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CAPS AND CROWNS DENTAL CLINIC: EXPLORING BUSINESS OPPORTUNITIES

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In May 2019, Beefathimathul Haifa completed her postgraduate work at the A. B. Shetty Memorial Institute of Dental Sciences in Mangalore, India. She was highly enthusiastic by nature and always open to new ideas to improve her dental practice. Being also highly ambitious, she wanted to open a chain of dental clinics in the city of Bangalore, in the Indian state of Karnataka.

Haifa had excellent professional skills and practical experience. As part of her education, she had completed various courses to gain a 360-degree perspective of her craft. Most of the courses were focused on practical applications of dentistry including performing surgery, creating moulds, and other procedures such as teeth cleaning, freezing, and filling cavities.

Her affable personality helped Haifa connect well with her patients and empathize with their needs. As an intern, she would talk casually with her patients to help them feel more comfortable and calmer throughout their dental visit, which could be a stressful experience.

Haifa had gathered plenty of experience with dental operations and in dealing with patients as part of her training, but she had little knowledge of how to run a large business operation. As part of her dental degree, Haifa had studied ethics in medical practice. However, she had never taken courses on the financial and marketing aspects of running a business. Therefore, after completing her postgraduate work, she approached her friend Mathew Joseph, who was a business consultant and a qualified chartered accountant in India, which was roughly equivalent to the US designation of chartered financial analyst.

Joseph routinely worked with new entrepreneurs to help them set up a business venture. Haifa met with Joseph to discuss her business plan to set up a chain of dental clinics in Bangalore. After some initial brainstorming, Haifa chose the name Caps and Crowns Dental Clinic for her new business.

A week later, Joseph introduced Haifa to the manager of the Indian government-owned financial institution Syndicate Bank. Haifa provided the bank manager with a detailed plan of her business, but she was unable to articulate her marketing and financial plans. The bank manager found Haifa’s business idea interesting enough to consider investing in the project. However, he asked her to prepare a financial plan projecting the clinics’ revenues and expenses for the initial two years of operations, as well as a projected balance sheet for the new venture.

DENTAL MARKET POTENTIAL

By 2020, India had emerged as a major medical tourism destination due to the availability of high-quality health care services at cost-effective rates. Like other health care segments, dentistry was experiencing high worldwide interest from consumers seeking dental services. As well, increasing awareness about the importance of oral health in India meant that the dental health care industry was also witnessing a rise in domestic demand, although visits to the dentist were not exactly part of a person’s regular health care behaviour in India.[[1]](#footnote-1)

According to the Indian Dental Association, India’s dental care industry was growing:

For a population of over 1.2 billion, there are currently 180,000 dentists, which include 35,000 specialists practising in different disciplines in the country. The dentist [to] population ratio is reported to be 1:9,000 in metros/urban and semi urban areas and 1:200,000 dentists in the rural area. There are more than 35,000 dental specialists in different disciplines. . . . Every year more than 24,500 dental graduates are added to the list.[[2]](#footnote-2)

The dentistry market in the country was divided into two categories: stand-alone clinics, which were primarily proprietary firms, and corporate clinic chains, which were funded by hospitals. Stand-alone clinics operated purely on the basis of walk-ins or referrals. Most dentists who operated their own stand-alone clinics also took on additional work to augment their income, such as teaching in local dental colleges. Periodic dental checkups were not a cultural habit in India. Therefore, business uncertainty tended to lead to a high degree of company turnover. Inconsistent amounts of foot traffic also made it difficult for a business to predict or achieve a regular stream of business.

In financial year (FY) 2019–20, India’s oral care segments registered revenues of US$1,787.3 million.[[3]](#footnote-3) From 2020 to 2023, the market was expected to grow at a compound annual growth rate (CAGR) of 6.8 per cent. In FY 2019–20, per-person revenues earned in India, based on the total population figure, were $1.30. In comparison, per-person revenues in the United States were $27.64. The United States also recorded the world’s largest oral care revenues at $9,148.3 million for FY 2019–20 and was expected to grow annually by a CAGR of 2.6 per cent between 2020 and 2023.[[4]](#footnote-4)

