

**STRATEGIC DEVELOPMENT
IN THE
UMHLANGA DENTAL PRACTICE**



**CASE STUDY OF STRATEGIC DEVELOPMENT
PROCESS IN THE UMHLANGA DENTAL PRACTICE
(UDP)**

By

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**Submitted in partial fulfilment of the requirements for the
degree
MASTERS IN BUSINESS ADMINISTRATION**

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September 2003

CONFIDENTIALITY CLAUSE

15 SEPTEMBER 2003

TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five years.

**Sincerely
K.Naidoo**

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed..... *Abidoo*

Date..... *15-09-2023*

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ACKNOWLEDGEMENTS

I would like to thank the following people. Patients, staff, colleagues, fellow students for their continued support and invaluable contributions.

I would like to thank the following family members for their continued support and encouragement they have provided during the evolution of this project.

My husband Theeson Naicker
My parents-in-law Desi and Coleen Naicker
My mother Kanthi Naidoo
My brother Veresh Naidoo

To my friends that are too numerous to mention individually, I express my thanks for the invaluable support.

Finally, I would also express my gratitude to Professor Elza Thomson for her valuable ideas, recommendations, lectures and support.

OVERVIEW

The dissertation evolved out a need to determine the strategic way forward for the Umhlanga Dental Practice (UDP). The practice has been experiencing major and minor changes in its internal and external environments. The general strategic approach has been to merely adapt to these changes but with a distinct lack of formal, planned sustainable initiatives.

The First chapter of the dissertation highlights the necessary theory that will be applied to the specific situation surrounding the practice. Includes the various approaches to strategic analysis of the external and internal environments of the organisation. Thus a theoretical framework is illustrated that may be applicable to determining the various situations of any organisation.

Chapter Two presents the application of the theoretical framework to illustrate the specific conditions that the practice finds itself in.

Chapter Three identifies all the necessary analysis and evaluation of the strategic options available to the practice and aids in determining the strategic way forward. The present and future resources required to implement the chosen strategies are also analysed. Thus providing the basis for the next chapter.

The last chapter focuses on Implementation of the various strategic options available to the practice. Implementation is encouraged in incremental stages and with a definite time line that enables the key resources within the practice to be adapted to the new strategies. Control of the organisation and monitoring of the strategies is an essential part of any strategic implementation and is discussed as the last part of Chapter Five.

The dissertation thus addresses an actual problem that is relevant and applicable to an existing practice.

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CHAPTER ONE

The chapter presents an overview of the structure of the dissertation and furnishes reasons to the initiation of the study.

1.1. INTRODUCTION:

The study was initiated in response to various factors that have become influential in the day to day functioning of the dental practice based in Umhlanga. The practice has largely been emergent in the strategy decision process and has always adopted the attitude of adhering to a tried and trusted formula, that has seen minimal major changes in 27 years. Changes that have occurred have been more reactive than proactive with regards to certain key components of the service rendered.

This has unfortunately led to stagnation in the direction and initiatives necessary to stimulate strategic growth and has stimulated a plethora of questions and possibilities for future development. Thus the different strategic options that face the dental practice are explored and a strategic fit is established that correlates the current and potential future resources of the practice together with its external environment, whilst trying to increase added value to all its stakeholders.

The study is divided into several chapters that are interrelated and lead to a “best fit” solution specifically catering to the conditions that surround the long-term objectives of a leading dental practice. Chapter two presents the reader with the theory on assessing a company and provides the various strategic options available. Chapter three is an application of the theory to the specific conditions relevant to the dental practice and details the key factors essential for the success of the practice. Chapter 4 provides a framework that provides a directive on how to shift the strategic option from a concept to an action as well as details ways in which to increase the strengths of the practice whilst minimising threats and weaknesses. Chapter 5 provides recommendations and presents a conclusion to the study conducted.

1.2. BACKGROUND:

Strategy is concerned with an organisation's basic direction for the future: its purpose, its ambitions, its resources and how it interacts with the world in which it operates. Every aspect of the organisation plays a role in its strategy – its people, its finances, its production methods and its environment (including its customers).

According to Richard Lynch¹, "Strategy is the pattern of major objectives, purposes or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the organisation is in or is to be in and the kind of organisation it is or is to be".

1.2.1. THE FUNDAMENTALS OF STRATEGY:

Strategies have to be managed in three main areas:

- The organisation's internal *resources*;
- The external *environment* within which the organisation operates;
- The organisation's ability to *add value* to what it does.

Strategy might thus be viewed as the linking process between the management of the organisation's internal resources and its external relationships with its customers, competitors, suppliers, and the economic and social environment in which it exists. The resources of an organisation include its human resource skills, the investment and the capital in every part. Organisations need to develop strategies to optimise the use of these resources and in fact it is imperative to investigate the distinctive capabilities that will allow the organisation to survive and prosper.

The environmental strategy encompasses every aspect external to the organisation. Thus strategies need to be developed that are best suited to the strengths and weaknesses of the organisation in relation to the environment in which it operates.

¹ Lynch R. Corporate Strategy, Pitman Publishing, 1997

To ensure its long-term survival, an organisation must take the supplies it receives as inputs, add value through its operations and then deliver a superior output to the customer. Strategy must also ensure that the organisation adapts to changing circumstances so that it can continue to add value in the future. This added value will be distributed to the various stakeholders in the business i.e. shareholders, employees, management and customers.

Some of the key elements of successful strategic decisions are:

- ***Sustainability***: They must be sustainable that is they must be maintained over a long period of time.
- ***Distinctiveness***: the offerings of the organisation must be different from competitors, possibly involving innovation. A sustainable strategy is more likely if the strategy is distinctive from actual or potential competitors.
- ***Offer competitive advantages***: they must offer opportunities that are not only distinctive but that offer real advantage that will allow the organisation to grow.
- ***Exploit linkages between the organisation and its environment***: Linkages that are not easily duplicated and that contribute towards superior performance must be concentrated upon. Sometimes the most significant matching may be an informal arrangement that adds real value and long-term benefit to both parties to the process.
- ***Vision***: According to J.C. Collins and J.I. Porras², “the dynamic of preserving the core of any business whilst stimulating progress is the reason that organisations become elite institutions that are able to renew themselves and achieve superior long-term performance.” Truly great organisations understand the difference between what should never change (core competencies and resources) and what should be open for change, between what is genuinely sacred and what is not. The rare ability to manage continuity and change is a required discipline- and is closely linked to the ability to develop a vision.

A well-conceived vision consists of two major components: core ideology and envisioned future. The core ideology defines what the organisation stands for and why

it exists. The envisioned future is what the organisation aspires to become, to achieve and to create- something that will require significant change and progress to attain. However the organisation needs to look inwards to determine what its core ideology and envisioned future is. Recognising that strategy is not just prescriptive or emergent in nature is essential to understanding the “nature of the beast”. It is essential to realise that no strategic position is truly unique, and the idea is to create as much differentiation as possible

The three core areas of strategy are:

1. ***Strategic analysis***: The organisation, its mission and objectives have been examined and analysed. The examination of the objectives and the organisation's relationship with its environment together with its resources are analysed.
2. ***Strategy development***: The strategy options have to be developed and then selected. To be successful, the strategy is likely to be built on the particular skills of the organisation and the special relationships that it currently has or may develop with the outside environment.
3. ***Strategy implementation***: These options that have been selected now have to be implemented. The obstacles to any strategy being implemented are vast and they will have to be overcome otherwise the strategy is not worth the paper it is written upon.

1.2.2. AREA OF FOCUS OF THE PRACTICE:

The practice in question is a service-based organisation that specialises in preventive and rehabilitative dental care. The practice has a history of having no real strategic plan but rather adopts an emergent approach to strategy. Regardless of the success of this type of approach it has become increasingly evident that opportunities are clearly being missed and/or are being largely unexploited.

There is currently an increase in the demand for dental work by both local and foreign patients. There is currently a substantial overseas patient base however these patients visit SA and the practice seasonally. The Internet and e-commerce has revolutionised

² Collins C.C. & Porras J.I. Built To Last, HarperCollins Publishers, 1994

traditional business practices and paved the way for all types of businesses to compete in segments, markets and geographic locations not previously thought possible. Dental technology is rapidly evolving and changing the competitive structure of the industry. The success of the practice lies with its ability to attract and retain highly skilled staff. The ability of the practice to foster long-term relationships with key allied dental personnel relationship e.g. dental technicians. The quality, consistency and the efficiency of the craftsmanship of the dental technicians and the staff that are associated to the practice is of the highest perceived standards. The practice has a reputation that is widely recognisable and has a vast patient base that is largely due to patient referrals.

Financially the practice is highly profitable but sole proprietor is very conservative with regards to investments and the various sources of finance available. The prevalent attitude is more reactive rather than proactive in nature to the actual support functions that aids in differentiating the service offering of this practice from that of other practices. The practice adopted a computerised system of patient recording as a reactive change to the shift in industry conditions.

Due to inadequate strategic planning aided by the adaptation of a reactive approach to strategy, the practice did not recognise that the industry was heading in this direction until it was upon them. The practice thus needs to initiate strategies that will shift this attitude and may be incremented in small steps and over a period of time so that the bottom line performance is not dramatically reduced. The practice is currently experiencing an influx of patients and has been dealing with the influx as it occurs. Clearly this not the long-term approach to this type of growth, hence clear strategic direction is necessary.

The strategic process of any organisation is dynamic and governed by certain underlying principles. Firstly the practice must identify and colonise a distinctive strategic position, thus making it the most attractive position in the industry. Whilst currently in this position the practice must search continuously for new strategic positions. After identifying another viable strategic position in its industry, the practice must then attempt to manage both positions simultaneously. As the old position starts to decline, the

organisation must slowly make the transition to the new position, at which point the cycle will start once again.

Strategies must thus be developed that capitalises on this increased demand by both local and foreign patients, and to be able to create sustainable ways to continue to attract these patients through the creation of internal value creation and providing more substantial differentiating characteristics of the type of service rendered. The practice and the staff members are aware that there are potential ways that are not currently being exploited to grow the practice and that will potentially stretch the current strategic initiatives available to the practice. The challenge is to develop creative strategies both short-term and long-term that will provide strategic direction.

1.3. MOTIVATION FOR CONDUCTING THE STUDY:

- Provision of a strategic vision, mission and objectives (both long-term and short-term) for the organisation.
- Improvement of existing strategies and the development of strategies that would create greater internal growth and value and sustainable differentiation of the type of services on offer.
- To create ways and means of creating new strategic positions that exploits changes to the environment that surround the organisation.
- To catapult the practice ahead of all competitors and to establish a sustainable leader position with competencies and resource capabilities that are difficult to imitate or emulate.

1.4. VALUE OF THE STUDY:

- The development of new strategies and improvement on existing strategies that will enable continued internal growth of local dental practices that will capitalise on growth of both foreign and domestic patient markets.
- Development of legal and ethical marketing and promotional tools to attract patients.

- Provision of a framework of the necessary strategic tools that may be utilised to assess current and potential future strategic initiatives and positions of a practice.

1.5. PROBLEM STATEMENT:

To determine what strategic options and strategic initiatives the dental practice has to adopt and implement to maximally capitalise on the current and future trends and minimise on the potential threats and weaknesses of the general and specific environment that the practice operates within.

1.6. OBJECTIVES OF THE STUDY:

- To develop a strategic framework that will serve as a guide to the practice to encourage continuous development of its strategic initiatives.
- Determine what strategic options are best suited to the internal resources, external environment and that will add value to the practice such that all stakeholders receive greater benefits.
- Provision of a potential list of future developments that may have influence on the practice and could provide a possible means of gaining further strategic advantage.

1.7. RESEARCH METHODOLOGY:

An exploratory, qualitative case study approach is going to be adopted. The case will be supplemented via a literature review on various textbooks, journals and interviews and Internet articles and correspondence with various salient role players that will lead the strategic initiatives available to the dental practice.

1.8. LIMITATIONS OF THE STUDY:

- The research does not make allowances for how local patients (with regard to availability of healthcare and the costs) will be affected by the influx of foreign patients.
- Some options that have been eliminated may become applicable later as the practice evolves and as the environment and resource capabilities surrounding the practice, change.
- The success of the strategic options selected is dependent on various factors, all of which have not been explored by this study and further study is thus indicated.
- The response by both staff and patients to changes in strategy is difficult to completely determine and anticipate.
- The financial information provided is limited and highly confidential and of a sensitive nature hence certain aspects are not provided and thus it limits the extent of financial information usage to project the future profit expectations of all strategic options selected.

1.9. STRUCTURE OF THE STUDY:

The study will follow a structure, which consists of five chapters in total. Four of which comprise the body of the study and chapter one being the introduction to the study.

- Chapter 2: The theoretical framework that is necessary to address the objectives of the study is delineated and the necessary models and theories are presented. The theory will culminate in a model of all the various applicable theories and this model will be utilised to approach the case study presented in chapter 3.
- Chapter 3: The case study is discussed in detail and the model developed in chapter 2, is applied to the specific conditions that the practice finds itself in. Thus a strategic analysis of the practice is conducted in chapter 3.
- Chapter 4: The specific conditions of the practice established in chapter 3 are evaluated against specific criteria i.e. suitability, acceptability and feasibility to determine the strategic directions that are available and applicable to the practice.

What the practice performs “well” and what it requires to “improve” determine the strategic options available and applicable to the practice. Thus the strategic development of the practice is detailed in chapter 4.

- Chapter 5: Recommendations – the practice core competencies and resources should be reinforced and the ways and means of achieving this is addressed. The practice’s deficiencies, weaknesses and threats are must also be addressed and minimised. The selected strategy/strategies implementation is detailed in chapter 5.
- Conclusion: The culmination of the study by presenting a potential answer to the problem statement and establishing whether the objective of the study has been achieved.

1.10. SUMMARY:

Organisations that are recognised as formidable with seemingly unassailable strategic positions find themselves rapidly humbled by relatively unknown organisations that base their attacks on creating and exploiting new strategic positions in the industry.

Thus the dental practice that is proactive and continually striving for new strategic goals will strive to stretch and expand the boundaries in the industry. The practice needs to recognise changes in industry conditions, customer needs or preferences, demographics, technology, government policies, competition, and an organisation's own competencies generate new opportunities and the potential for new ground rules. Existing niches expand whilst others decay, new niches appear, mass markets fragment into new segments, "old" niches merge to form a larger market and so the dynamic process continues.

Like modern-day pioneers, the practice management must set out to explore the evolving terrain of their industries in search of unexploited strategic positions. Only by being intrepid and by abandoning the safety of that which is familiar, to venture into the unknown will the practice have a future worth discussing.

Thus the practice has to view itself as being on a journey that has many twists and turns and that will present with many obstacles but making the journey is worthy of the tribulations. The first leg of this journey is preparation, by arming oneself with the theory that details the entire strategic process i.e. strategic analysis, strategic development and strategy implementation. Thus the theory of the strategic process is detailed in chapter two.

CHAPTER TWO

THE CONCEPTUAL FRAMEWORK OF STRATEGY.

The Theory determining the strategic process, the analytical tools and techniques and the various strategic options available to any organisation that requires re-vitalising its strategic initiatives are presented in Chapter 2.

2.1. INTRODUCTION:

The chapter provides the theoretical framework that will guide the study and aid the practice in determining its strategic direction. The strategic process is divided into four parts namely:

- A) Strategic Analysis
- B) Strategic development and
- C) Strategic Implementation
- D) Model of the strategic process

Part A which is Strategic Analysis is further divided into analysis of the environment in which the practice operates, analysis of the resources that it possesses, and finally the vision, mission and objectives.

Part B, which is defined as Strategic Development is divided into the various sections. That is the strategic options available to the practice, initial strategy evaluation that will aid in the elimination of certain options, the selection of rationale and the suitability evaluation of the remaining options to determine the option/s best suited to the requirements of the practice. Thereafter the other evaluation criteria namely Acceptability and Feasibility will be utilised to assess the strategy/s selected.

Part C is defined as the Strategic Implementation aids in the identification of all the necessary steps required to make the selected strategy/s, successful and workable.

Part D represents a model that is the strategic framework that will guide the resolution of the organisation's problem area.

It is useful to note that the strategic process is dynamic and thus this theoretical background is merely a framework and is not to be utilised as an absolute die-cast replication of every organisations strategic process. The various analytical approaches presented in this chapter represents only some of the analytical tools available to an organisation with regards to developing strategies for the future.

Strategy is evolving and the ability of the organisation to realise and adapt to these changes will not only ensure its survival but also rather provide a leading market (dominant) market position.

2.2. PART A: STRATEGIC ANALYSIS:

The strategic analysis is initiated by conducting an analysis of the general and industry specific business environment in which the organisation operates. This enables the organisation to determine the external influences that will guide the strategic process. Thereafter the internal resources of the organisation are determined and finally the vision, mission and objectives for the organisation are determined.

2.2.1. EXTERNAL ENVIRONMENT ANALYSIS:

The ability to understand an organisation's environment that is its customer's, supplier's, competitors, social and economic influences, in its operations is an essential component of the strategic process.

2.2.1.1. GENERAL AND INDUSTRY ANALYSIS:

In any consideration of the factors surrounding an organisation, numerous techniques are applied to explore the general environment. Some of these techniques are PEST analysis, Economic features of the Industry and Factors leading to the change in Industry structure.

a) PEST ANALYSIS:

It is a study of the Political, Economic, and Socio-cultural and technological factors. It provides a useful starting point as it provides a general macro-environment analysis of the environment surrounding an industry and the organisation.

Political:

- Political parties and alignments at local, regional, national or international level.
- Legislation e.g. on taxation, corporate governance, employment law, trade barriers, quota's, and embargoes.
- Relationship between government and the organisation.
- Government ownership of industry and attitude to competition and monopolies

- Government's role in encouraging or restricting trade and the various forms of assistance or restrictions they may impose.

Economic:

- Total Gross Domestic Product (GDP) and Gross National Product (GNP) per head
- Inflation and its stability/instability over the past period of years.
- Consumer expenditure and disposable income.
- Currency fluctuations and exchange rates and their stability or instability.
- Investment by the state, private enterprise and foreign companies.
- Unemployment levels and whether it is stable, increasing or decreasing.
- Energy costs, transport costs, communication and raw materials costs.

Socio-cultural:

- Shifts in values and culture either negatively or positively.
- Change in lifestyle and its impact on industry.
- Attitudes to work and leisure time.
- "Green" environmental issues and its social effects.
- Education and health.
- Demographic changes.
- Distribution of Income.

Technological change:

- Government investment policy towards technology, and infrastructure that affects the rate at which technological advances e.g. telecommunications infrastructure and its effect on the Internet occurs.
- Identifying new research opportunities.
- New patents and products.
- Speed of change and adoption of new technology.
- Level of expenditure on R&D by organisation's rival's
- Development in nominally unrelated industries that might be applicable to the industry of importance to the Company.

b) DOMINANT ECONOMIC FEATURES OF THE INDUSTRY:

According to Strickland and Thompson³, industries vary considerably in their basic character and structure and thus an analysis of the dominant economic features are necessary. The factors that are essential for profiling an industry's main economic features are fairly standardised and are listed below: -

- Market size.
- Scope of competitive rivalry (local, regional, national, international or global).
- Market growth rate and position in the business life (early development, rapid growth and takeoff, early maturity, saturation and stagnation and decline).
- Number of rivals and their relative sizes- is the industry fragmented into smaller organisations or concentrated and dominated by a few larger organisations.
- The number of buyers and their relative sizes.
- Whether and to what extent, industry rivals have integrated backward and/or forward.
- The types of distribution channels used to access consumers.
- The pace of technological changes in both production process innovation and new product introductions.
- Whether the products of rival organisations are highly differentiated, weakly differentiated or essentially the same.
- Whether companies can realise economies of scale in purchasing, manufacturing, transportation, marketing and advertising.
- Whether key industry players are clustered in specific geographic locations.
- Whether certain industry activities are characterised by strong learning and experience effects such that unit costs decline a cumulative output grows.
- Whether high rates of capacity utilisation are crucial to achieving low-cost production efficiency.
- Capital requirements and the ease of entry and exit.
- Whether industry profitability are above or below par.

