an attack occurs. While this may seem daunting, there are several short-term steps to help mitigate the possibility of a successful attack:

- Routinely educate staff on cybersecurity risks and common methods of attack, like phishing emails.
- Verify that all software programs are up to date and update systems promptly when new software is available.
- Monitor recalls and cybersecurity-related notices from device and software vendors and take appropriate action.

In addition, practice leadership should consider conducting a cybersecurity audit, utilizing an outside cybersecurity specialist to take inventory of the practice's cyber landscape, point out areas of vulnerability, and create a plan to decrease risks. Cyber specialists can also conduct penetration testing of controls and plans to assess the effectiveness of existing cyber infrastructure.

While these tests aren't free, the costs associated with responding to a cyberattack can range into the tens of thousands of dollars. In addition to the financial costs of a cyberattack, the resulting loss of patient trust can be debilitating for a clinic.



Dental Support Organizations

While dental support organizations (DSOs) are not new to the dental market, this model of dental clinic operation has become increasingly popular since the creation of the first DSO in 1975. The dental industry continues to experience consolidation, and DSOs are one of the most impactful drivers of that movement. As the industry emerges from the COVID-19 pandemic, many practice owners are realizing they do not want to go through another significant impact alone.

What is a DSO?

At its most basic, a DSO is an organization that contracts with dental clinics to provide non-clinical support. A DSO may help with:

- Accounting services
- Human resources and recruiting
- Training, compliance, and legal services
- Patient and personnel scheduling
- Billing and insurance relationships

Other aspects of the DSO can vary widely — some DSOs unite their clinics under one recognizable brand name and have a nationwide presence. Others may allow individual clinics to maintain their existing name and branding or may have a narrow geographic target.

Increasingly, DSOs are being put together as groups of friends and referral partners are looking for ways to be more aligned. There's a saying among people who work in the DSO space: if you've seen one DSO, you've seen one DSO.

As each owner works toward their individual goals, it is important to do as much diligence and planning when assessing a potential partner as the potential partner is doing on them. Understanding how the goals of a DSO will mesh with the goals of practice leaders is key when determining whether a DSO may be the right fit.



Dental Support Organizations (continued)

We hear often that working with a DSO can be an attractive option for many reasons. Perhaps most obviously, DSOs can provide administrative efficiency as they provide support in business functions.

In a time of falling reimbursement rates, DSO affiliation can provide a stronger bargaining position when negotiating with payers. Shared fixed asset costs and dedicated training staff can allow accelerated adoption of new technologies that would be overly burdensome to smaller practices. Due to their size, some DSOs may be able to offer more benefits to employees and provide opportunities for advancement not generally present in single-location practices — both factors that may help with employee recruitment and retention.

Given these possibilities, it may seem that joining or creating a DSO is an obviously beneficial move. However, each individual practice and group is on its own journey, so it is important to know your goals and see that your internal and external leadership understand and are aligned with that vision.

An increasing number of new dental school graduates are choosing to start their career with DSOs. The average new dentist graduating from dental school in 2022 owes roughly \$300,000 in student loan debt, compared to an average of \$177,000 for those graduating in 2002.





Dental Support Organizations (continued)

The significant increase in student loan debt over the past 20 years has decreased the likelihood that dental school graduates will have the means or the inclination to take out additional debt to establish a new practice or purchase an existing one. As dental students consider the opportunities in front of them — working as an associate with future buy-in opportunities, requiring more debt, or finding employment with a competitive wage and assistance to relieve debt burden — the DSO marketplace has worked hard to recruit the dentists of the future. Working with a DSO provides the opportunity to begin work quickly after graduation with a steady, competitive paycheck, and some DSOs work with their dentists to help pay down student loan debt.

A DSO may also be a compelling opportunity for dentists starting to develop a succession plan as they transition into retirement. Removing the administrative burden of operating a dental practice through partnership with a DSO may leave dentists with more time to focus on the actual practice of dentistry and help create a more flexible schedule. In addition, a DSO can be a vehicle to bring new dentists into the practice to help transition patient care.





The Market Outlook

The dental industry is one of the oldest areas of private equity (PE) interest in the health care space, with over two decades of PE investment across dental specialties. Despite this, investor interest in the dental space holds strong.

The [U.S. Census Bureau projects](#) by 2030, 20% of the American population will be over 65. As the population ages, the frequency and significance of required dental care will only increase. In addition, expanded access to dental insurance through employer-sponsored insurance programs continues to expand demand for dental services. Both of these factors make the dental industry a popular option for investors.

At least 20 PE-backed DSOs were formed in 2022. However, it is important to note that most PE-backed DSO deals are debt financed. If interest rates continue to climb as the Federal Reserve works to avoid recession, debt financing may become more challenging to secure, which may have a cooling effect on activity and valuations in the market.

In addition, the increased cost of debt when compared to profit generated may no longer yield the return investors are targeting. For interested practices to be attractive candidates for a potential future transaction, it is important for leaders to understand the market they are operating in as well as how their clinic measures up to competitors. Being able to share a strong and accurate financial story alongside the broader story of the practice or group is key to realizing the true value of the work that has been put in.



In Closing

Need help understanding how your dental practice stacks up against the competition? Feel completely out of your depth when thinking about cybersecurity? Not sure if your financials are telling the right story, or just not sure where to go with your practice's vision?

Reach out to a CLA advisor today. From financial modeling to cybersecurity assessments to employee retention and benefits, CLA's deep industry knowledge and experience can help you every step of the way. CLA offers [free financial assessments](#) to new clients so we can help develop an effective plan with you.





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