In India, most dental practice was private in nature, with dentists setting up their own clinics. However, with increased interest in oral health and worldwide interest in Indian health care services, some dental services chains were gaining considerable market share. Domestic businesses were set up mainly by major health care companies such as Apollo Hospitals Enterprise Limited, Clove Technologies Ltd., and Narayana Hrudayalaya. Every year, approximately 12,000–15,000 new practices were opened in India, mostly in major cities. However, India was also increasingly being seen as a rapidly growing dental market by international companies and was therefore attracting the interest of various multinational giants including KaVo Dental GmbH, GC Dental Products Corp., Ivoclar Vivadent Inc., Dentsply Sirona, Nobel Biocare Services AG, Mectron SpA, Acteon Group, Coltene Holding AG, Coco Dental Limited, SS White Dental, and Septodont Limited.[[5]](#footnote-5)

Factors Driving Industry Growth

The hospital industry in India was expected to grow at a CAGR of 16 per cent, to reach approximately $132.84 billion by FY 2021–22 from approximately $61.79 billion in FY 2016–17. The government of India was planning to increase public health spending to 2.5 per cent of the country’s gross domestic product by 2025.[[6]](#footnote-6) In FY 2019–20, the Indian economy had grown by 5.0 per cent from the previous year.[[7]](#footnote-7)

The outlook for the Indian health care industry looked positive. According to the India Brand Equity Foundation, the health care market in India was expected to reach $372 billion by 2022, driven by rising incomes, greater health awareness, changing lifestyles, increasing access to insurance, higher purchasing power, and patient empowerment. These factors had led to a demand for better health care facilities at affordable prices.

BENGALURU MARKET

Bengaluru, the capital of the Indian state Karnataka, was located in the southeastern region of the state on the Deccan plateau. It was the third-most-populous city and fifth-most populous urban area in India. In 2020, Bengaluru’s population was estimated at 12,326,532.[[8]](#footnote-8)

Bengaluru was one of the top destinations in the country for information technology (IT) services. The city was home to several global IT-enabled services companies, including Infosys Limited, Wipro Limited, International Business Machines Corporation (commonly known as IBM), and Accenture plc. Over 45 companies in IT industries had offices in the city and employed thousands of young professionals from across the country. To some, Bengaluru was known as the Silicon Valley of India (referring to the technology hub in California, United States).

Its diverse population offered excellent opportunities for dental services, particularly for younger professionals who were health conscious and technology savvy. These consumers tended to prefer to use mobile digital applications for most services, including dental care, and dental service providers were increasingly adding mobile services routes to reach this consumer segment. For example, the online health practitioner aggregator Practo listed 2,436 stand-alone dental clinics in Bengaluru.[[9]](#footnote-9)

PLAN FOR EXPANSION

With a large population of health care conscious professionals, there was growing demand for dental services in Bengaluru. This presented a huge opportunity for both private practitioners and corporate hospitals to set up world-class facilities in the city. In 2020, India reported over 180,000 practising dentists and over 35,000 practising dental specialists, including orthodontists, periodontists, endodontists, oral and maxillofacial surgeons, pedodontists, prosthodontists, and implatologists.[[10]](#footnote-10)

Within this context, Haifa planned to set up her own chain of dental clinics in the city over the next five years. Haifa hoped to offer a range of dentistry service within the next two years, for which she would need to recruit specialists in orthodontics, pediatric dentistry, special care dentistry, endodontics, prosthodontics, dental public health, and oral and maxillofacial surgery, among other specialist areas.

As Haifa was aware, health care treatment costs in India were relatively low in comparison to the European Union or the Middle East. Therefore, people from other regions could access high-quality health care services in India for a fraction of the price they would pay in their own countries. Haifa intended to take advantage of the growing domestic and international dentistry markets over the next decade.

CURRENT REQUIREMENT and Revenue Estimates

Haifa had no interest in establishing a business partnership. She expected to invest ₹3 million[[11]](#footnote-11) of her own capital to help cover the total costs that would be incurred; in addition, a considerable amount of financial support would come from a bank. Initially, she planned to set up at least two clinics in Bengaluru, so she decided to approach Syndicate Bank for the additional financing required to open the two clinics. Both fixed and variable expenses would have to be covered for the opening of the two clinics (see Exhibit 1).