³ Thompson A.A. & Strickland A.J., *Crafting and Executing Strategy*, 12th International Edition, McGraw-Hill Publishing, 2001.

c) **FACTORS LEADING TO CHANGE IN THE INDUSTRY STRUCTURE:**

All industries are characterised by trends and new developments that produce changes important enough to require a strategic response from participating firms. Industry and competitive conditions change because dynamic forces are in place that stimulates pressures for change. The most dominant forces are called driving forces because they have the most significant influence on what kinds of changes will take place in the industry's structure and competitive environment. Firstly the various driving forces as determined by Strickland and Thompson⁴, need to be identified and secondly their impact on the industry needs to be assessed.

Common driving forces:

- *The Internet and the new e-commerce opportunities and threats it produces in the industry:* The Internet is creating a sweeping business revolution that expands industry boundaries, opens up all kinds of new business and customer opportunities and threats, induces competition from new and entirely different enterprises, and mandates fundamental changes in business practices. The transformation that the Internet is producing varies amongst the industries. Company, industry and competitive implications are continuously evolving as new Internet-related technologies and products emerge and are released into the market. The challenge is to determine the impact of the Internet on the industry and competitive structure of the business environment.
- *Increasing globalisation of the industry:* Industries move towards globalisation for several reasons. One or more major firms in the industry may launch aggressive long-term strategies to win a globally dominant market position. Demand for the industry's product may develop in one or more countries. Countries may decide to enter once closed markets or may decide to reduce trade barriers. The spread of technological know-how may precipitate the need for lesser-known companies to move into global arenas. Significant differences in labour costs and the skills of the labour force may precipitate globalisation.

⁴ Thompson A.A. & Strickland A.J., *crafting and Executing Strategy*, 12th International Edition, McGraw-Hill, 2001

- *Changes in the industry long-term growth rate:* Shifts in the industry growth rate up or down are a driving force for industry change, affecting the balance between industry supply and buyer demand, entry and exit, and the character and strength of competition. An upsurge in long-term demand triggers a race for growth among established firms and newcomers are attracted by the prospects for higher growth. Competition becomes a contest of who can capture the growth opportunities to win a place amongst the market leaders. A shrinking market heightens competitive pressures, producing an intense battle for market share which induces mergers and acquisitions that result in industry consolidation into a smaller number of participants. Some companies may exit the industry and those remaining may be forced to close less efficient plants and retrench to a smaller production base.
- *Changes in who buys the product and how they use it:* Shifts in buyer demographics and new ways of using the product can alter the state of competition. This occurs by forcing adjustments in customer service, opening new ways to market the product, prompting producers to broaden or narrow their product lines, bring different sales and promotion mixes into play.
- *Product innovation:* Product innovation can shake up the structure of competition by broadening its customer base, rejuvenating industry growth, and widening the degree of product differentiation amongst rival sellers. Successful new product innovations strengthen the market position of the innovating companies, usually at the expense of companies that stick to their old products dogmatically.
- *Technological change:* Advances in technology can alter an industry's landscape, making it possible to produce new and superior products at lower cost thus opening up new industry frontiers. Technological changes can also produce competitively significant changes in capital requirements, minimum efficient plant sizes, distribution channels and distribution logistics, and learning or experience curve effects.
- *Market innovation:* When firms are successful in introducing new ways to market their products, they can spark a flood of buyer interest, widen industry demand, increase product differentiation, and lower unit costs-any or all of which can alter the competitive positions of rival firms and force strategy revisions.

- *Entry or exit of major firms:* New firms that enter an industry push the industry in various directions and increase the competitive pressures in the industry. This is generally due to the fact the new firms tend to enter the industry with some innovative skill or resource. Exit of a major firm changes the competitive structure by reducing the collective number of market leaders and establishes a rush to capture the existing firm's customers.
- *Diffusion of technological know-how across more companies and more countries:* As knowledge about how to perform a certain process or activity spreads, the competitive advantage of firms that originally possessed this know-how erodes. Technology can diffuse through journals, scientific publishing's, knowledgeable employees, and word of mouth amongst suppliers and customers.
- *Changes in cost and efficiency:* Widening or shrinking of differences in costs and efficiency amongst key competitors tends to dramatically alter the state of competition.
- *Growing buyer preference for a differentiated product rather than a standardised product:* Differentiation can spark a loyal customer following that can entrench a firm's offering in the minds of its customers. It can also help serve as a marketing tool that creates brand loyalty and a perceived superiority over the offerings of rivals. It can backfire if customers are seeking a standardised product with a minimum of frills.
- *Regulatory influences and government policy changes:* This can often force significant changes industry practices and strategic approaches. Deregulation has proved to a potent pro-competitive force in many industries.
- *Changing societal concerns, attitudes and lifestyles:* Emerging societal issues and changing attitudes can be powerful instigators of change in an industry. Companies that respond quickly and creatively to these trends and conditions will establish a leader position in the minds of the customer.
- *Reductions in uncertainty and business risk:* A young, emerging industry is typically characterised by unproven cost structure, market size, the amount time and money required to surmount technological problems, and what distribution channels and buyer segments to emphasise. Emerging industries tend to attract risk-taking firms that expect large returns on investment for the risk that they take. Eventually is the

industry is starting to look favourable larger, financially strong firms will look to invest. Risk also affects the type of entry strategy into a market or industry as firms will seek conservative methods of entry in higher risk industries and more aggressive methods of entry in industries that are experiencing attractive growth.

The value of establishing what the driving forces of an industry are is invaluable. It helps to establish what direction and strategic changes the company needs to effect now to obtain sustainable competitive advantage a few years into the future.

2.2.1.2. COMPETITIVE ANALYSIS:

In any analysis of competitors and their relationships to an organisation, the analytical tools utilised are the Porter's Five Forces Model, Analysis of companies in the strongest and weakest positions, Key success factors, Analysis of the strategic moves that rivals are likely to make and the General attractiveness of the industry.

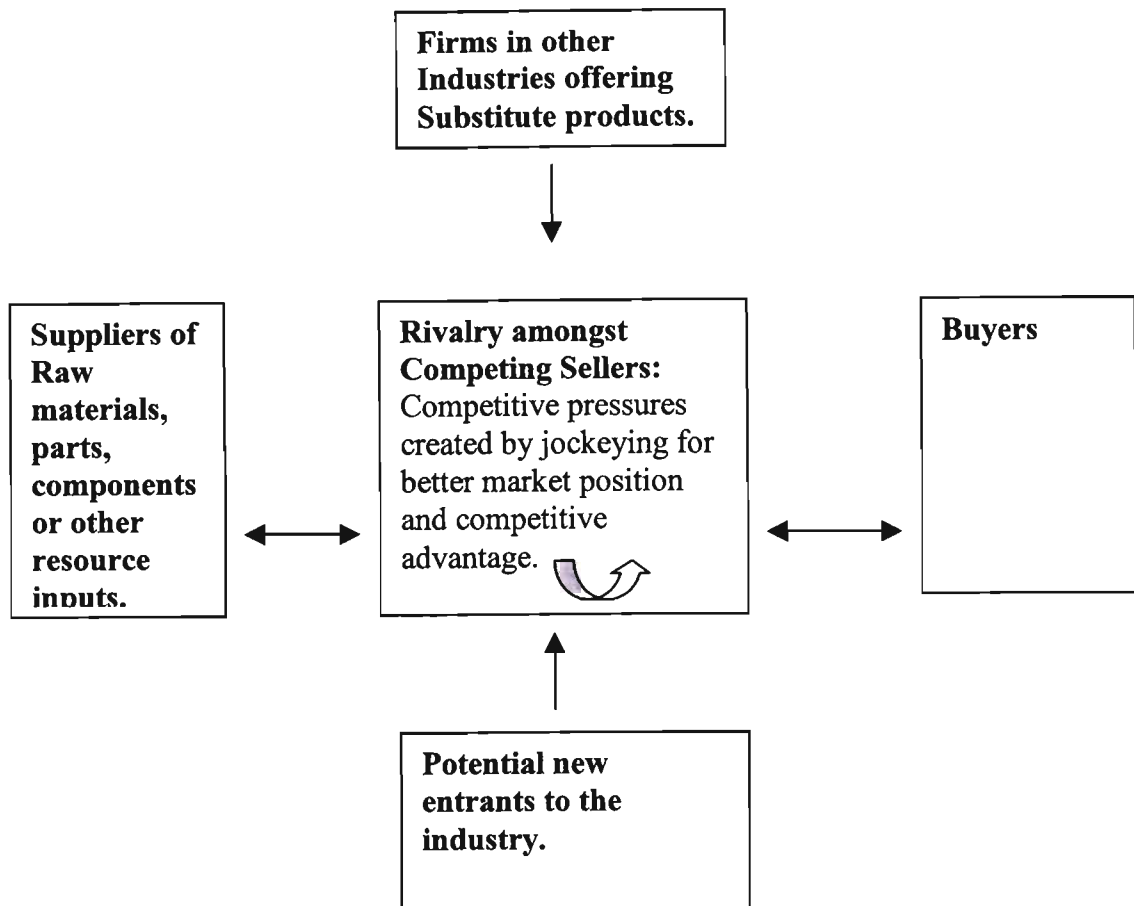
a) COMPETITION IN THE INDUSTRY:

It is essential to establish the main sources of competitive pressure and the strength of each competitive force. Professor Michael Porter of the Harvard Business School has convincingly demonstrated that the state of competition in an industry comprises of five inter-relating competitive forces. The Model of these forces is aptly named Porters Five-Force's Model and is illustrated below in Figure 2.1.

The five competitive forces are listed as the following: -

1. Rivalry amongst competing sellers.
2. The potential entry of new competitors.
3. The market attempts of companies in other industries to win customers over to their own substitute products.
4. The competitive pressure stemming from supplier-seller collaboration.
5. The competitive pressures stemming from seller-buyer collaboration and bargaining.

Figure 2.1. The Five Forces Model of Competition



Source: Adapted from ME. Porter, "How competitive forces Shape Strategy," Harvard Business Review 57, no. 2 (March – April 1979), pp 137-145

Rivalry amongst competing sellers:

The strongest of the five forces is usually the currying for position and buyer favour amongst rival sellers of a product or a service. The intensity of rivalry is determined by how vigorously rival's employ tactics such as lower prices, fancier features, expanded customer services, longer warranties, special promotions and new product introductions. Rivalry can range from mild to severe forms depending on how frequently rivals decide to update or change their strategies to oust competitors.

According to Strickland and Thompson⁵ “Regardless of the intensity of the competition amongst rivals, organisations need to continuously strive to craft successful strategies that produce a competitive edge over rivals and that strengthen its position with buyers”. Organisations would do well to note that their competitive strategy is inextricably linked to the resources and efforts that rivals make. Thus there is interdependence between rival organisations. When a rival makes a strategic move it is common to see a retaliatory offensive or defensive countermove being undertaken by the rival organisation/s. Thus from a strategic perspective competitive markets are in a constant state of change and are economic battlefields characterised by this dynamic continuous process.

Several factors influence cross-organisation rivalry:

- *Rivalry intensifies as the number of competitors increases and as competitors become more equal in size and capability.* The greater the number of competitors the greater the pool of fresh strategic ideas and initiatives. Equality regarding size and capability means that no single company can completely dominate the market. Rather the industry has many smaller firms that are all fighting for a piece of the pie and that they may all be determined to be approximately on par with rival’s regarding their size. A large firm is often able to terminate the actions of any smaller rival competitors, and thus protect its profitability. The more competitors are equal in capabilities the greater the rivalry and lower the profit margin.
- *Rivalry is usually stronger when demand for the product is growing slowly.* In a rapidly expanding market, there tends to be sufficient business for everybody to grow. However when growth slows or when the market demand drops unexpectedly, expansion-minded firms and/or firms with excess capacity often cut prices and deploy other sales-increasing tactics thereby igniting a battle for market share that can result in a decline and eventual stagnation of the weak, less-efficient firm. The company must thus make initiatives to take sales away from rivals as it represents a means of survival. The industry then consolidates into smaller but individually stronger sellers. Firms also tend to fight harder when the pie (market demand) has metaphorically reduced in size.

⁵ Thompson A.A. & Strickland A.J., *Crafting and Executing Strategy*, 12th International Edition, McGraw-Hill, 2001

- *Rivalry is more intense when industry conditions tempt competitors to use price cuts or other competitive weapons to boost unit volume.* When products are seasonal, perishable, costly to hold in inventory or when demand slacks off then competitive pressures build quickly and anytime one firm decides to cut prices and dump excess supplies on the market. Likewise when fixed costs account for a large fraction of total cost such that unit costs tend to be lowest or near full capacity, then firms come under pressure to cut prices or otherwise try to boost sales. Under used capacity imposes a significant cost-increasing penalty because there are fewer units carrying the fixed-cost burden. In such cases the market demand weakens or capacity utilisation for some reason falls off. The pressure of rising costs can push rival firms into secret price concessions, special discounts, rebates, and other sales-increasing tactics.
- *Rivalry is stronger when the customer's cost to switch brands are low.* The lower the costs of switching, the easier it is for a rival seller to tempt another seller's customers away. Higher switching costs give sellers a more protected base against the efforts of rivals that encourage brand switching amongst buyers.
- *Rivalry is stronger when one or more sellers are dissatisfied with their current market position and launch moves to bolster their standing at the expense of rivals.* Firms that are losing the battle financially or strategically will commonly bolster their efforts through acquisition of smaller rivals, introducing new products, boosting advertising and discounting prices. All this is done in an attempt to ensure that they strengthen their current market position or to boost their market position up a level.
- *Rivalry increases in proportion to the size of the payoff from a successful strategic move.* The greater the benefits of going after a new opportunity, the greater the likelihood that rivals will try to initiate moves to capture it. Competitive pressures will intensify if several rivals are pursuing the same opportunity. The size of the strategic payoff can vary according to the speed of retaliation. Slow or no response from rivals can result in first-mover advantages and benefits that are not easily surmounted.
- *Rivalry tends to be more vigorous when it costs more to get out of a business than to stay and compete.* The higher the exit barriers, the stronger the incentive to remain and compete as best as possible, even though low profits or even losses may be incurred.

- *Rivalry becomes more volatile and unpredictable the more diverse competitors are in terms of their visions, strategic intents, objectives, strategies, resources and countries of origin.* This makes the entire competitive structure highly volatile and unpredictable. Attempting to predict what rivals are going to attempt, as their next strategic move is difficult and therefore the company is unable or limited in their ability to plan counter attacking measures.
- *Rivalry increase when strong companies outside the industry acquire weak firms in the industry and launch aggressive well funded moves to transform their newly acquired competitors into major market contenders.* A concerted effort to turn a weak rival into a market leader nearly always entails launching well financed strategic initiatives to dramatically improve the competitor's product offering, incite buyer interest, and win a much bigger market share. These actions if successful places added pressure on rivals to counter with fresh strategies of their own.
- *It is difficult to differentiate products or services.* The competition is thus based on the price and there is very little customer loyalty when price is the only differentiating attribute. Customers will purchase based on who sells the product at the lowest possible price.

The potential entry of new competitors:

According to Thompson and Strickland⁶ "New entrants to a market bring new production capacity, the desire to establish a secure place in the market, and sometimes, substantial resources with which to compete".

The seriousness of the competitive threat of entry is dependent on two classes of factors: *barriers to entry and the expected reaction of incumbent firms to new entry.* *Barriers to entry are:*

- *Economies of scale:* they deter entry because they force competitors to either enter a market on a large scale (costly and risky move) or to accept a cost disadvantage and consequently lower profitability. Trying to overcome the disadvantages of small size by entering on a large scale at the outset can result in long-term overcapacity problems for the new entrant (until sales volume build up). This can threaten the market shares of existing firms so they retaliate aggressively (price cuts, increased

advertising and sales promotion and similar blocking techniques) to maintain their positions. New entrants may encounter scale-related barriers in aspects of their value chain.

- *Cost and resource disadvantages independent of size.* Existing firms may have cost and resource advantages not available to potential entrants. These advantages can include partnerships with the best and cheapest suppliers of raw materials and components, possession of patents and proprietary technology, existing plants built and equipped years earlier at lower costs, favourable locations, and lower borrowing costs.
- *Learning and experience curve effects.* When lower unit costs are partly or mostly a result of experience in producing the products and other learning curve benefits, new entrants face a potentially significant cost advantage competing against existing firms with more accumulated knowledge.
- *Inability to match the technology and specialised knowledge already in the industry.* Successful entry may require technological capability not readily available to a newcomer. Key patents can effectively bar entry, as can a lack of technically skilled personnel and an inability to execute complicated manufacturing techniques. Existing firms often carefully guard knowledge that gives them the edge with regards to technological processes and manufacturing capability.
- *Brand preferences and customer loyalty.* High brand loyalty means that a new entrant to the market needs to build a network of distributors and dealer, as well as spend enough capital on sales, advertising and promotion to overcome customer loyalties and build its own clientele. Establishing brand recognition and building a clientele can be a time consuming and expensive process. To overcome some of the obstacles of brand switching, new entrants may have to offer new and greater incentives than the current market offering. This could imply lower profit margins until a sufficient clientele is established and sales volume increases.
- *Capital requirements.* The larger the total investment needed to enter the market successfully, the more limited the pool of potential entrants.

⁶ Thompson A.A. & Strickland A.J., *Crafting & Executing Strategy*, 12th Edition, McGraw-Hill, 2001

- *Access to distribution channels.* New entrants to a market face the mammoth task of convincing distributors to stock their products whilst trying to establish brand loyalty and a clientele. To overcome this barrier new entrants may need to “buy” distributor access by offering them better margins, advertising allowances and offering other promotional incentives. This may put pressure on the new entrant’s profit margin until the product gains sufficient acceptance.
- *Regulatory policies.* Permits and licences may be required as per law. This may raise the cost of entry and raises the barriers to entry.
- *Tariffs and international trade restrictions.* National governments commonly use tariffs and trade restrictions to raise entry barriers to foreign firms and to protect domestic producers.

Whether an industry’s entry barriers are considered to be high or low depend on the resources and competencies possessed by the pool of the potential entrants. High profits act as an incentive to potential new entrants to commit their resources to overcoming any entry barrier that they might face.

The best test of whether potential entry is a strong or weak competitive force in the market place is ask if the industry’s growth prospects are attractive enough to induce additional entry. When the answer is no, then potential entry is a weak competitive force. If the answer is yes and the new entrant has sufficient resources and the competencies to enter the marketplace then competitive pressures in the market place increase significantly. The stronger the threat of entry, the more that incumbent firms need to fortify their positions against newcomers, endeavouring not only to protect their market share but also to make entry more costly and time consuming and difficult.

The threat of entry changes as the industry’s prospects grow brighter or dimmer and as entry barriers rise or fall. New actions by incumbent firms to greatly bolster their e-commerce capabilities, increase advertising, strengthen distributor-dealer relations, step up R&D, or improve product quality can raise the barriers to entry.

Threat of substitute products:

Firms in one industry are often in competition with firms in other industry's because their respective products are good substitutes. The strength of the competitive pressures arising from substitute products depends on four factors:

- (1) Whether attractively priced substitutes are available.*
- (2) Whether buyers view the substitutes as being satisfactory in terms of quality, performance, and other relevant attributes and way in which the company needs to address the costs of providing for the extra attribute.*
- (3) Whether buyers can switch to substitutes easily.*
- (4) The likely reduction in profit margin if prices are held or come down.*

The presence of readily available and attractively priced substitutes creates competitive pressure by placing a ceiling on the prices an industry can charge for its products without giving customers an incentive to switch to substitutes thus risking a reduction in sales generated. This price ceiling, simultaneously, restricts the profits that industry members can earn unless they can reduce costs. When substitutes are cheaper than an industry's product, industry members come under intense pressure to reduce their prices and find ways to absorb the price cuts with cost reductions.

The availability of substitutes inevitably invites customers to compare quality, features, and performance, ease of use, and other attributes as well as price. Competition from substitute products pushes industry participants to heighten their efforts to convince customers their product has attributes that are superior to that of their competitors. The cost of providing an attribute that prevents switching can become a major financial hurdle to the company.

Another determinant of the strength of competition from substitute products is the degree of difficulty or the cost the customer encounters when switching to a substitute. Switching costs can include premiums, the costs of additional equipment, the time and cost in testing the quality and reliability of the substitute, the psychic costs of severing old supplier relationships and establishing new ones, and employee retraining costs. If switching costs are high, sellers of substitutes must offer a major cost or performance

benefit in order to entice the industry's customers away. When the reverse occurs (low switching costs), it is much easier for sellers of substitutes to convince buyers to change over to their products.

As a rule then, the lower the price of substitutes, the higher the quality and performance, and the lower the user's switching costs, the more intense the competitive pressure posed by substitute products. Good indicators of the competitive strength of substitute products are the rate at which sales and profits are growing, the market inroads they are making, and their plans for expanding production capacity.

Competitive pressures stemming from Supplier Bargaining Power and Supplier-Seller Collaboration:

The strength or weakness of supplier-seller relationships is affected by

- 1) *Whether suppliers can sufficiently exercise bargaining power to influence the terms and conditions of supply in their favour, and*
- 2) *The extent of supplier-seller collaboration in the industry.*

Supplier bargaining power and its effect on Competitive pressure: Suppliers have little or no bargaining power or leverage over rivals whenever the items they provide are commodities available on the open market from numerous suppliers with adequate capacity to fill orders. In such cases, it is relatively simple for rivals to switch between suppliers, and can even divide their purchases amongst numerous suppliers, which promotes competition for orders. Commodity product suppliers have market power only when supplies become quite tight and users are so anxious to secure what they need that they agree to terms more favourable to suppliers.

Suppliers are likewise relegated to a weak bargaining position whenever there are good substitutes for any item which they provide and buyers find it neither costly nor difficult to switch their purchases to the suppliers of alternative products. Suppliers also tend to have less leverage to bargain over price and other terms of sale when the company they are supplying is a major customer. In such cases, the well being of the supplier is closely correlated to the well being of the major customer. Suppliers then have a big incentive to

protect their customer's competitiveness via reasonable prices, exceptional quality, and ongoing advances in the technology of the items supplied. In contrast, companies may have little bargaining power with major suppliers.

When suppliers provide an item that accounts for a sizeable portion of the costs of an industry's product, is crucial to the industry's production process, or significantly affects the quality of the product, suppliers have considerable influence on the competitive process. This is particularly true when a few large companies control most of the supplies and have pricing leverage.

Likewise, a supplier possesses more bargaining leverage the more difficult or costly it is for users to switch to alternate suppliers. Large suppliers with good reputations and growing demand for their output are harder to wring concessions from than struggling suppliers striving to broaden their customer base or more fully utilise their production capacity.

Suppliers are more powerful when they can supply a component more cheaply than the industry members can make it themselves. The bargaining power of suppliers is strong until the volume of parts a user needs becomes large enough to justify backward integration into self-manufacture of the component. Then the balance of power shifts from the supplier to the user. The more credible the threat of such backward integration into the suppliers' business becomes the more leverage users have in negotiating favourable terms with suppliers.

Another instance in which the relationship between industry members and suppliers is a notable competitive force is when suppliers, for one reason or another, do not have the capability or the incentive to provide items of high or consistent quality. Poor quality and high defect rates of the supplier increase the warranty and defective goods costs of the seller and it erodes their profits, reputation and competitive position are seriously damaged.

Extent of supplier-seller collaboration: In more and more industry's, rival sellers are electing to form long term strategic alliances and partnerships and close working relationships with select suppliers to

- 1) Provide just-in-time delivery and reduce inventory and logistics costs.
- 2) Speed the availability of next-generation components.
- 3) Enhance the quality of the parts and components being supplied and reduce defect rates.
- 4) Reduce the costs and pave the way for lower prices on the items supplied.

Such benefits translate into competitive advantage for industry members who do the best job of managing supply chain relationships and form effective collaborative partnerships with suppliers.

Competitive pressures stemming from Buyer Bargaining Power and Seller-buyer collaboration:

Whether seller-buyer relationships represent a weak or strong force depends on

- 1) *Whether buyers have sufficient bargaining power to influence the terms and conditions of sale in their favour.*
- 2) *The extent and competitive importance of seller-buyer strategic partnerships in the industry.*

The effect of Bargaining power on competitive pressure: Just as with suppliers, the leverage that buyers have in negotiating favourable terms can range from strong to weak. Buyers have substantial bargaining leverage in a number of situations. The most obvious is when buyers are large and purchase in substantial quantity the industry's output. Purchasing in sizeable quantities allows buyers to leverage price concessions and other favourable terms.

Even if buyers do not purchase in sizeable quantities or offer a seller an important market exposure or prestige, they may still have some degree of bargaining leverage in the following circumstances:

- If buyers switching to competing brands or substitutes are relatively low: Buyers who have the flexibility to full their needs by switching brands or sourcing from several sellers often have negotiating room with sellers. When the products of rival sellers are virtually identical, it is relatively easy for buyer to switch from seller to seller with littler or no cost and anxious sellers may be willing to make concessions to win buyers business. However, if the products of rival sellers are strongly differentiated, buyers may conclude, often correctly, that the customer is locked in to using its product and therefore may not be inclined to make any substantive concessions.
- If the number of buyers is small or it a customer is particularly important to a seller: The smaller the number of buyers, the less easy it is for sellers to find alternatives when a customer is lost. The prospect of losing a customer not easily replaces often makes a seller more willing to grant concessions of one king or another.
- If buyers are well informed about seller's products, price and cost. The more information buyers have the better their bargaining position. The mushrooming availability of information on the Internet is giving added bargaining power to individuals. It is relatively easy for buyers to compare the different offerings of sellers in a market. Individuals can thus use this information to shop around for the best deal and to negotiate with sellers.
- If buyers pose a credible threat of backward integration into the business of the seller: Backward integration can provide a stable reliable source of components for a buyer, as it enables the. The buyer must also have sufficient demand to warrant expenditure on backward integration. Sometimes the buyer can manufacture at prices and using more advanced technology than the industry leader or the seller they themselves used to buy from. This can create price reductions and technological advances that erode into the market share of sellers.
- If buyers have discretion in whether and when they purchase the product: If consumers are unhappy with the sticker prices of a product, they can delay purchase or look at substitute products instead.

Buyers typically have weak bargaining power when they buy infrequently or in small quantities and when they face high costs of switching brands. High switching costs can keep a buyer locked into its present brand. It is vital to note that not all buyers of and

industry's product have equal degrees of bargaining power with sellers, and some may be less sensitive than others to price, quality, or service differences among competing sellers.

Competitive pressures stemming from collaborative pressures between sellers and buyers: Partnerships between sellers and buyers are an increasingly important element of the competitive picture in business-to-business relationships as opposed to business-to-consumer relationships. Many sellers that provide items to business customers have found it in their mutual interest to collaborate closely on such matters as just-in-time deliveries, order processing, electronic invoice payments, and online sharing of sales.

As a rule the stronger the collective impact of the competitive forces, the lower the combined profitability of participant firms. The competitive structure of an industry is clearly "unattractive" from a profit-making perspective if rivalry amongst sellers is very strong, low entry barriers are allowing new rivals to gain a market foothold, competition from substitute is strong, and both suppliers and customers are able to exercise considerable bargaining leverage.

In contrast, when competitive forces are not collectively strong, the competitive structure of the industry is "favourable" or "attractive" from the profit-making perspective. The "ideal" competitive environment is one in which both suppliers and customers are weak in bargaining position, there are no good substitutes, entry barriers are relatively high, and rivalry amongst present sellers is moderate. However, even when some of the five competitive forces are strong, an industry can be competitively attractive to those firms whose market position and strategy provide a good enough defence against competitive pressures to preserve their ability to earn above-average profits.

Winning competitive strategies cannot be developed without first identifying the competitive pressures that exist, the relative strength of each competitive force and by gaining a deep understanding of the industry's whole competitive structure. The Five Forces model provides a powerful tool that allows a company to build a successful enterprise and even to develop sustainable competitive advantage.

b) COMPANIES IN THE STRONGEST WEAKEST POSITIONS:

In studying the competitive industry structure, an assessment on the position of rivals needs to be conducted. Strategic group mapping⁷ is an analytical tool that helps to assist in grouping firms into like positions when an industry has so many competitors that it is impractical to examine each one in depth.

Companies in the same strategic group may resemble each other in a number of ways:

- They may have comparable product-line breath,
- Sell in the same price/quality range,
- Emphasise the same distribution channels,
- Use essential the same product attributes to appeal to customers,
- Depend on identical technological approaches,
- Or offer buyers similar services and technical assistance.

An industry can face the situation where most competitors pursue identical strategies and have comparable market positions or the industry can face many strategic groups where each rival pursues a distinctively different strategic approach and occupies a substantially different competitive position in the market place.

To construct a strategic group map consists of the following steps:

- Identify the competitive variables that differentiate firms in the industry- typical variables are:
 - Price/ quality range (high, medium, low),
 - Geographic coverage (local, regional, national, global),
 - Degree of vertical integration (non, partial, full),
 - Product-line breath (wide, moderate, narrow),
 - Use of distribution channel (one, some, all),
 - Degree of service offered (no-frills, limited, full).
- Plot in firms on a two-variable map using pairs of these differentiating characteristics.
- Assign firms that fall in about the same strategy space to the same strategic group.

- Draw circles around each strategic group, making the circles proportional to the size of the group's respective share of the total industry sales revenue.

The profit potential of different strategic groups varies due to the strengths and weaknesses in each group's market position. The closer groups are on the map, the stronger competitive rivalry amongst them seems to be.

c) KEY SUCCESS FACTORS FOR COMPETITIVE SUCCESS:

KSF's are those factors that most affect the ability of industry member's to prosper and succeed in the market place- the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the differences between profit and loss and, ultimately, between competitive success or failure. All firms in the industry need to pay close attention to KSF's. According to Thompson and Strickland⁸, the answers to three questions help identify an industry's key success factors:

- On what basis do customers choose between the competing brands of sellers? What product attributes is essential?
- What resources and competitive capabilities does a seller need to possess to be competitively successful?
- What does it take for competitors to achieve sustainable competitive advantage?

A company with perceptive understanding of industry KSF's can gain competitive advantage by training its strategy on industry KSF's and devoting its energies to being distinctively better than its rivals on one or more of these factors. Indeed, companies that stand out on a particular KSF will enjoy a stronger market position for their efforts- being distinctively better than rivals on one or more key success factor's presents a golden opportunity for gaining competitive advantage.

⁷ Lynch R., Corporate Strategy, Pitman Publishing, 1997

⁸ Thompson A.A. & Strickland A.J., Crafting & Executing Strategy, 12th Edition, McGraw-Hill, 2001

d) STRATEGIC MOVES THAT RIVALS ARE LIKELY TO MAKE:

It is difficult to outmanoeuvre rivals without monitoring their actions, understanding their strategies, and anticipating the actions they are likely to take. Knowing what rivals are doing helps a firm plan its own strategies that may be aggressive or defensive.

It usually obvious who the major contenders are in an industry, but these same firms may not necessarily be the major contenders of the future. Some firms may be poorly equipped to compete and may already be losing strength and position. Smaller rival companies may be poised for offensive strategies against larger vulnerable rivals, as they have identified gaps that exist that have not been capitalised upon by the major firms.

Today' market leaders are not necessarily tomorrow's market leaders. Usually how secure a company holds its present market share is often a function of its vulnerability to driving forces and competitive pressures, whether it has competitive advantage or disadvantage, and whether it is the likely target of offensive attack from other industry participants. Knowing what moves rivals are likely to make helps the company develop plans and strategies that capitalise on these changes.

Evaluating the major players in the industry for the future and currently can be assessed through a profile of competitors objectives and strategies⁹

⁹ Thompson & Strickland, *Crafting and Executing Strategy*, 12th Edition, McGraw-Hill, 2001

Table 2.1 Competitors objectives and Strategies¹⁰

Competitive Scope	Strategic Intent	Market Share Objective	Competitive Position	Strategic Posture	Competitive strategy
Local	Be the dominate leader	Aggressive expansion via both acquisition and internal growth	Getting stronger; on the move	Mostly offensive	Striving for low cost leadership
Regional	Overtake the present industry leader	Expansion via internal growth (boost market share at the expense of rivals)	Well entrenched; able to maintain its present position	Mostly defensive	Mostly focusing on a market niche: <ul style="list-style-type: none"> • High end • Low end • Geographic • Buyers with special needs • Others
National	Be amongst the top 5 leaders	Expansion via acquisition	Stuck in the middle of the pack	A combination of offensive and defensive	Pursuing differentiation on: <ul style="list-style-type: none"> • Quality • Service • Technological superiority • Breadth of product line • Image and reputation • More value for money
Multi country	Be amongst the top 10 leaders	Hold onto present share (by growing at a rate equal to the industry average)	Going after a different market position (from a weaker to a stronger position)	Aggressive risk taker	
Global	Move up a notch or two in the industry rankings	Give up share if necessary to achieve short term profit objectives	Struggling; losing ground	Conservative follower	
	Overtake a particular rival		Retrenching to a position that can be defended		
	Maintain position				
	Just survive				

¹⁰ Lynch R., Corporate Strategy, Pitman Publishing, 1997.

e) **INDUSTRY ATTRACTIVENESS:**

Company strategists are obligated to assess the industry outlook carefully, deciding whether industry and competitive conditions present an attractive business opportunity for the company or whether the company's growth and profit prospects are gloomy. The factors listed below help determine conclusions about an industry's attractiveness or lack of attractiveness:

- The industry's growth potential
- Whether competition currently permits adequate profitability and whether competitive forces are becoming stronger or weaker.
- Whether industry profitability will be favourably or unfavourably affected by the prevailing driving forces.
- The company's competitive position in the industry and whether its position is likely to grow stronger or weaker. (Being an well-entrenched leader or strongly positioned contender in a lacklustre industry can still produce good profitability, however having to fight against much stronger rivals can make an otherwise attractive industry unattractive.)
- The company's potential to capitalise on the vulnerabilities or weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
- Whether the company is able to defend against or counteract the factors that make and industry unattractive.
- The degrees of risk and uncertainty in the industry's future.
- The severity of the problems confronting the industry as a whole.
- Whether continued participation in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests.

If an industry's overall profitability is above average, the industry can be considered attractive; if its profits are below the average, then the industry is considered unattractive¹¹.

2.2.2. COMPANY RESOURCE ANALYSIS

A Company situation analysis is a precondition for identifying the strategic issues that management needs to address and aids in tailoring strategy to company resources and competitive capabilities as well as to industry and competitive conditions. The analytical tools utilised to evaluate a company's resources and competitive capabilities are shown below:

2.2.2.1. OPERATIONAL RESOURCES:

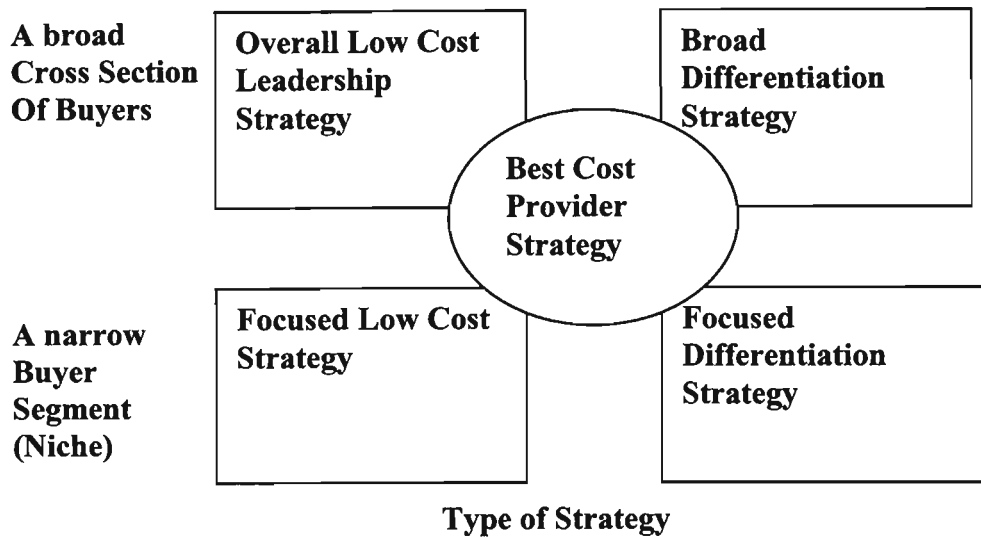
Analysis of the operations environment is essential to determine what strategic steps and organisation will have to initiate, to create improvements in the present strategy. These improvements will aid in reducing costs whilst simultaneously enhancing product attributes, quality and features. Some of the analytical tools utilised are a SWOT analysis, Present strategy of the Organisation, Value Chain Analysis, Prices and Costs of the organisation, Competitive position, Customer and Portfolio analyses.

¹¹ Lynch R., Corporate Strategy, Pitman Publishing, 1997.

a) COMPANY'S PRESENT STRATEGY:

In evaluating how well the present strategy is working, there is a need to identify what the present strategy and what the competitive approach is. A Company could have one of the five approaches illustrated and explained below.

Figure 2.2 The Five Generic Competitive Strategies¹²



1. **A low cost provider strategy:** appealing to a broad spectrum of customers based on being the overall low cost provider of a product or a service.
2. **A broad differentiation strategy:** seeking to differentiate the company's offering from rivals in ways that will appeal to a broad spectrum of buyers.
3. **A best cost provider strategy:** giving customers more value for money by incorporating good to excellent product attributes at a lower cost than rivals; the target is to have the lowest (best) costs and prices compared to rivals offerings with comparable upscale attributes.
4. **A focused strategy (Market Niche) based on lower costs:** concentrating on a narrower buyer segment and out competing rivals by serving niche members at a lower cost than rivals.
5. **A focused (market niche) strategy based on differentiation:** concentrating on a narrow buyer segment and out competing rivals by offering niche members customised attributes that meet their tastes and requirements better than rivals.

The performance of a company's strategy can be evaluated looking at:

- Whether the company's sales is growing faster, slower or about the same pace as the market as a whole, thus resulting in rising, stable, or eroding market share.
- Whether the company is managing to attract new customers at a consistent rate as well as retaining existing customers.
- Whether the company's profits are increasing or decreasing and how well does its margins compare to rivals.
- Trends in the company's net profit margin, return on investment, and economic value added, and how these compare to the same trends for other companies in the industry.
- Whether the company's overall financial strength and credit rating is improving or on the decline.
- Whether the company can demonstrate continuous improvement in such internal performance measures employee motivation, reduction in defect rates etc.
- How shareholders view the company based on trends in the company's stock price and shareholder value.
- The company's image and reputation with its customers.
- Whether the company is regarded as a leader in technology, product innovation, e-commerce, product quality, short times from order to delivery, having the best prices, getting newly developed products to market quickly, or other relevant factors on which buyers base their choice of brands.