Haifa sought Joseph’s expertise in preparing a marketing plan and a financial forecasting report. Joseph agreed to render his services as a consultant. He gathered all relevant details from Haifa and drafted a plan. After the meeting, Joseph identified three key consumer segments to focus on. The first target consumer group for the two clinics would be mainly technology-savvy, health-care-conscious young professionals who had made Bengaluru their home. The clinics should then aim to expand their potential customer profile to include children. The Indian government estimated that more than 70 per cent of children needed dental care. The third key target consumer group would simply include India’s adult population. Over 90 per cent of adults in India were estimated to be affected by periodontal disease.[[12]](#footnote-12)

Haifa planned to supervise the operation of both clinics in Bengaluru, but she would certainly need additional staff (see Exhibit 2). With a full staff in place, she would serve at least 12 patients per hour in each clinic, with a normal consultation fee of ₹500 per patient. Each clinic would operate for 30 hours per week. The clinics were expected to be open for four weeks per month. However, she was not sure how many patients would be needed each day to meet her expenses. She was also unaware of what consistent pattern, if any, could be expected for patient walk-ins or those in need of regular checkups. Regarding additional revenue, Haifa informed Joseph that she expected to supplement her patient fees with earned income of approximately ₹50,000 from referring procedures, ₹25,000 from pharmacy visits, and ₹30,000 from dental laboratory work. However, she also expected to incur expenses for various equipment requirements for the two clinics (see Exhibit 3).

Based on his analysis, Joseph found that Haifa could expect a business growth rate of approximately 15 per cent. However, Haifa worried that she would incur a similar rate of 15 per cent in increased operation expenses for the two clinics. She was unsure how much capital she would need in the form of a bank loan, the interest rate for the loan, and the repayment plan that she would have to follow. Joseph assured her that he would prepare the projected income statement and balance sheet for the initial two-year period, based on certain assumptions (see Exhibit 4). He also informed Haifa that she could expect to pay an annual interest rate of 7 per cent for the bank loan, with a five-year repayment period.

Joseph realized that Haifa had no idea how to segment markets or target specific patients to ensure a consistent flow of business activity. He also realized that although Bengaluru had plenty of health care conscious consumers, Haifa’s potential customers would have to be made aware of the importance of dental health in an effort to expand the customer base of the two clinics. Word of mouth would not be adequate to sustain the business. For the location of the first two clinics, Haifa narrowed down the list of potential areas to Koramangala and Whitefield, two of Bangalore’s most popular neighbourhoods among young IT professionals. During the meeting, Joseph realized that he would also have to help Haifa draft a workable marketing plan, so he advised her to create a basic health care awareness strategy. In the meantime, he would create a detailed plan to attract foot traffic to the clinics and estimate the potential cash flows for the proposed clinics.

As the meeting came to an end, Haifa and Joseph enjoyed some tea and cookies. However, Joseph was also left with some food for thought on how to devise a compelling marketing plan. In contrast, Haifa was left wondering if she could compete with corporate hospitals to carve a niche for her new business venture in India’s growing market for dental services.

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EXHIBIT 1: FIXED AND VARIABLE EXPENSES (₹ Thousands)

|  |  |
| --- | --- |
| **Fixed Expenses** | **Per Year** |
| Rent per month per clinic (₹30) | 720 |
| Insurance per month per clinic (₹8) | 192 |
| Licensing fees per clinic | 2 |
| Promotion and dental awareness camps at various schools (for both clinics) | 30 |
| Professional education expenses | 50 |
|  |  |
| **Variable Expenses** | **Per Patient** |
| Consumables (e.g., cement and polishing equipment) | 50 |
| Patient record maintenance expenses | 20 |
| Professional consultation fees | 50 |
| Laboratory costs | 30 |
| Total | 150 |

Note: ₹ = INR = Indian rupee; US$1 = ₹75.69 on May 1, 2020.

Source: Company information.

EXHIBIT 2: REQUIREMENTS OF MEDICAL STAFF (₹ ThouSANDS)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Medical Staff** | **Number** | **Per Hour** | **Per Month** | **Per Year** |
| Dentist (two for each clinic) | 4 | 1.0 | 480 | 5,760 |
| Dental hygienist (one for each clinic) | 2 | 0.5 | 120 | 1,440 |
| Dental therapist (one for each clinic) | 2 | 0.5 | 120 | 1,440 |
| Dental nurse (one for each clinic) | 2 | 0.3 | 72 | 864 |
| Dental technician (one for both clinics) | 1 | 0.1 | 12 | 144 |

Note: Medical staff paid hourly wages, based on the clinics operating 30 hours per week, four weeks per month, and 48 weeks per year; ₹ = INR = Indian rupee; US$1 = ₹75.69 on May 1, 2020.