The stronger a company's overall performance, the less likely the need for radical changes in the strategy. The weaker a company's financial performance and market standing, the more its current strategy must be questioned. Weak performance is almost always a sign of weak strategy, weak execution, or both.

¹² Thompson A.A. & Strickland A.J., *Crafting & Executing Strategy*, 12th Edition, McGraw-Hill, 2001

b) SWOT ANALYSIS:

A SWOT Analysis provides an excellent indicator of the health of a company. It is based on the principle that strategy making efforts must be aimed at producing a good fit between the company's resource capability (reflected by its balance of resource strengths and weaknesses) and its external situation, (as reflected by industry and competitive conditions, the company's own market opportunities, and specific external threats to the company's profitability and market standing).

Potential Resource Strengths and Competitive Capabilities:

Strength is something that a company is good at doing or a characteristic that gives it enhanced competitiveness. Strength can take any of several forms e.g. a skill, valuable physical assets, valuable human assets, valuable organisational assets, valuable intangible assets, competitive capabilities, an achievement or ability that places the company at a competitive advantage, and alliances or co-operative ventures.

- A powerful strategy supported by competitively valuable skills and expertise in key areas.
- A strong financial condition and ample financial resources to grow the business.
- A widely recognised brand name image/company reputation.
- A widely recognised market leader and an attractive customer base.
- Ability to take advantage of economies of scale and/or learning and experience curve effects.
- Proprietary technology/superior technological skills/important patents.
- Superior intellectual capital relative to key rivals.
- Cost advantages.
- Strong advertising and promotion.
- Product innovation skills.
- Proven skills in improving production processes.
- Sophisticated use of e-commerce technologies and processes.
- Superior skills in supply chain management.
- Better product quality relative to rivals.

- Wide geographic coverage and/or strong global distribution capability.
- Alliances/joint ventures with other firms that provide access to valuable technology, competencies, and/or attractive geographic markets.

Potential Resource Weaknesses and Competitive Deficiencies:

A weakness is something that the company does poorly or that it may lack in comparison to other companies.

- No clear strategic direction
- Obsolete facilities.
- A weak balance sheet burdened with too much debt.
- Higher overall unit costs relative to key competitors.
- Missing some key skills or competencies/lack of management depth/a deficiency of intellectual capital relative to leading rivals.
- Sub-standard profitability related to numerous factors.
- Plagued with internal operating problems.
- Falling behind rivals in putting e-commerce capabilities and strategies in place.
- Too narrow a product line relative to rivals.
- Weak brand image or reputation.
- Weaker dealer network/or lack of adequate geographic distribution capability in comparison to rivals.
- Poor e-commerce systems and capabilities relative to rivals.
- Inadequate finances to fund promising strategic initiatives.
- Under-utilised plant capacity.
- Behind on product quality and/or R&D and/ or technological know-how.
- Not attracting new customers as rapidly as rivals due to insignificant product attributes.

Potential Company Opportunities:

Appraising the growth and profit potential of the market opportunities that present itself to the company is essential in determining the strategic direction that the company needs to adopt. The market opportunities most relevant to a company are those that offer important avenues for profitable growth, those where a company has the most potential for competitive advantage, and those that match up well with the company's financial and organisational resource capabilities.

- Serving additional customer groups or expanding into new geographic markets or product segments.
- Expanding the company's product line to meet a broader range of customer needs.
- Utilising existing company skills or technological know-how to enter new product lines or new businesses.
- Using the Internet and e-commerce technologies to dramatically cut costs and/or to pursue new sales growth opportunities.
- Integrating forward or backward.
- Falling trade barriers in attractive foreign markets.
- Opening to take market share away from rivals.
- Ability to grow rapidly because of sharply rising demand in one or more market segments.
- Acquisition or rival firms or companies with attractive technological expertise.
- Alliances or joint ventures that expand the firm's market coverage or boost its competitive capability.
- Market openings to extend the company's brand name or reputation to new geographic areas.

Threats to a Company's Future:

Threats may stem from:

- Likely entry of potent new competitors.
- Loss of sales due to substitute products.

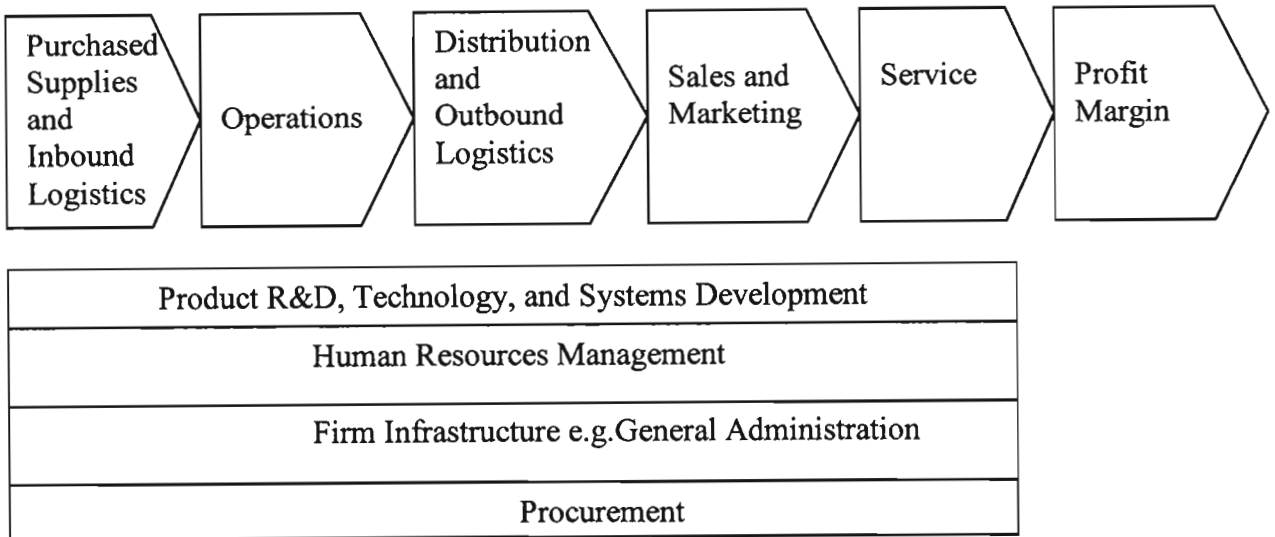
- Mounting competition from new Internet start-up companies pursuing e-commerce strategies.
- Increasing intensity of competition among industry rivals, which may cause a squeeze on profit margins.
- Technological changes or product innovations that undermine the firm's product offering.
- Slowdowns in market growth.
- Adverse shifts in foreign exchange rates and trade policies of foreign governments.
- Costly new regulations.
- Growing bargaining power of customers or suppliers
- A shift in buyer needs and tastes away from the industry's product.
- Adverse demographic changes that threaten to curtail demand for the firm's product.
- Vulnerability to industry driving forces.
- Vulnerability to interest rate increase.

c) **VALUE CHAIN ANALYSIS:**

The value chain links the value of the activities of an organisation with its main functional parts. It attempts to then make an assessment of the contribution of each individual part to the overall added value of the organisation. Professor Michael Porter inferred that links are derived in the application of the Value Chain to strategic analysis¹³:

- The added value that each part of the organisation contributes to the whole organisation;
- The contribution to the competitive advantage of the whole organisation that each of these parts might then make.

Figure 2.2. A typical value chain is presented and explained below.



The **primary activities** of the company are the activities that provide competitive advantage to the company and are illustrated below:

- **Margin:** is the difference between the total value and the collective cost of performing the value activities.
- **Inbound Logistics:** are the areas concerned with receiving the goods (inputs) from the suppliers and storing them until they are required by operations and includes handling and transporting these goods internally (within the company).
- **Operations:** is the production area of the company. It could be a simple or complex series of production lines that produce an end product.
- **Outbound logistics:** distribute the final product to the customer. They include the final packaging, transport and warehousing of the finished product.
- **Marketing and Sales:** this department analyses the needs and wants of the customer whilst simultaneously bringing to the attention of the customer what the product and service offering of the company is. This includes advertising and promotions.
- **Service:** Before or after a product is sold, there is a need for after-sales service which may include attending to queries.

¹³ Porter M.E., Competitive Advantage, New York Free Press, 1985.

The support activities add value, but in ways that are more difficult to link with one particular part of the organisation and are illustrated below:

- **Procurement:** Department responsible for the purchasing of goods and materials necessary for the company to produce its end product (utilised in operations). Their function is to source the highest quality raw materials consistently at the lowest price.
- **Technology development:** It covers the existing technology training and development that allows the company to remain efficient. In some company it is the most important department e.g. 3M where technological innovation is the cornerstone of the company's strategy.
- **Human resource management:** Recruitment, training, management development and the reward structures are vital elements in all companies.
- **Firm Infrastructure:** The background planning and control systems that allow the company to administer and direct its development e.g. the accounting function.

d) THE COMPANY'S PRICES AND COSTS:

A significant sign of whether a company's business position is strong or precarious is whether its prices and costs are competitive with industry rivals. Even in industries where cost is not the differentiating factor, rival companies still have to ensure that their prices are inline and that any added costs they may incur and price premiums they charge create ample perceived buyer value.

Cost disparities between the various companies may stem from several factors:

- Differences in the prices paid for raw materials, components, energy, and other items purchased from suppliers.
- Differences in basic technology and the age of plants and equipment. Because rival companies invest in plants and equipment at different times, their facilities have somewhat different technological efficiencies and different fixed costs. Older facilities are typically less efficient, but if they were less expensive to construct or acquired at bargain prices, they may still be reasonably cost-competitive with modern facilities.

- Differences in production costs from rival to rival due to different plant efficiencies, differing learning and experience curve, different wage rates, different productivity levels and the like.
- Differences in marketing costs, sales and promotion expenditures, warehouse distribution costs, advertising expenses and administration expenses.
- Differences in inbound transportation costs on purchased items and outbound shipping costs on goods sold.
- Differences in forward channel distribution costs.
- Differences in rival firm's exposure to the effects of inflation, changes in foreign exchange rates, and tax rates.

e) COMPANY'S COMPETITIVE POSITION:

A Company's competitive position is includes the following issues¹⁴:

- Whether the firm's market position will deteriorate or improve if the current market strategy is utilised
- The firm's ranking relative to rivals on each key success factor, resource capability and relative measure of competitive strength.
- Whether the firm has a competitive advantage or disadvantage over rivals.
- The firm's ability to protect and improve its market position in light of industry driving forces, competitive pressures and the anticipated moves of rivals.

¹⁴ Mathur S.S. & Kenyon A., Creating Value: Successful Business Strategies, 2nd Edition, Butterworth & Heinemann, 2001.

f) CUSTOMER ANALYSIS:

Customer profiling is necessary in an industry to identify possible segments together with the size and needs of the individual segments¹⁵. Customers may be profiled into segments based on

- Demography (age, sex, education levels etc)
- Geographic location
- Socio-economic groupings and income
- Ethnic group
- Benefits sought
- Usage rate and brand loyalty
- Attitudes
- Lifestyle

The benefits of this type of identification is that there is

- Strength in (and possibly dominance) of a group, even though the overall market is large. It may be more profitable to have a large share in a group than a small share of the main market.
- Closer matching of customer needs and the organisation's resources through direct targeting of this segment as this will provide sustainable competitive advantage.
- Concentration of effort on a smaller area so that the organisation's resources may be employed more effectively.

¹⁵ Miller A. & Dess G.A., Strategic Management, 2nd International Edition, Library of Congress Publications, McGraw-Hill, 1998.

g) PORTFOLIO ANALYSIS:

Analysis of the balance of an organisation's strategic business units. Portfolio analysis¹⁶ may be utilised to establish the basis for an organisation's approach to diversity. Therefore, when evaluating specific options for the future, they may be plotted onto a matrix and long-term rationale of business development can be highlighted. There are various forms of portfolio analysis e.g. BCG matrix, etc.

2.2.2.2. FINANCIAL RESOURCES:

The Financial data of the company is vital for the analysis of this type of resource¹⁷. The financial data includes Annual Financial Statements, which comprise a Balance Sheet, Income Statement, Cash Flow Statement, Segmental Analysis and their relevant applicability.

2.2.2.3. HUMAN RESOURCES:

The human resource function is regarded as integral to the success of any organisation and especially in service industries. To main focus of a human resource audit is to glean some basic information on the people and policies involved in the organisation and to explore in detail the role and impact of human resources with regards to the current and future strategic endeavours of the organisation.

A human resource audit generally consists of some or all of the elements listed below:

People in the organisation:

- Employee numbers and staff turnover
- Organisation structure
- Structures for controlling the organisation
- Use of special teams, for innovation, cost reduction and more effective operations management

¹⁶ Ambrosini V etal, Exploring Techniques of Analysis and Evaluation in Strategic Management, Prentice-Hall, 1998.

¹⁷ Flynn D., Understanding Finance and Accounting, Butterworths, 1997.

- Level of skills and capabilities required.
- Morale and rewards
- Employee and industrial relations
- Selection, training and development
- Staffing levels
- Capital investment/ employee investment
- Role of quality and personal service in delivering the products or services of the organisation
- Role of professional advice in delivering the product or service

Role and Contribution of Human Resources to Strategy:

- Relationship of HR to general strategy of the organisation
- Key characteristics of HR strategy in the organisation
- Responsiveness of the HR to changes in the business strategy and the environment
- The role of HR in leading change in the organisation
- The monitoring and review of the HR of the organisation.
- Time frame for the operation of the Human resource strategy.

2.2.3. PURPOSE OF THE ORGANISATION:

Provides an understanding of what the organisation stands for that is the beliefs and values of the organisation, what the main focus of business is and its value to its stakeholders and the general environment that surrounds the organisation¹⁸.

2.2.3.1. VISION:

When developing a strategy and purpose for the future it is necessary to develop a vision of the **future** within which the organisation will operate. The main reason behind this is to ensure that every opportunity is explored.

There are five criteria that may assist in developing vision:

- Foresight: What imagination and real vision is shown? Over what time frame?
- Breadth: How broad is the vision of the changes likely to take place in the industry? And what of the forces that leads to the changes?
- Uniqueness: Is there an element of uniqueness about the future? Will it cause our competitors to be surprised?
- Consensus: Is there some consensus within the organisation about the future? If not there may be too many different visions being pursued simultaneously.
- Actionability: Have the implications for current activity been considered?

Vision is greatly intertwined with core competencies and market opportunities of the organisation.

2.2.3.2. MISSION:

The mission of an organisation outlines the broad directions that the organisation should and will follow and briefly summarises the reasoning and values that govern the organisation.

Formulation of mission statements are governed by six elements:

- The *nature* of the organisation's business.
- The responses need to be considered from the *customer perspective*, rather than the perspective of the organisation itself.
- Must reflect the basic *values and beliefs* of the organisation.
- Where possible the mission must refer to *sustainable competitive advantages*.
- Must summarise the *main reasons* for its choice of approach

The mission needs to summarise the organisation's purposes and be communicated easily. As a result it should be written in language that is worded carefully and easily understood.

2.2.3.3. OBJECTIVES:

The objectives are a more specific commitment consistent with the mission, over a specified period of time. Thus the objectives turn the generalities of the mission statement into *what* is to be done and *when* it is to be completed. Objectives may be quantified.

Therefore the purpose of objectives is:

- To focus the management task on a specific outcome.
- To provide a means of assessing whether the outcome has been achieved after the event.

There are two main types of objectives:

- Financial: e.g. return on shareholders funds or cash flow.
- Strategic objectives: e.g. increase in market share, greater customer satisfaction etc.

¹⁸ Mazzaucato M., Strategy for Business, Sage Publications, 2002.

2.2.4. COMPANY'S COMPETENCIES:

A Company competence is nearly always the result of experience, representing an accumulated learning experience over time and the build up over time of real proficiency. Competencies have to consciously built and developed and they provide a meaningful competitive capability¹⁹.

However, it is useful to note that not all companies have competitive capabilities that re equal – some merely enable survival because they are common to most all rivals while others hold potential for changing the basis for competition because they are unique, proprietary, and deliver considerable customer value. A Company that is successful is usually a collection of capabilities.

A competitively important internal activity that a company performs better than other competitively important internal activities is known as a core competence. If the core competence is a competitively superior resource in comparison to the offerings of rival organisation, then the competence is termed a distinctive competence. The importance of a distinctive competence to strategy making rests with

1. The competitively valuable capability it provides for a company.
2. Its potential for being a cornerstone of strategy
3. The competitive edge it can produce in the marketplace.

A distinctive competence is thus potentially the mainspring of a company's success – unless more powerful resources of rivals undermine it. Differences in company resources account for why some companies are more profitable and more competitively successful than others are. For a company resource to be regarded as a core competence it must be difficult to imitate, sustainable, competitively superior and must be difficult to be undermined by the offerings of rivals.

The vast majority of companies are not well endowed with competitively valuable resources, much less with competitively superior resources capable of passing the above

¹⁹ Lynch R., Corporate Strategy, Pitman Publishing, 1997.

mentioned for cardinal rules of core competence. Most businesses have a mixed bag of resources – one or two quite valuable, some good, many satisfactory to mediocre. Only a few companies, usually the strongest industry leaders or rising challengers, possess a competitively superior resource. Furthermore, nearly all companies have competitive capabilities, whether they are labelled internal weaknesses, a lack of assets, missing expertise, or resource deficiencies.

A Company’s strategy should be tailored to fit its resources, taking both strengths and weaknesses of the company into consideration. The core competence matrix developed by Hamel and Prahalad aids in explaining the opportunities that core competencies provide in the market place. Figure 2.4 illustrates this below.

Figure 2.3. Core competencies matrix²⁰.

MARKET	
Existing	New
<p>Premier Plus 10 What core competencies will we need to build to protect and extend our franchise in current markets?</p>	<p>Mega-opportunities What new competencies would we need to build to participate in the most exciting markets of the future?</p>
<p>Fill in the Blanks What is the opportunity to improve our position in existing markets by better leveraging our existing core competencies?</p>	<p>White spaces What new products or services could we create by creatively re-deploying or recombining our current core competencies?</p>

- Fill in the blanks: This area relates to existing market areas and core skills.
- Premier plus 10: refers to the organisation’s vision in ten years time and the new core competencies that will be required at that time.
- White spaces: Relates to new market area that could be supplied by the existing core competencies of the organisation.
- Mega–opportunities: are self-evident but need to be developed out of the existing resources of the company.

²⁰ Lynch R., Corporate Strategy, Pitman Publishing, 1997.

2.3. PART B: STRATEGY DEVELOPMENT:

The first stage in strategy development is to establish the various strategic options available to any organisation²¹. Thereafter a rational selection utilising specific criteria is conducted. Firstly the suitability criterion is applied which helps to eliminate strategic options. Thereafter the acceptability and feasibility evaluation of the remaining option/s is conducted.

2.3.1. STRATEGIC OPTIONS:

Grand strategies, often called master or business strategies, provide the basic direction for strategic actions. They are the basis of co-ordinated and sustained efforts directed toward achieving long-term business objectives.

The 15 principle grand strategies are: concentrated growth, market development, product development, innovation, horizontal integration, vertical integration, concentric diversification, conglomerate diversification, turnaround, divestiture, liquidation, bankruptcy, joint ventures, strategic alliances, and consortia. Any one of these strategies could serve as the basis for achieving the major long-term objectives of a single firm. But a firm involved with multiple industries, businesses, product lines, or customer groups- as many firms are- usually combines several grand strategies. The various strategic options are discussed below.

2.3.1.1 CONCENTRATED GROWTH:

Concentrated growth is the strategy of the firm that directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology. The main rationale for this approach, sometimes called a market penetration or concentration strategy, is that the firm thoroughly develops and exploits its expertise in a delimited competitive arena.

²¹ Pearce & Robinson, Strategic Management: Formulation, Implementation and Control, McGraw-Hill, 7th International Edition, 2000.

Rationale for superior performance:

Concentrated growth strategy lead to enhanced performance. The ability to assess market needs, knowledge of buyer behaviour, customer price sensitivity, and effectiveness of promotion are characteristics of a concentrated growth strategy. The high success rates on new products also are tied to avoiding situations that require undeveloped skills, such as serving new customers and markets, acquiring new technology, building new channels, developing new promotional abilities, and facing new competition.

A major misconception about the concentrated growth strategy is that the firm practising it will settle for little or no growth. This certainly not true for a firm that correctly utilises the strategy. A firm employing concentrated growth grows by building on its competencies, and it achieves a competitive edge by concentrating in the product-market segment it knows best. A firm employing this strategy is aiming for the growth that results from increased productivity, better coverage of its actual product-market segment, and more efficient use of its technology.

Conditions that favour concentrated growth:

- Specific conditions in the firm's environment are favourable to the concentrated growth strategy. The first is a condition in which the firm's industry is resistant to major technological advancements. This is usually the case in the late growth and maturity stages of the product life cycle and in product markets where product demand is stable and industry barriers, such as capitalisation, are high.
- An especially favourable condition is one in which the firm's targeted markets are not products saturated. Markets with competitive gaps leave the firm with alternatives for growth, other than taking market share away from competitors.
- A third condition that favours concentrated growth exists when the firm's product markets are sufficiently distinctive to dissuade competitors in adjacent product markets from trying to invade the firm's segment.
- A fourth favourable condition exists when the firm's inputs are stable in price and quantity and are available in the amounts and at the times needed.

The pursuit of concentrated growth is favoured by a stable market- a market without seasonal or cyclical swings that would encourage a firm to diversify. A firm also can grow while concentrating, if it enjoys competitive advantages based on production or distribution channels. These advantages enable the firm to formulate advantageous pricing policies. More efficient production methods and better handling or distribution also enable the firm to achieve greater economies of scale or, in conjunction with marketing, result in a product that is differentiated in the mind of the consumer.

Risks and Rewards of Concentrated Growth:

Under stable conditions, concentrated growth poses lower risks than any other grand strategy; but, in a changing environment, a firm committed to concentrated growth faces high risks. The greatest risk is that concentrating in a single product market makes a firm particularly vulnerable to changes in that segment. Slowed growth in the segment will jeopardise the firm because its environment, competitive edge, and technology are deeply entrenched in a specific offering. It is difficult for the firm to attempt sudden changes if near-term obsolescence, a faltering market, new substitutes, or changes in technology or customer needs, threaten its product.

The concentrating firm's entrenchment in a specific industry makes it particularly susceptible to changes in the economic environment of that industry. Entrenchment in a specific product market tends to make a concentrating firm more adept than competitors at detecting new trends. However, any failure of such a firm to properly forecast major changes in its industry can result in extraordinary losses.

A firm pursuing a concentrated growth strategy is vulnerable to the high opportunity costs that result from remaining in a specific product market and ignoring other options that could employ the firm's resources more profitably. Over commitment to a specific technology and product market may hinder a firm's ability to enter a new or growing product market that offers more cost-benefit trade off. Concentrated Growth is often the most Viable option when the limited additional resources necessary to implement concentrated growth, coupled with limited risk involved, also make this strategy desirable for a firm with limited funds.

The firm that chooses a concentrated growth strategy directs its resources to the profitable growth or a narrowly defined product and market, focusing on a dominant technology. Firms that remain within their chosen product market are able to extract the most from their technology and market knowledge and, thus, are able to minimise the risk associated with unrelated diversification. The success of a concentration strategy is founded on the firm's use of superior insights into its technology, product, and customer to obtain a sustainable competitive advantage. Superior performance on these aspects of corporate strategy has been shown to have a substantial positive effect on market success.

A grand strategy of concentrated growth allows for a considerable range of action. Broadly speaking, the firm can attempt to capture a larger market share by increasing the usage rates of present customers, by attracting competitor's customers, or by selling to nonusers.

2.3.1.2. MARKET DEVELOPMENT:

Market development²² commonly ranks second only to concentrated growth as the least costly and least risky of the 14 grand strategies. It consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion. Market development allows firms to practice a form of concentrated growth by identifying new uses for existing products and new demographically, psychographically, or geographically defined markets

2.3.1.3. PRODUCT DEVELOPMENT:

Product development involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. The product development strategy often is adopted either to prolong the life cycle of current products or to take advantage of a favourable reputation or brand

²² Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

name. The idea is to attract satisfied customers to new products as a result of their positive experience with the firm's initial offering.

The product development strategy is based on the penetration of existing markets by incorporating product modifications into existing lines or by developing new products with a clear connection to the existing product line.

2.3.1.4. INNOVATION:

In many industries, it has become increasingly risky not to innovate. Both consumer and industrial markets have come to expect periodic change and improvements in the products offered. As a result, some firms find it profitable to make innovation their grand strategy. They seek to reap the initially high profits associated with customer acceptance of a new or greatly improved product. Then, rather than face stiffening competition as the basis of profitability shifts from innovation to production or marketing competence, they search for other original or novel ideas. The underlying rationale of the grand strategy of innovation is to create a new product life cycle and thereby make similar existing products obsolete. Thus, this strategy differs from the product development strategy of extending an existing product's life cycle²³.

While most growth-orientated firms appreciate the need to be innovative occasionally, a few firms use it as their fundamental way of relating to their markets. Few innovative ideas prove profitable because the research, development, and pre-marketing costs of converting a promising idea into a profitable product are extremely high.

2.3.1.5. HORIZONTAL INTEGRATION:

When a firm's long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain, its grand strategy is called horizontal integration. Such acquisitions eliminate competitors and provide the acquiring firm with access to new markets

²³ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

2.3.1.6. VERTICAL INTEGRATION:

When a firm's strategy is to acquire firms that supply it with inputs (such as raw materials) or are customers for its inputs (such as warehouses for finished products), vertical integration is involved.

The principle attractions of a horizontal integration strategy are readily apparent. The acquiring firm is able to greatly expand its operations, thereby achieving greater market share, improving economies of scale, and increasing the efficiency of capital use. In addition, these benefits are achieved with only moderately increase risk, since the success of the expansion is principally dependent on proven abilities²⁴.

The reasons for choosing a vertical integration strategy are more varied and sometimes less obvious. The main reason for backward integration is the desire to increase the dependability of the supply or quality of the raw materials uses as production inputs. That desire is particularly great when the number of suppliers is small and the number of competitors is large. In this situation, the vertically integrating firm can better control its costs and, thereby, improve the profit margin of the expanded production-market system. Forward integration is a preferred grand strategy if great advantages accrue to stable production. A firm can increase the predictability of demand for its output through forward integration; that is, through ownership of the next stage of its production-marketing chain.

Some increased risks are associated with both types of integration. For horizontally integrated firms, the risks stem from increased commitment to one type of business. For vertically integrated firms, the risks result from the firm's expansion into areas requiring strategic managers to broaden the base of their competencies and to assume additional responsibilities.

²⁴ Pearce & Robinson, Strategic Management. 7th Edition, McGraw-Hill, 2000.

2.3.1.7. CONCENTRIC DIVERSIFICATION:

Grand strategies involving diversification represent distinctive departures from a firm's existing base of operations, typically the acquisition or internal generation (spin-off) of a separate business with synergistic possibilities counterbalancing the strengths and weaknesses of two good businesses. Diversification are occasionally taken as unrelated investments because of the high profit potential and their otherwise minimal resource demands²⁵. The motivations of the acquiring firms are listed below:

- Increase the firm's stock value. In the past, mergers often led to increases in the stock price or the price-earnings ratio.
- Increase the growth rate of the firm.
- Make an investment that represents better use of funds rather than using them for internal growth.
- Improve the stability of earnings and sales by acquiring firms whose earnings and sales complement the firm's peaks and valleys.
- Balance or fill out the product line.
- Diversify the product line when the life cycle of current products has peaked.
- Acquire a needed resource quickly (e.g. high quality technology or highly innovative management).
- Achieve tax savings by purchasing a firm whose tax losses will offset current or future earnings.
- Increase efficiency and profitability, especially if there is synergy between the acquiring firm and the acquired firm.

Concentric diversification involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets, or products. With this grand strategy, the selected new businesses possess a high degree of compatibility with firm's current businesses. The ideal concentric diversification occurs when the combined company profits increase the strengths and opportunities and decrease the weaknesses and exposure to risk. Thus, the acquiring firm searches for new businesses whose products,

markets, distribution channels, technologies, and resource requirements are similar to but not identical to its own, whose acquisition results in synergies but not complete interdependence.

2.3.1.8. CONGLOMERATE DIVERSIFICATION:

Occasionally a firm, particularly a very large one, plans to acquire a business because it represents the most promising investment opportunity available. This grand strategy is commonly known as conglomerate diversification. The principle concern and often the sole concern of the acquiring firm, is the profit pattern of the venture. Unlike concentric diversification, conglomerate diversification gives little concern to creating product-market synergy with existing businesses. Companies that indulge in conglomerate diversification are seeking to obtain financial synergy and they may seek a balance in their portfolios between current businesses with cyclical sales and acquiring businesses with counter cyclical sales, between high-cash/low opportunity and low-cash/high opportunity businesses, or between debt-free and highly leveraged businesses.

The principle difference between the two types of diversification is that concentric diversification emphasises some commonality in markets, products, or technology whereas conglomerate diversification is based principally on profit considerations. Several of the grand strategies discussed above, including concentric diversification and conglomerate diversification and both types of integration, often involve the purchase or acquisition of one firm by another. It is vital to note that the majority of such acquisitions fail to produce the desired results for the companies involved.

²⁵ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

2.3.1.9. TURNAROUND:

For any one of a large number of reasons, a firm may experience declining profits. Among these reasons are economic recessions, production inefficiencies, and innovative breakthroughs by competitors. In such cases, strategic managers believe that such a firm can survive and eventually recover if a concerted effort is made over a period of a few years to fortify its distinctive competencies. This grand strategy is known as turnaround. It typically is begun through one or two forms of entrenchment, employed singly or in combination:

1. Cost reduction: Examples include decreasing the work force through employee attrition, leasing rather than purchasing equipment, extending the life of machinery, eliminating elaborate promotional activities, laying off employees, dropping items from a promotional line, and discontinuing low-margin customers.
2. Asset reduction: Examples include the sale of land, buildings, and equipment not essential to the basic activity of the firm and the elimination of "perks" such as the company aeroplane and executive cars.

Strategic management research provides sufficient evidence that firms that have adopted the turnaround strategy have successfully confronted decline.

A turnaround situation represents absolute and relative-to-industry declining performance of a sufficient magnitude to warrant explicit turnaround actions. Turnaround situations may arise from years of gradual slowdown or months of sharp decline. In either case, the recovery phase of the turnaround process is more successful when it is preceded by planned retrenchment, which results in the achievement of near-term financial stabilisation. For a declining firm, stabilising operations and restoring profitability almost always entails strict cost reduction followed by a shrinking back to those segments of the business that have the best prospects of attractive profit margins.

The immediacy of the resulting threat to company survival posed by the turnaround situation is known as situation severity. Severity is the governing factor in estimating the speed with which the retrenchment response will be formulated and activated. When severity is low, a firm has some financial cushion. Stability may be achieved through cost

retrenchment alone. When turnaround situation severity is high, a firm must immediately stabilise the decline or bankruptcy is imminent. Cost reductions must be supplemented with more drastic asset reduction measures. Assets targeted for divestiture are those determined to be under-productive. In contrast, more productive resources are protected from those cuts and represent critical elements of the future core business plan of the company i.e. the intended recovery response.

Turnaround responses among successful firms typically include two stages of strategic activities: retrenchment and recovery response. Retrenchment consists of cost-cutting and asset-reducing activities. The primary objective of the retrenchment response is to stabilise the firm's financial situation. Situation severity has been associated with retrenchment responses among successful turnaround firms. Firms in danger of bankruptcy or failure attempt to halt decline through cost and asset reductions. Firms in less severe situations have achieved stability through cost retrenchment. However, in either case, for firms facing declining financial performance, the key to successful turnaround rests in the effective and efficient management of the retrenchment process.

The primary cause of the turnaround situation have been associated with the second phase of the turnaround process i.e. the recovery response. For firms that declined primarily as a result of external problems, turnaround most often has been achieved through creative new entrepreneurial strategies. For firms that declined primarily as a result on internal problems, turnaround has been most frequently achieved through efficiency strategies. Recovery is achieved when economic measures indicate that the firm has regained its pre-downturn levels of performance.

2.3.1.10. DIVESTITURE:

A divestiture strategy involves the sale of a firm or major component of a firm. When retrenchment fails to accomplish the desired turnaround, or when non-integrated business activity achieves an unusually high market value, strategic managers often decide to sell the firm. However, because the intent is to find a buyer willing to pay a premium above the value of a going concern's fixed assets, the term marketing of sale is often more appropriate. Prospective buyers must be convinced that, because of their skills and

resources or because of the firm's synergy with their existing businesses, they will be able to profit from the acquisition²⁶.

The reasons for divestiture vary.

- They often arise because of partial mismatches between the acquired firm and the Parent Corporation. Some of the mismatched parts cannot be integrated into the Corporations mainstream activities and thus must be spun off.
- A second reason is corporate financial needs. Sometimes cash flow or financial stability of the corporation as a whole can be greatly improved if businesses with high market value can be sacrificed. The result can be a balancing of equity with long-term risks or of long-term debt payments to optimise the cost of capital.
- A third, less frequent reason for divestiture is government antitrust action when a firm is believed to monopolise or unfairly dominate a particular market.

2.3.1.11. LIQUIDATION:

When liquidation is the grand strategy, the firm is typically sold in parts, only occasionally as a whole- but for its tangible asset value and not as a going concern. In selecting liquidation, the owners and strategic managers of a firm are admitting failure and recognise that this action is likely to result in great hardships to themselves and their employees. For these reasons, liquidation is usually seen as the least attractive of the grand strategies. As a long-term strategy, however it minimises the losses of all the firm's stockholders. Faced with bankruptcy, the liquidating firm usually tries to develop a planned and orderly system that will result in the greatest possible return and cash conversion s the firm slowly relinquishes its market share²⁷.

²⁶ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

²⁷ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

2.3.1.12. BANKRUPTCY:

There are essentially two types of bankruptcy- liquidation and reorganisation bankruptcy. Liquidation bankruptcy refers to the situation when the company filing for bankruptcy agree to complete distribution of their assets to creditors, most of whom receive a small fraction of the amount they are owed. Liquidation is what the lay person views as bankruptcy: The business cannot pay its debts, so it must close its doors. Investors lose their money, employees lose their jobs, and managers lose their credibility. In owner-managed firms personal and company bankruptcy go hand in hand.

Reorganisation bankruptcy is when the firm attempts to persuade its creditors to temporarily freeze their claims while it undertakes to reorganise and rebuild the company's operations more profitably. The appeal of a reorganisation bankruptcy is based on the company's ability to convince creditors, that it can succeed in the marketplace by implementing a new strategic plan, and that when the plan produces profits, the firm will be able to repay its creditors, perhaps in full. The company thus offers its creditors a carefully designed alternative to forcing and immediate, but fractional repayment of its financial obligations. The option of reorganisation bankruptcy offers maximum repayment of debt at some specified future time if a new strategic plan is successful²⁸.

2.3.1.13. JOINT VENTURES:

Occasionally two or more firms lack the necessary components for success in a particular competitive environment. Joint ventures provide an alternative that allows commercial companies (children) to be formulated and operated by the co-owners (parents). These co-operative arrangements provide both the necessary financial, operational, marketing and management skills necessary to reap substantial profits²⁹.

²⁸ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

²⁹ Lynch R., Corporate Strategy, Pitman Publishing, 1997.

2.3.1.14. STRATEGIC ALLIANCES:

Strategic alliances are distinguished from joint ventures because the companies involved do not take an equity position in one another. In many instances, strategic alliances are partnerships that exist for a defined period during which partners contribute their skills and expertise to a co-operative project³⁰. For example, one partner provides manufacturing capabilities and the second partner provides marketing expertise. Often, such alliances are undertaken because the partners want to learn from each other with the intention to be able to develop in-house capabilities to supplant the partner when the contractual agreement between them expires.

IN other instances, strategic alliances are synonymous with licensing agreements. Licensing involves the transfer of some industrial property right, patent, technological know-how, or trademark to a motivated licensor in another country. The licensee receives a formula for success and the licensor receives royalty payments and is able to avoid import tariffs and quotas for a specified period of time.

Another licensing strategy is contract manufacturing where a local company may contract its manufacturing or production line technology and skills to a foreign Company to exploit local comparative advantages in technology, labour, and access to raw materials.

Service and franchise-based firms have long engaged in licensing agreements with foreign distributors as a way to enter a new market with standardised products that can benefit from marketing economies.

Outsourcing is a rudimentary approach to strategic alliances that enables the firm to gain competitive advantage. Significant changes with many segments of business continue to encourage outsourcing of non-core activities. Outsourcing has a number of strategic implications:

³⁰ Lynch R., Corporate Strategy, Pitman Publishing, 1997.

- **Improves Business Focus:** For many companies, the single most compelling reason for outsourcing is that several “how” issues are siphoning off large amounts of management’ resources and attention.
- **Access to World-class Capabilities:** By the very nature of their specialisation, outsourcing providers bring extensive world-wide, world-class resources to meeting the needs of their customers. This will expand current skills and opportunities that take the organisation up a higher level³¹.
- **Accelerated Re-engineering Benefits:** Outsourcing is often a by-product of Business Process Re-engineering. It allows an organisation to immediately realise the anticipated benefits of re-engineering by having and outside organisation-one that is up to world-class standards- take-over the process.
- **Shared Risks:** There are tremendous risks associated with the investments and organisation makes. When companies outsource they become more flexible, more dynamic, and better able to adapt to changing opportunities.
- **Free Resources for Other Purposes:** Every organisation has limits on the resources available to it. Outsourcing permits and organisation to re-direct its resources from non-core activities towards activities that have greater return in serving the customer.

2.3.1.15. CONSORTIA, KEIRETSUS, AND CHAEBOLS:

Consortia are defined as large interlocking relationships between businesses of an industry. In Japan they are known as keiretsus and in South Korea they are known as Chaebols³².

³¹ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

³² Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

2.3.2. EVALUATION OF STRATEGIC OPTIONS:

Evaluation is necessary to eliminate inapplicable strategic options but more importantly to highlight strategic options that will propel the organisation forward.