Source: Company information.

EXHIBIT 3: MEDICAL EQUIPMENT

|  |  |  |
| --- | --- | --- |
| **Medical Equipment** | **Cost**  **(₹ Thousands)** | **Remarks** |
| Dental chair | 700 | Two dental chairs per clinic; 50% of cost paid in cash in 2019; remaining balance paid in 2020; expected use life of 20 years. |
| X-ray unit | 320 | One unit for both clinics; 40% of cost paid in cash in 2019; remaining balance paid in four instalments at the end of every following year. |
| Other equipment:   * Compressor * Air rotor * Composite unit * Scaler * Mouth mirror, probe, and extraction kits | 100  10  50  25  30 | All cash purchases; one set for each clinic; depreciation on other equipment is 10%, using straight line method of depreciation. |

Note: ₹ = INR = Indian rupee; US$1 = ₹75.69 on May 1, 2020.

Source: Company information.

EXHIBIT 4: BASIS FOR FORECASTING 2021

|  |  |
| --- | --- |
| **Line Items** | **Basis for Forecasting for 2021** |
| Other income from various sources, professional consultation fees, rent, licensing fees, insurance, professional development expenses, other equipment, mouth mirrors, probes, and extraction kits. | Constant |
| Salaries, consumables, clinic maintenance, laboratory expenses, electricity, transportation, promotion expenses, and cash. | Consultation fees |
| Dental chair | Proposed to procure one additional chair for each clinic. |
| X-ray unit | Proposed to procure one additional unit. |
| Equity capital | Proposed to increase equity by 50%. |

Source: Authors’ estimates based on company information.

1. Indian Dental Association, *Healthcare and Dental Industry in India*, accessed March 27, 2020, www.wds.org.in/PDF/Generaloralhealth.pdf. [↑](#footnote-ref-1)
2. Ibid., 5. [↑](#footnote-ref-2)
3. All dollar amounts are in US dollars unless otherwise specified. [↑](#footnote-ref-3)
4. “Oral Care: India,” Statista, accessed March 28, 2020, www.statista.com/outlook/70060000/119/oral-care/india. [↑](#footnote-ref-4)
5. Bhakti Shah, “The Dental Industry in India: An Insight,” Maier Vidorno, accessed March 28, 2020, www.maiervidorno.com/dental-industry-india-insight. [↑](#footnote-ref-5)
6. “Healthcare Industry in India,” Indian Brand Equity Foundation, January 11, 2019, accessed March 28, 2020, www.ibef.org/industry/healthcare-india.aspx. [↑](#footnote-ref-6)
7. “GDP Growth Rate,” Trading Economics, accessed March 28, 2020, https://tradingeconomics.com/india/gdp-growth-annual. [↑](#footnote-ref-7)
8. “Bangalore Population 2021,” World Population Review, accessed April 1, 2020, https://worldpopulationreview.com/world-cities/bangalore-population. [↑](#footnote-ref-8)
9. Practo was a free patient-focused online portal with over 100,000 doctor profiles from across India and Singapore that helped patients book appointments with health practitioners; “Goodbye Doubts, Say Hello Doctor,” Practo, accessed March 21, 2021, www.practo.com. [↑](#footnote-ref-9)
10. “Dental Tourism in Bangalore,” Dental Solutions, accessed April 1, 2020, https://dentalsolutionsclinic.com/dental-tourism-bangalore. [↑](#footnote-ref-10)
11. ₹ = INR = Indian rupee; US$1 = ₹75.69 on May 1, 2020. [↑](#footnote-ref-11)
12. Neetu Chandra Sharma, “Dental Public Health—Why Is It Important in India,” Livemint, July 20, 2019, accessed April 1, 2020, www.livemint.com/news/india/dental-public-health-why-is-it-important-in-india-1563616880257.html. [↑](#footnote-ref-12)