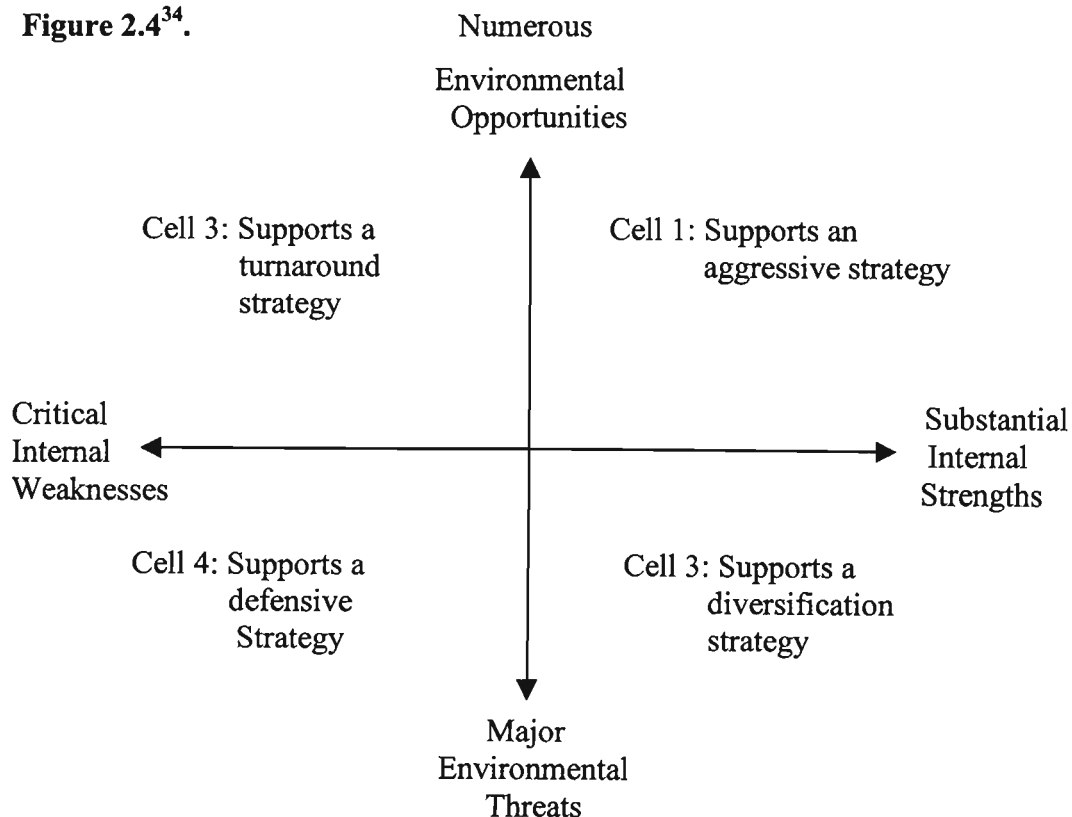
2.3.2.1. INITIAL EVALUATION:

In assessing strategic options that are appropriate to an organisation, three types of evaluation criteria are utilised. They are defined as:

Prior to the specific evaluation criteria being utilised to develop an appropriate strategy, certain strategic options may be eliminated³³.

Utilising the strengths, opportunities, weaknesses and threats, a model is constructed and is illustrated below. Both models aid in narrowing down the strategic option available to an organisation.

Figure 2.4³⁴.

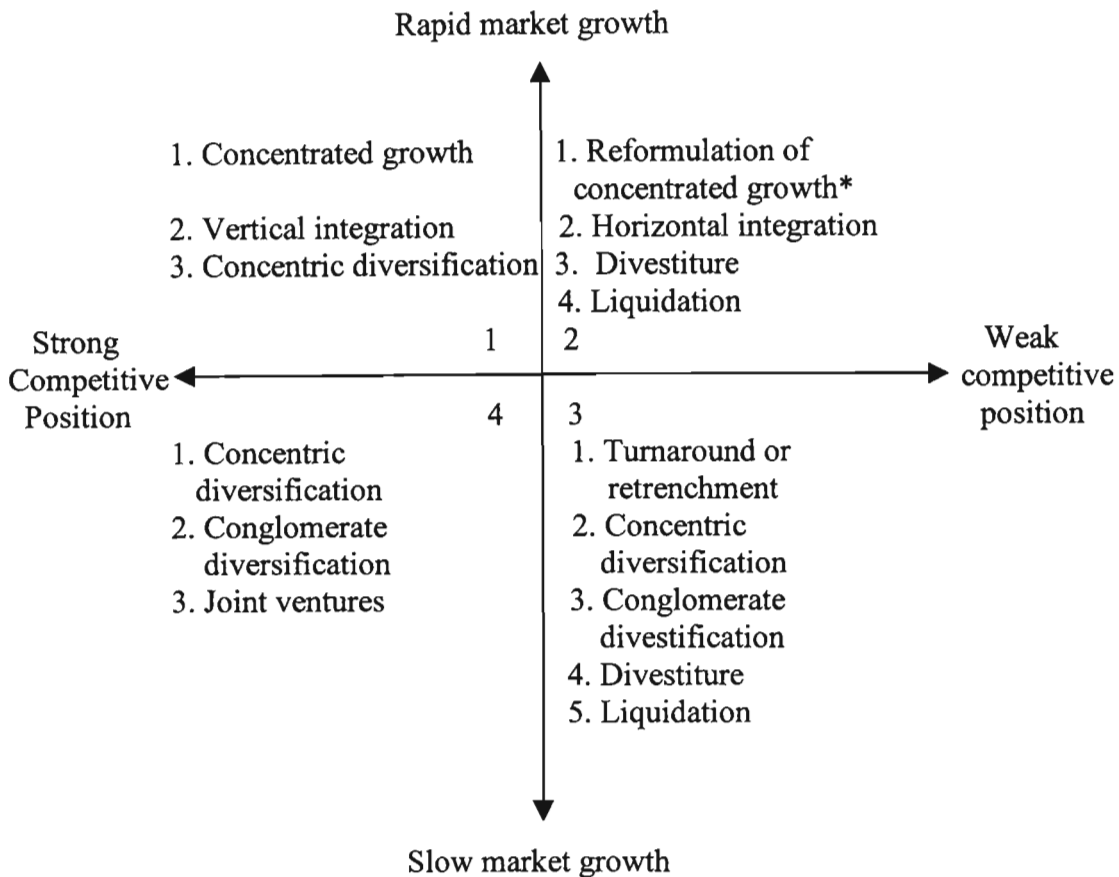


³³ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

³⁴ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

A model of grand strategy clusters developed from the various positioning and market growth rates also helps narrow down the strategic options.

Figure 2.5.³⁵



2.3.2.2. SPECIFIC EVALUATION CRITERIA:

- **Suitability:** represents the broad assessment of whether a strategy addresses the circumstances in which an organisation is operating or wishes to operate in. Suitability represents a qualitative assessment concerned with testing out the rationale of a strategy and can be useful for screening options.
- **Acceptability:** concerned with expected performance outcomes if the strategy were to be implemented and the extent to which these performance outcomes meet

³⁵ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

stakeholder expectations. Performance outcomes are defined as risk or return on the implemented strategy.

- **Feasibility:** concerned with whether the strategy could be made to work in practice. The focus is on more detailed (qualitative) assessment of the practicalities of resourcing and strategic ability.

2.3.2.2.1. ASSESSING SUITABILITY:

Assessing suitability³⁶ is useful to screen options prior to more detailed analyses concerning acceptability and feasibility of the options. Suitability addresses the circumstances in which the organisation is operating in or wishes to operate in. This is a two-stage process:

- Firstly, establishing the rationale/strategic logic for each strategic option in its own right.
- Secondly, establishing the relative merits of an option when a number of choices are available through processes for a screening option for further evaluation.

Thus the strategic analysis completed in Part A is the basis for the suitability analysis as it enables the organisation to identify gaps between the current strategy (internal and external environment, resources and parts of the organisation that could have greater value added).

a) LIFE CYCLE ANALYSIS:

This analysis assesses whether a strategy is likely to be appropriate given the stage of the product life cycle. Some analyses combine this with the relative strength or weakness of the organisation in its market to produce a life cycle/portfolio matrix. The life cycle/portfolio matrix consists of two dimensions. The market situation is described in four stages ranging from embryonic to ageing; the competitive position in five categories ranging from weak to dominant.

³⁶ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

The purpose of the matrix is to establish the appropriateness of particular strategies in relation to these two dimensions. The crux of the issue is establishing where an organisation is currently positioned on the matrix, and therefore what types of strategy are most likely to be suitable³⁷:

- The position within the life cycle can be determined in relation to eight external factors or descriptors of the evolutionary stage of the industry. These descriptors are market growth rate, growth potential, breadth of product lines, number of competitors, spread of market share between these competitors, customer loyalty, entry barriers and technology. It is the balance of these factors, which determines the life cycle stage.
- The competitive position of the organisation within its industry can also be established by looking at the characteristics of each category. A dominant position is usually rare especially in the private sector. Strong organisations are those organisations that follow strategies of their own choice regardless of the competition. A favourable position is where no single competitor stands out, but the leaders are better placed. A tenable position is that which can be maintained by specialisation or focus. A weak competitor is too small to survive independently in the long run.

b) POSITIONING:

Positioning is the key test of suitability. The choice of generic product and market strategies forms the basis or framework within which the more detailed directions and methods of development are constructed. Assessing whether current and future positioning is viable can be done by asking whether demand is likely to grow or decline. For example in mature markets, the size of the core market is often reduced by the development of a number of smaller viable “niches”; the degree of competitive rivalry, which exists; and the relative competence of the organisation in facing these competitive rivals with a particular product or market positioning. For example the extent to which an

³⁷ Ambrosini V., *Exploring Techniques of Analysis & Evaluation in Strategic Management*, Prentice-Hall, 1998.

organisation's unit costs are better than those of competitive rivals will determine the long-term viability of a low-price positioning strategy.

The uniqueness of the competence's which underpin the value-added features of a product or service will determine the suitability of a positioning differentiation. The extent to which an organisation is capable of supporting a particular positioning in its markets can be assessed as follows³⁸:

1. The first step in assessing the suitability of a particular strategy is to list key resources and competence's underpinning the strategy.
2. Second, these are examined in terms of the different bases of the product or market strategy.
3. Finally, each of these resources and competence's is revisited to establish whether it is sustainable or difficult to imitate; in other words is it a genuinely unique resource or core competence and hence provides competitive advantage to the organisation. Analysis may reveal that very few competencies are difficult to imitate individually. Rather it is likely to be the ability to manage linkages between separate activities and the tacit knowledge of the organisation that provides competitive advantage.
4. Assessing the relationship between the generic product/market strategy and the strategic capability of the organisation will be useful in a more detailed assessment of the feasibility of one or more strategies. This is known as the resource deployment analysis.

c) VALUE CHAIN ANALYSIS:

Assesses the organisations value chain for areas that could potentially add value³⁹. Does the strategic option selected improve the differentiation of services or provide value for money? Does it exploit core competencies?

³⁸ Ambrosini V., Exploring techniques of Analysis & Evaluation in Strategic Management, Prentice-Hall, 1998.

³⁹ Ambrosini V., Exploring techniques of Analysis & Evaluation in Strategic Management, Prentice-Hall, 1998.

d) PORTFOLIO ANALYSIS:

The focus of this test of suitability is to determine what strategy is going to improve the various components of the portfolio of the organisation i.e. which strategies are likely to ensure a move from question marks to stars⁴⁰.

2.3.2.2.2. ASSESSING ACCEPTABILITY:

Acceptability addresses the expected performance outcomes such as risk or return, if a strategy is implemented and its implications to stakeholders. Acceptability of strategies can be assessed in three broad ways: returns, risk and stakeholder reactions.

a) RETURN:

There are different approaches to assessing return⁴¹:

Profitability Analysis:

- **Return on Capital Employed (ROCE):** forecasting the ROCE a specific time after a new strategy is implemented.
- **Payback period:** has been used where a significant capital injection is needed to support a new venture. The payback period is calculated by finding the time at which the cumulative net cash flow becomes zero. The judgement is then whether this is regarded as an adequate outcome and if the organisation is prepared to wait that long for a return. This varies from industry to industry.
- **Discounted Cash Flow (DCF):** analysis is the most widely used investment appraisal technique, and is an essential extension of payback period analysis. Once the net cash flows for each of the years have been assessed, they are discounted progressively to reflect the fact that funds generated are of more real value than those are in later periods. The net present value (NPV) of the venture is then calculated by adding all the discounted annual cash flows (after taxation) over the anticipated life of the project. DCF analysis⁴² is useful for comparing the financial merits of strategies which have very different patterns of expenditure and return

⁴⁰ Ambrosini V., *Exploring Techniques of Analysis & Evaluation*, Prentice-Hall, 1998.

⁴¹ Pearce & Robinson, *Strategic Management*, 7th Edition, McGraw-Hill, 2000.

⁴² Flynn D., *Understanding Finance & Accounting*, Butterworths, 1997.

Cost-Benefit Analysis:

An analysis of only profit is too restrictive, particularly with regards to intangible benefits. This analysis attempts to put a money value on all the costs and benefits of a strategic option, including intangible and tangible returns of people and organisations other than the one “sponsoring” the project and strategy⁴³.

Shareholder Value Analysis:

Attempts to identify the ways in which corporate development strategies generate shareholder value. Shareholder Value Analysis (SVA)⁴⁴:

- Emphasises that Discounted Cash Flow analysis should concentrate on evaluating strategies at the strategic business unit level and not just separate investment projects. Because of complex interdependencies, it may not be sensible to evaluate a project separately using incremental cash flow analysis.
- An understanding of the value creation process and the competitive advantage, which the organisation derives from this process, must drive the financial analysis. It is critical to identify the key cash generators of the business, which are called value drivers. One external driver is competitive rivalry, which has a direct impact on margins. Ultimately the net present value of a strategy or strategic decision is dependent on a relatively small number of these factors.
- Value management involves a mastery of a complex system of value drivers with many interdependencies.
- Increasing customer value does not necessarily mean that value is added. Increased quality of service may simply protect existing cash flows streams and avoid loss in value to the company. However, superior value to the customer may result in higher margins or capturing market share.

⁴³ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

b) RISK:

Risk is another measure of acceptability and can be high for organisations pursuing a long-term strategy of innovation or where high levels of uncertainty exists about key issues in the environment.

Financial Ratio Projections:

The projection of how key financial ratios would change if a specific option were adopted can provide useful information into risk⁴⁵.

- **Capital structure:** an assessment of how the capital structure of the company would change is a good general measure of risk. The level of financial risk created by funding a proposed strategy from long-term loans can be tested out by examining the likelihood of the company reaching the break-even point, and the consequences of falling short of that volume of business while interest on loans continues to be paid.
- **Liquidity** is another important way of assessing financial risk.

Sensitivity Analysis:

It is a useful technique for incorporating the assessment of risk during strategy evaluation. The technique allows each of the important assumptions underlying a particular strategy to be questioned and changed. In particular, it seeks to test how sensitive the predicted performance or outcome is to each of these assumptions⁴⁶.

Simulation Modelling:

Simulation modelling attempts to encompass all the factors considered by the separate analyses discussed above into a single simulation model of the company and its environment. In general, the use of modelling in strategy evaluation is limited to well-structured problems. Particular care needs to be exercised for the following reasons⁴⁷:

- There is a danger that the model will become a gross oversimplification of reality, and fail to encompass the most important uncertainties and risks.

⁴⁴ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

⁴⁵ Flynn D., Understanding Finance & Accounting, Butterworths, 1997.

⁴⁶ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

⁴⁷ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

- Attempts to incorporate a very large number of variables make the model highly complex, and all the critical interrelationships need to be included, which is in practice very difficult, if not impossible.
- Some key data, such as competitor reactions, are difficult to assess or incorporate into the model. The overriding danger with models of all types is that they can result in less insight for managers or decision makers than much simpler techniques (e.g. sensitivity analysis), as they hide the analysis away in a “black box” which managers do not feel they can open. The model-builders create a level of detail, which starts to conceal the, important strategic questions and issues.

c) **ANALYSING STAKEHOLDER REACTIONS:**

There are many situations where judgements of stakeholder reactions could be crucial⁴⁸.

For example:

- A new strategy might require a substantial issue on new shares, which could be unacceptable to powerful groups of shareholders, since it dilutes their voting power.
- Plans to merge with other companies or to trade with new countries could be unacceptable to union, government or some customers.
- A strategy of market development might require the cutting out of channels, hence running the risk of a backlash, which could jeopardise the success of the strategy.
- Changes in the competitive strategy in static markets might upset the status quo to such an extent that competitors will be forced to retaliate in a way that is damaging to all parties, but which could undermine the assumptions on which the strategy’s acceptability had been assessed. The most common example of this is a price war.

Stakeholder mapping is a useful technique for encouraging managers to predict both the degree of interest that stakeholders are likely to exhibit for or against a strategy, and whether they have the power to help or hinder the adoption of a strategy.

Game theory is a useful analytical tool for evaluation of competitor’s reactions to particular strategy changes. The technique lies out and quantifies the costs and benefits of

⁴⁸ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

the various combinations of the company moves and competitor reactions. The difficulties of coping with the complexities of the strategic situation have limited the use of game theory to largely qualitative applications. The biggest difficulty lies in the assumption that the strategic competitive behaviour of companies may be predicted and categorised into a small number of clearly defined groups, which is rarely true in practice.

2.3.2.2.3. ASSESSING FEASIBILITY:

Feasibility is concerned with whether an organisation has the resources and competence's to deliver a strategy. Number of analytical approaches can be used to assess feasibility.

a) FUNDS FLOW ANALYSIS:

Funds Flow Analysis seeks to identify the funds that which would be required for any strategy and the likely sources of those funds. It is a forecasting technique and is subject to the difficulties and errors of any method of forecasting. It may be programmed into a spreadsheet. This also assists in the timing of new funding requirements⁴⁹.

b) BREAK-EVEN ANALYSIS:

It is a simple and widely used technique, which is helpful in exploring the key aspects of feasibility. It may be used to assess the feasibility of meeting target return and, as such, combines a parallel assessment of acceptability. It may also provide an assessment of the risk of various strategies, particularly where different strategic options require different cost structures.

c) RESOURCE DEPLOYMENT ANALYSIS:

This type of analysis focuses on making an assessment of the resources and competence's of the organisation in relation to specific strategies. The requirements of alternative future strategies should be laid out indicating the key resources and competence's for each strategy. The "scoring" system can be used to compare the various strategic options against the current resources and competence's of the organisation in order to judge two things:

⁴⁹ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

- first, the extent to which the current resources and competence's would need to change to reach or maintain the threshold requirements for each strategy,
- Second, the unique resources and core competence's required for sustaining competitive advantage.

There is a real danger that resource deployment analysis will simply result in organisations choosing strategies, which most closely fit the configuration of their present resources and competence's. Ambitious stretching of resources and competence's in innovative ways is the hallmark of a robust competitive strategy as will be difficult to imitate⁵⁰.

2.4. PART C: STRATEGY IMPLEMENTATION AND CONTROL:

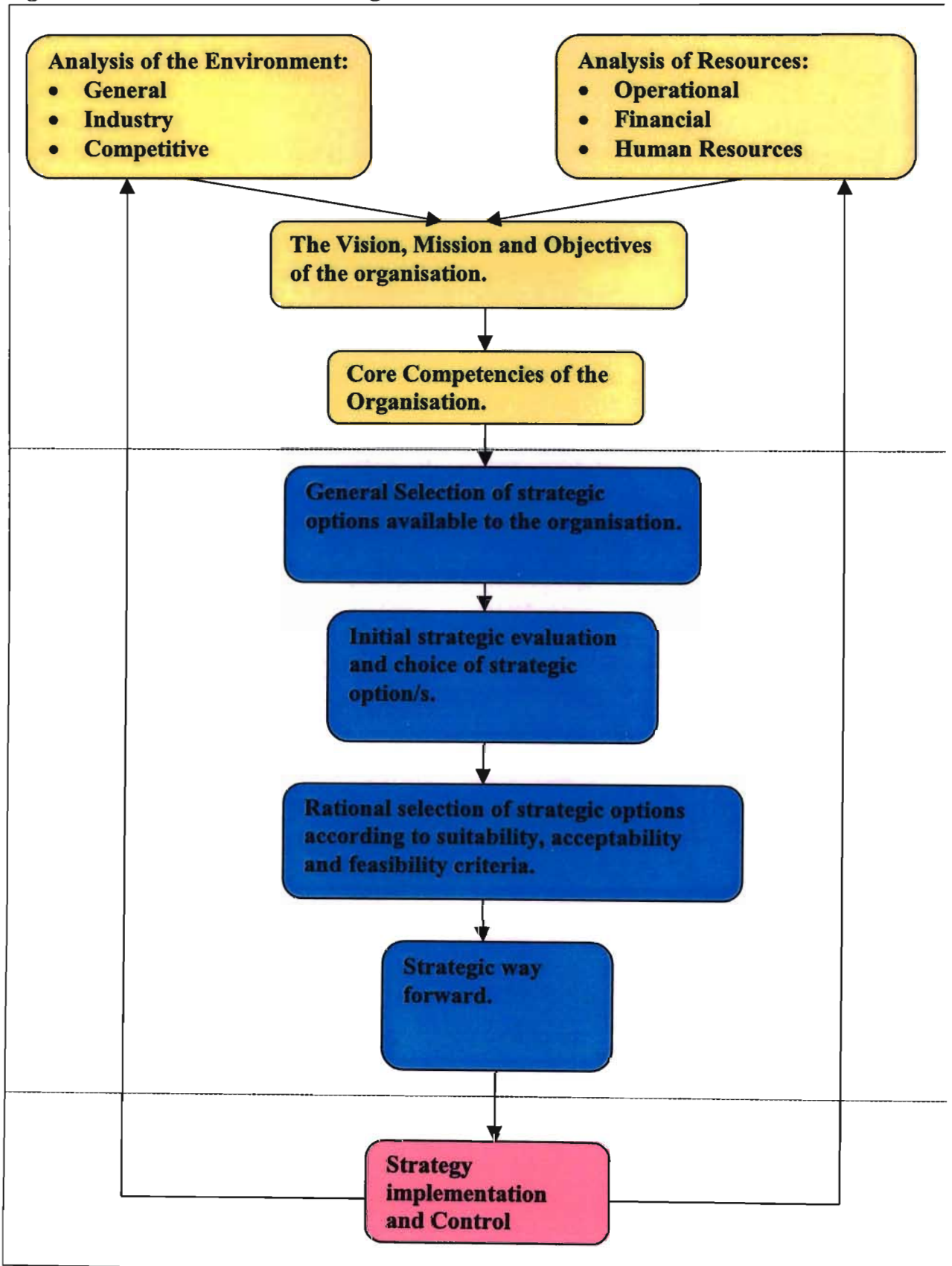
This part of the study addresses the process by which the organisation's chosen strategies is put into operation. It may involve planning new activities such as developing new organisational structures (facilitate effective application of the chosen strategy/s). The organisation may chose to implement the strategy comprehensively, incrementally or selectively depending on what objectives they are trying to achieve and the timeframe in which these objectives are to be achieved.

Finally the entire strategic process will have to be monitored and adapted to the emerging conditions that surround the organisation whilst still trying to maintain a firm focus on the long-term objectives. There must be a continuous feedback mechanism that is able to identify areas of potential weakness and opportunities and this must quickly be incorporated into the organisations long-term plans.

⁵⁰ Pearce & Robinson, Strategic Management, 7th Edition, McGraw-Hill, 2000.

PART D: MODEL OF THE STRATEGIC PROCESS

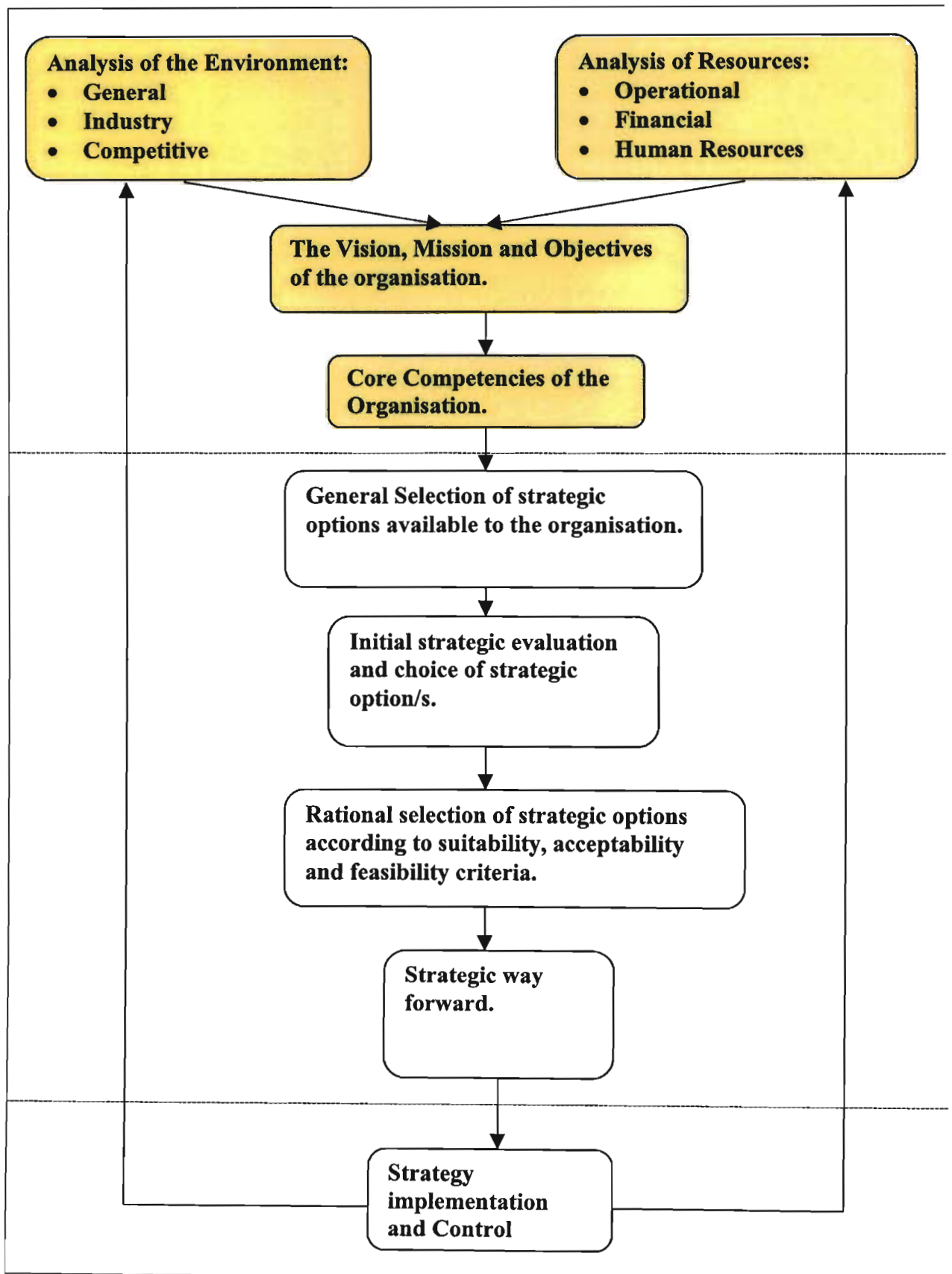
Figure 2.6. Model of General Strategic Process



CHAPTER THREE: **COMPANY CASE STUDY**

The focus of the case study is the Umhlanga Dental Practice (UDP) which is a successful dental practice that requires strategic direction. The Components of the Strategic Model on the next page that have been highlighted are discussed in Chapter Three.

Figure 3.1. Strategic Analysis Component of the General Model.



3.1. INTRODUCTION

The intention of chapter three is to present the case specifically in context to the dental practice. The intention is to utilise the model presented at the end of chapter two to provide a structural framework to resolving key issues that are salient in providing the strategic direction forward for the dental practice.

The case will be addressed in three individual parts that interact to provide a comprehensive proposed solution to the strategic dilemma that is currently being faced. The chapter will resolve to deal with the first part of the strategic process, which is the strategic analysis. The strategic analysis provides a basis on which to determine what the environment, internal resources and vision, mission and objectives of the practice are.

Prior to the strategic analysis, a background to the practice will be provided.

3.2. BACKGROUND OF THE ORGANISATION:

GENERAL:

The South African dental sector is distinctly split into Public and Private sectors with the private sector being highly fragmented and comprising the larger of the two sectors.

The South African Dentists Association (SADA) and various other governing bodies, govern both sectors and all qualifying and qualifies dental personnel have to register with the appropriate governing body.

Besides being highly fragmented comprises entirely of a non-unionised labour force, high employee turnover levels and a high exodus from the industry due to poor job satisfaction and specifically inequitable pay structures. The industry faces further labour problems as there is the penchant for dentists to employ unqualified staff to save on the costs of paying qualified personnel benefits. Benefits are subjective and dependent on the individual employer and there is a lack of formal guidelines on adequately compensating employees. This has contributed to the levels of dissatisfaction amongst employees and frustration amongst employers.

For the purpose of the study dental personnel are defined as dental specialists, general dentists, oral hygienists, dental therapists, dental nurses, dental assistants and dental receptionists. Dental personnel are trained at various tertiary facilities in South Africa, which comprise technikons, universities and private colleges. Most personnel qualify with degrees, diplomas or certificates. The length of the training period varies:

- Dentists requiring 6 years of study and a further 3 years for a specialisation for their doctorates.
- Dental therapists with a three-year degree.
- Oral hygienists with a two-year diploma or three-year degree.
- Dental assistants with a two-year diploma.
- Dental technicians with a three-year diploma and a four-year degree.
- Dental receptionist with a 3-6 month or even yearly certificate.

THE PRACTICE:

Location: The company selected is a private dental practice based in Umhlanga that was established 27 years ago and has been successful due to its pro-active nature on preventive and rehabilitative dental treatment. The practice is conveniently situated in the bustling centre of Umhlanga and is surrounded by 4 paid parking areas that are relatively safe and well maintained. Part of one parking area is designated for the staff members who pay monthly for their parking bays.

Type of Business entity: The business entity is a sole proprietorship and has been for as long as it has been in existence. The property that the practice is situated on is leased from a central leasing agent who acts on behalf of the owner and the agreement has been held for the last 27 years. The agreement has been periodically re-negotiated and clauses have been edited as is to be expected with such a long-standing agreement.

Type of services rendered: The practice is specifically focussed on preventative and rehabilitative dentistry and this has been the focus for as long as it has been in existence. The main functions of the practice are preventive through routine and periodic maintenance appointments, which is largely the domain of the oral hygienist. The second department is the general dentistry department that performs the conservatory dentistry and minor oral surgery i.e. fillings and extractions. The third department is concerned specifically with the rehabilitation of the mouth and includes prosthodontic work such as dentures, crown and bridge dentistry and implantology. The last department is the cosmetic department and includes home and laser bleaching of the teeth. The second and third departments are the domain of the dentist and both the dentist and hygienist manage the fourth department.

Staff: The practice comprises 7 members of staff that have all been employed for between 3-20 years and that have become well established in their functions and can work well as a team and independently. The oral hygienist and the dentist generate the practice's turnover and are regarded as the main staff. The support staff is a bookkeeper,

practice manager, dental assistant, receptionist, cleaning staff and sterilisation assistant. All staff is fully qualified for their respective positions and has some form of education regarding their jobs.

Patients: The practice has a wide variety of patients that fit different demographic characteristics. The practice is family orientated and generally there are three to four generations of the same family that are patients. It is quite common to also see extended members and friends of families as patients. Hence the most substantial marketing tactic for the practice is patient referral.

3.3. PART A: STRATEGIC ANALYSIS:

The Umhlanga Dental Practice will be analysed according to the various analytical approaches detailed in Chapter 2.

3.3.1. EXTERNAL ENVIRONMENT ANALYSIS:

The external environmental analysis is essential to establish the conditions surrounding the practice and in which it operates.

3.3.1.1. GENERAL AND INDUSTRY ENVIRONMENT:

The first stage to an external environmental analysis is to conduct an industry and general environment analysis.

a) PEST ANALYSIS:

A PEST analysis helps to determine the differential impact of external influences on organisations, either historically or in terms of likely future impact.

Political:

- Government is encouraging foreign partnerships, alliances and relationships with other countries as part of a drive to attract foreign business to SA
- Government both national and especially in Kwazulu Natal is encouraging tourism and is looking for ways to partner with the various industries to encourage the inflow of foreign tourists.
- The government has been stable and democratic since 1992 and this bodes well, as it represents both economic and political stability. It also carries favour with countries that boycotted SA during the Apartheid years.
- Government initially had a strained relationship with local labour especially in healthcare when they decided to import Cuban healthcare workers. This was eventually discontinued, as there was a distinct difference in the acceptable standards of healthcare being practised by Cuban and SA healthcare workers.

- Government is currently trying to form a moratorium regarding the exodus en masse, of healthcare workers to other countries offering better benefits and superior working conditions. The real issue of the current working conditions and benefits are not being addressed rather prohibitive measures are being taken that would limit healthcare workers with regards to taxation on their salaries earned overseas and they will not be given jobs in SA once their contracts overseas expire.
- Government is trying to control the exploitation of unskilled staff through stringent control exercised by the various governing bodies in South Africa e.g. South African Dentists Association (SADA). Individual specialisation's in dentistry have their own governing bodies but the rules are standard i.e. only a certified and qualified individual may practice within dentistry. To perform any duties in dentistry without proper qualifications will incur prosecution.
- Labour is generally unionised in certain industries but the healthcare industry and specifically the dental industry is non-unionised. Legislature governs healthcare workers in general and strike action for essential service workers is illegal and conduct is monitored and necessary disciplinary action is adopted for healthcare workers who do not comply with basic code of conduct.

Economic:

- SA has faced a relatively stable currency with the exchange rate lying in favour of foreigners holding major currencies. This has made SA a relatively cost-effective destination for individuals and businesses. Recently the Rand has strengthened against other currencies and this is largely due to the War in Iraq and the general lag in the US and UK stock market. The Rand has appreciated by 33% since January 2003.
- Tourist industry in South Africa and specifically Natal is exceeding forecasted levels of tourists and this has been attributed to the war in Iraq and the outbreak of the Severe Acute Respiratory Syndrome virus which has led to a major decrease in travel to other tourist destinations.

- Inflation levels and consumer price index has been relatively stable until recently where an increase in inflation and consumer goods occurred. Inflation and the general price of goods are expected to decrease shortly. An interest rate cut of 1% has occurred reducing interest rates to 14.5%.
- Gross Domestic Product (GDP) and GNP is increasing per individual.
- Unemployment levels are still approximately 38%, which is high. There is a skill shortage, due to various factors such as an exodus of skilled personnel overseas, through contractual work or via emigration. Insufficient number of individuals being trained in specific sectors (tertiary institutes cannot keep up with local demand) and insufficient funds for individuals from disadvantaged backgrounds to pursue further training and basic education is still regarded as a luxury in SA, also impact on the skills shortage. Part of the problem is poor compensation systems for staff that is qualified.

Socio-cultural:

- There is a drive by government to force all children to have certain basic standards of education and the focus is shifting towards social upliftment project e.g. adequate housing, basic amenities and education.
- People are shifting attitudes and the focus is moving towards entrepreneurship and reducing unemployment levels rather than merely blaming government for all the social problems.
- South Africans are aware that we need to attract the foreign individual and business if we are to establish an entrenched position in the minds of the rest of the world. This is especially true in the healthcare industry were there is a source of global advantage over other countries that is not being exploited.
- There has been the recent consolidation of the many tertiary institutions in single larger organisations. Together with this mass scale consolidation comes the news that the Ministry of Education plans on creating a single Central Applications Office that will be responsible for processing all the applications for Tertiary studies. The implications of both these actions indicate that the Government is introducing more

radical measures to ensure that education is available to previously disadvantaged groups.

Technological:

- Dental technology is changing rapidly that makes the treatment techniques more universal and applicable to patients from any country. SA healthcare has always been regarded as highly innovative and pioneering of certain procedures has occurred in SA.
- Generally technology in SA has improved and is regarded as a priority industry.
- There needs to be greater focus on R&D with regards to healthcare so the SA maintains its cutting- edge and leading position in the healthcare industry.
- There is no formal system of documentation of patents in South Africa. Most technological changes that occur in the dental industry tends to occur overseas, this is as a result of sufficient funding and research in international markets. South Africa has a lag period of approximately two years with regards to procuring new technology or products. The only way to view current technology is to attend the various symposiums around the world and this is not always possible for South African dental personnel.
- There is also a dependency on the various dental companies for almost 95% of all dental requirements (both equipment and materials). Insufficient inventory being held by dental companies has always been a bone of contention for most dental practices. In favour of their argument, dental companies find the cost of maintaining a fixed inventory is difficult as most dental inventory comes from foreign markets that have stronger currencies than South Africa.

b) **DOMINANT ECONOMIC FEATURES OF THE INDUSTRY:**

- *Market size:* the industry is fragmented into two distinct markets', which are Public and Private. The public sector is based in government hospitals and the dental personnel based in them see a small percentage of the population for very basic dentistry (extractions and fillings), and even smaller percentage of the population get more advanced dentistry e.g. Dentures and orthodontics. The public sector includes the services of Dental Training facilities that offer the services of tertiary students as part of their course towards a dental qualification. The private sector makes up the largest proportion of dental service in South Africa.
- *Scope of Rivalry:* Competition is non-existent amongst the public sector participants as they are fully subsidised by the Government and never have to compete to attract or retain patients. They also have a predetermined budget for the year with regards to dental expenditures. The private sector by contrast has is highly competitive and patients have a wide variety of dental practices to choose from. Competition is intense regionally, as patients tend to want to visit practices that suit them both financially as well as with regards to distances travelled. The more upper class practices compete on a National basis as these patients are prepared to travel to see a specific dentist for the type of treatment offered.
- *The industry is highly fragmented into many smaller practices,* however there is the emergence of private dental clinics that offer the services of several different types of dentists and other allied personnel in a single practice. This type of dental practice is still small in number but the influence this type of practice exerts is high.
- The industry is facing *increasing demand* and there will always be a need for dentistry.
- Dental practices have had limited *integration either forward or backward.* Backward integration into the purchase of dental materials and equipment is not really feasible, unless large quantities are purchased. The dental companies have the monopoly on the quantity of materials purchased – they order in large enough quantities to guarantee them a large discount from manufactures. Direct relationships between manufacturers and dentists are non-existent for this particular reason.

- *Distribution channels* are largely through patient referral systems and sometimes through the media coverage. Limited coverage may be obtained via the Internet, newspapers, magazines and journals. The South African Dentists Association (SADA) has stringent bylaws that govern advertising by health professionals. The current forms of distribution channels are restrictive.
- *The pace of technological change* in both production process innovation and new product innovations is rapid in dentistry. New inventions include the WAND (which is a form of computer assisted anaesthetic), anaesthetic patches that are placed at the site of operation, electrically induced anaesthesia, CEREC (ceramic inlays, overlays, crowns and fillings that are milled by a computer), new stronger cements (PANAVIA and RELY X), computer generated radiographs that have decreased exposure times to radiation etc.
- *The products and services of rival practices are highly differentiated.* The differentiation is mainly due to the quality of work being offered and the types of service rendered and the price of the services rendered.
- *Economies of scale* are basically the same for each practice however special arrangements may be entered into depending how much of work a dentist provides for a specific lab. A lab that deals with almost 90% of a specific practice's work will ensure that they provide preferential tariffs.
- *Key industry participants are generally rather than specifically located.* The locations of dental practices are based on a demand for services but there is a distinct lack of private practices in rural areas and all private practices seem to be located in urban areas.
- *Strong learning curve and experience curve effects* do have some effect upon the dental industry. The more experienced a dental practitioner or dental auxiliary, the lower the incidence of error, quality should improve and speed and dexterity increase.
- *The capital requirement to enter or exit the industry is high.* Equipment, dental materials, and establishing a presence in the community together with attracting patients are costly. The average practice offering basic services will require R400 000 to start-up. Exiting the industry can prove costly if equipment is obsolete. Goodwill

may be added and the purchaser will thus be obtaining a practice with its own regular patients.

- *The industry profitability is thus above average.*

c) **DRIVING FORCES OF THE INDUSTRY:**

These are important factors that influence the way the industry operates. The driving forces that influence the dental industry are as follows:

- *The Internet:* has revolutionised the way business is being conducted in dentistry. It may be used as a marketing tool to advertise for the dental services being offered (usually in the form of the practice website) and used as a form of communication with foreign patients to assess the type of treatment they require. It may also be used to source the best products at the cheapest prices regardless of location. The Internet is a valuable tool for keeping abreast of current innovations, trends, and products.
- *Increasing globalisation of dentistry:* Technology has advanced to the stage where most dental service offerings are standardised and variances between the different countries are minimal. Trade barriers are falling and countries are adopting a free market attitude that has increased the demand for dental services e.g. in South Africa with its high standards of cost-effective healthcare, has become the ideal destination for dental and medical treatment. Low cost treatment that is of a high consistency and quality is of critical concern in an otherwise glutted and expensive foreign market.
- *Change in long-term industry growth rate:* There has been a shift in the demand for dental services both locally and internationally which has triggered a race by established firms to capitalise on this movement. Simultaneously it has attracted new entrants to the market who are attracted by the prospects for higher growth.
- *Change in buyer demographics and new ways of utilising the product offering:* Patients are now more interested in aesthetic dentistry (cosmetic), as endorsed by major celebrities. Society has shifted attitudes towards a greater concern about physical appearances. This implies that besides general dentistry there is a whole new market for dentistry for dental services, which includes teeth whitening, adult

orthodontics veneers and crowns to correct imperfections in the alignment and bite of the teeth.

- *Product innovation*: is high in dentistry and constantly shifts the direction of competition in favour of those practices that adopt and markets the new products rapidly, at the expense of the practices that elect to stick to older products.
- *Technological change*: has resulted in higher capital requirement, as equipment has become more sophisticated and expensive. Technological change has however meant that new entrants with sufficient capital can quickly penetrate and leverage the community with their sophisticate product offering thus capturing a market that would have been difficult to obtain sans the technology. Production of superior quality products with greater resistance to damage combined with decreased defect rates has resulted from technological advancement.
- *Marketing innovation*: utilising the Internet as the marketing tool has resulted in new untapped global markets becoming aware of the product offerings of various dental practices around the world thus increasing demand for the product. This has increased the product differentiation and types of services being offered which has lead to practices using new and innovative strategies to win market share.
- *Exit of certain specialist dentist* either through retirement or by employment overseas has resulted in the market consolidating into fewer key players, which increases the competition to capture the market share of the dentist that is exiting the industry.
- *Diffusion of technical knowledge* through more countries and dental practices: this has occurred through dental conferences, journals, publishings and magazines. This had significantly contributed to globalisation of dental markets and there is no single competitor that holds all the trump cards. Any technological advancement that was held by first mover practices tends to erode quickly as technological knowledge diffuses.
- *Changes in cost and efficiency*: is largely due to advancements in technological and product innovations. Competitors are able to increase the quality of their product offerings as well as decrease the time required for more advanced procedures e.g. preparation of teeth for inlays may now be performed by a computer assisted machine

that performs the task that a dental laboratory would have performed. Patients now save time and money, as they only have to visit the dentist (they do not have to have work completed by a laboratory) and all the work is completed in a single visit rather than multiple visits. Defect rates with laboratory and clinical work has also rapidly decreased.

- *Shift in buyer preference for more differentiated products rather than standardised products:* With the current trend towards cosmetic dentistry, patients are looking for a differentiated product that is tailor-made to their mouth. Product and service offerings have changed. Simultaneously dentists must still manage to maintain a standardised service for those patients that are price sensitive.
- *The Governments deregulation of the healthcare industry has resulted in changes in the structure of the industry.* Healthcare workers are now free to work abroad, which has led to the exodus of key participants in the industry to foreign positions. South African is facing a new challenge in the form of interest in our healthcare by foreign patients.
- *Changing societal concerns, attitudes and lifestyles:* Patient sophistication has increased together with the knowledge of the various dental services on offer. Prevention is the buzzword of the future and it has created a new demand for certain treatment e.g. scaling and polishing. Patients are also more concerned with correcting problems that affect their appearance and physical structure e.g. overbites being corrected with orthodontics. Positive shift in attitudes of those South Africans that are increasing their earning power, towards acceptance of preventative and rehabilitative dental procedures.

3.3.1.2. COMPETITIVE FORCES:

Aids in determining whether UDP's current strategies can keep the organisation abreast of its competitors. The aim is also to determine what strategies need to be implemented to reduce these gaps, if they exist, or to enhance performance ahead of competitors.

a) PORTERS FIVE-FORCE MODEL:

The analysis provided by the Porter's Model of Competitive Forces within an industry aids in determining the various factors that affect the very nature of competition and the reactions of competing firms in an industry.

Rivalry amongst competing sellers:

Rivalry is high for the following reasons:

- In the private sector, there are many dentists of more or less equal size and capability in the bulk of the market. Amongst the elite group of specialist dentists the numbers are lower but competition is still fierce. The public sector has no competition as it is fully subsidised by the government and has predetermined rates of salary and budgets. They have predetermined tariffs that are charged by the hospital or clinic that the service is rendered by.
- The services of dental practices are in demand and the growth in demand is increasing and this is as a result of the population both domestically and from other countries becoming aware of the importance of dentistry. Shifts in societal concerns, attitudes and lifestyle have also helped to elicit this change. The majorities of South Africans that live below the breadline still view dentistry as a luxury treatment and would only utilise dentistry in times of emergency. Unfortunately in South Africa, dentistry has always been perceived as being the folly of the rich man and the majority saw no use for it.
- Currently there is an exodus of healthcare professionals including dentists both newly qualified and long established, to foreign positions. The problem arises that there is still intense competition for general dentistry as the specialist dentists are exiting the

country. Newly qualified dentists that enter the market in South Africa are decreasing in numbers in comparison to previous years. This has still not substantially reduced competition. In fact, certain practices through experience and reputation may capitalise on patients of existing dentists that have exited the South African dental market. Newly qualified dentists are still left to attract patients through whatever means possible.

- Dentists that are locked into intense competition for patients are tempted to reduce their prices or to use inferior quality materials, outdated materials and to utilise other forms of cost reduction to attract the next layer of price sensitive patient. Newly qualified dentists generally have to utilise cost-reduction strategies to attract patients.
- Unfortunately for the industry price sensitive patients switching costs are indeed very low. The majority of patients are not as concerned about quality as they are about the price of the dental service. This may also be attributed to a general lack of dental knowledge on the part of the public with regards to the various dental services on offer, the differences in quality and what they should expect from a dental practice, whom to contact to complain about poor service and most importantly the discrepancy that exists between the tariffs that medical aid is willing to pay and the actual cost of dentistry.
- Dentists are frequently looking for new and innovative marketing tools to attract the next layer of patient and to increase their profits. The latest trend is to aggressively acquire smaller practices and to amalgamate to form a larger practice, which offers a greater number of services. The higher the payoff from such strategic moves the greater the extent of competitive rivalry.
- Dentists utilise various strategies to attract patients and this creates a maelstrom of potential areas to combat when trying to out- manoeuvre rivals. Dentists will constantly be trying to bolster their competitive efforts by trying new and radical competitive strategies.

Competitive rivalry amongst rival practices may thus be considered to be fierce to strong as there are frequent moves and countermoves to in a battle for market share. Dentists are

frequently utilising price cuts, new differentiating tactics, better use of resources and other strategic moves to attract patients.

Potential entry of new competitors:

- The barriers to entry in the dental industry are high for the following reasons:
- There are economies of scale that exist, as new entrants have to enter on a large scale to compete with existing practices. The potential deterrent is that new practices have to enter on a large scale and then wait to attract sufficient patients to validate the costs of entering this market. The time that it takes for a new practice to start establishing itself could take a long time, which results in minimised profits.
- Existing practices have cost and resource advantages that are not available to new entrants. This includes relationships with the best suppliers of raw materials and dental components. Equipment and property may have been purchased earlier and at lower costs and in favourable locations.
- Existing practices have learning and experience curve effects that reduce the cost whilst improving the quality of the service being rendered.
- The most significant factor is that once a dentist develops a relationship with a regular patient, it is rare for this patient to switch to another dentist. Patients that regularly visit the dentist tend to have a loyalty and preference to a specific practice. Only price sensitive patients will not remain loyal to a specific practice but would rather look for the cheapest prices. New entrants thus have to offer a distinctive service that aims at attracting patients away from other practices. This may mean large cash outlays to find marketing tools to attract these patients, which results in a reduction in overall profits for a period of time.
- The capital requirements to enter the market are very high and it deters many new entrants. Most newly qualified dentists are seeking to work overseas in already established practices where they obtain a salary but without having to expend any capital. When they have worked for a few years they can then choose to invest in a new practice as they have the funds for the initial capital requirements.

- The distribution channels for marketing is generally through word of mouth and this poses a difficult situation for the new entrant. They would have to attract patients away from existing dental practices and establish a good reputation prior to getting referrals. In South Africa the ways in which dental practices may advertise is restricted. Most new entrants seek to work in established practices, where they are provided with patients. When they decide to establish their own practices they have experience, patients, and the necessary contacts to establish a profitable practice.
- The regulation of the dental industry by government does offer another potential entry barrier. Currently all dentists have to work a full year as part of community service prior to them practising. The government also restricts the ways in which a dental practice may advertise its services. Overseas governments also have a moratorium with 2 South African universities per year. These selected universities dental students are able to practice overseas without having to write an entrance exam. The selection of the dental faculties that qualify for this moratorium works on a rotational system between the various dental universities in South Africa.

The dental industry's entry barriers are high, however for potential entrants with enterprising ways of entering the market there are high profits to be reaped. Coupled with the fact that many established dentists are emigrating or leaving for employment overseas, market gaps may result that could be filled by the industrious new entrant.

Competitive pressures from Substitute products:

- Substitute products for the dental industry would be other forms of healthcare and health products. In the case of basic dentistry patients have no real substitutes. Extractions and fillings may be regarded as substitutes for each other but with permanent consequences. Within the industry there is substitute services and patients may be presented with various options depending on the type of service they are looking for.

- There are no real substitute products for basic dentistry but there are substitutes for cosmetic and specialised dentistry. Patients tend to adopt the attitude that they would prefer to spend that much money on other aspects of their lives and not on their teeth.

Supplier bargaining power and Supplier-Seller collaboration:

Supplier bargaining power is low, as suppliers are desperate to attract dentists to their offerings. Suppliers are alike with regards to price and quality of their product offerings hence the switching costs between buyers is low. There is frequent jockeying for position amongst suppliers; hence the buyer can utilise this to their advantage to leverage price and quantity discounts.

Initially the dental suppliers were few in number and quite powerful, however this changed when the market saw the entry of small and medium sized suppliers that underpriced the large suppliers.

Large suppliers can under intense pressure to quickly adjust their product and price offering to prevent erosion into their market share. The Internet has also reduced supplier bargaining power as most dentists are now looking to source dental equipment and materials directly from the manufacturer, rather than using a distributor in South Africa.

Most suppliers are selected by dentists based on the price and the variety and availability of the products they supply. There is no major difference between the product offerings and price seems to be the greatest varying factor amongst the different offerings of dental suppliers.

It is rare to see established relationships between suppliers and dentists. This is due to individual dentists having low switching costs amongst the various suppliers. The entry of many new small and medium size individual suppliers has also decreased supplier bargaining power. The supplier thus has to have many buyers to survive in this industry.

Buyer bargaining power and Seller-Buyer collaboration:

In the dental industry all patients are seen as importance for the success of the practice. Patients that are price sensitive have low switching costs and are thus able to bargain for the price of the service being offered or they will choose a practice that offers them the price they are looking for. Patients are granted concessions, which is used as a tool for patient retention. Patients have discretion with regards to whether and when they purchase dental services. Most often patients that are unhappy with prices can delay purchases of the service until they obtain a concession or they will shop around for the price that suits their pockets.

b) STRATEGIC MOVES THAT RIVALS ARE LIKELY TO MAKE:

To profile these various competitive practices, the following categories were utilised: **Competitive scope, strategic intent, market share objective, competitive position, strategic posture and competitive strategy.**



Figure 3.2 Competitor Profiles.

Competitive Scope	Strategic Intent	Market Share Objective	Competitive Position	Strategic Posture	Competitive strategy
Local	Be the dominate leader	Aggressive expansion via both acquisition and internal growth	Getting stronger; on the move	Mostly offensive	Striving for low cost leadership
Regional	Overtake the present industry leader	Expansion via internal growth (boost market share at the expense of rivals)	Well entrenched; able to maintain its present position	Mostly defensive	Mostly focusing on a market niche: <ul style="list-style-type: none"> • High end • Low end • Geographic • Buyers with special needs • Others
National	Be amongst the top 5 leaders	Expansion via acquisition	Stuck in the middle of the pack	A combination of offensive and defensive	Pursuing differentiation on: <ul style="list-style-type: none"> • Quality • Service • Technological superiority • Breadth of product line • Image and reputation • More value for money
Multi country	Be amongst the top 10 leaders	Hold onto present share (by growing at a rate equal to the industry average)	Going after a different market position (from a weaker to a stronger position)	Aggressive risk taker	
Global	Move up a notch or two in the industry rankings	Give up share if necessary to achieve short term profit objectives	Struggling; losing ground	Conservative follower	
	Overtake a particular rival		Retrenching to a position that can be defended		
	Maintain position				
	Just survive				

Thus it is evident from the competitor profile that most practices are diverse and it is difficult to profile every single competitor and that the industry is fragmented. The implication is that every competitor must be treated with respect as they represent a potential rival and their strategic moves needs to be closely monitored.

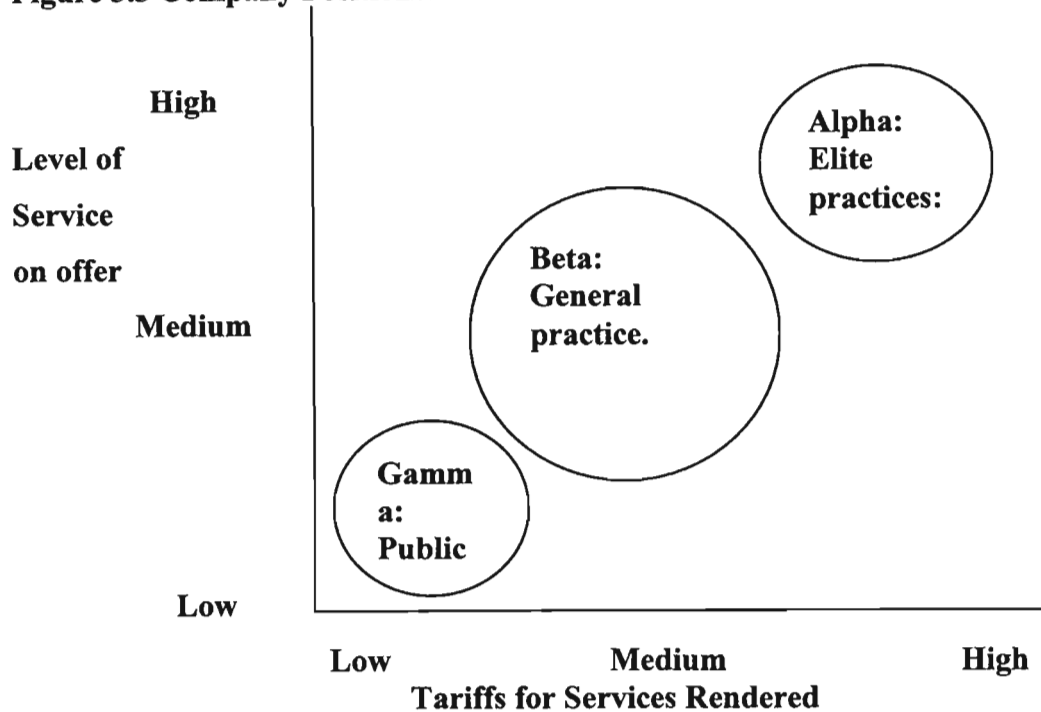
c) INDUSTRY ATTRACTIVENESS AND PROFITABILITY:

- The growth potential in the industry is increasing due to the demand for dentistry all over the world. People are becoming more educated about the benefits of preventative rather than curative healthcare.
- Although competitive forces are fierce there is the potential for high profitability to be achieved. Competitive forces are constant.
- The driving forces of the industry are favourably affecting profitability. Although some of the initial capital requirements or continuous maintenance costs are increasing, the profits to be gained from adopting this type of technology are substantial.
- The dental practice is in a well-entrenched leadership position due to its ability to capitalise on prevailing market conditions as well as having the ability to be a forerunner with regards to technological and product innovation adaptation. The practice is currently well positioned to grow stronger.
- The practice is well endowed to capitalise on its strengths and to minimise its weaknesses.
- The dental practice has the resources to counteract some of the problems that the industry at large faces.
- As such due to the industry profitability being above average the prospects for that industry appear attractive and promising.

d) COMPANIES IN THE STRONGEST/WEAKEST POSITIONS:

A strategic group map will be utilised to compare the various competitors in the industry. The two factors selected are the level of Services on offer and the Tariffs that are charged.

Figure 3.3 Company Positions.



It has been approximated from the statistics obtained from SADA, that there are approximately 2500 practising dentists in South Africa with a total market share of R200 million annually.

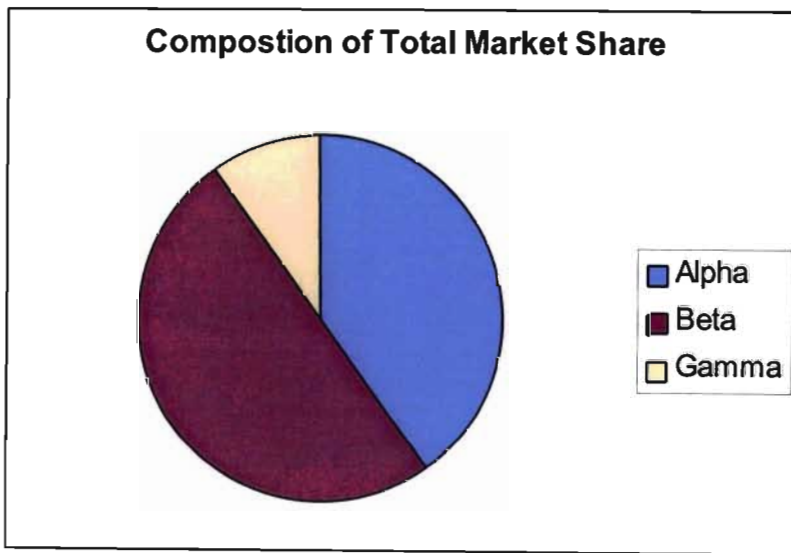
- Public Sector will be allocated the name the Gamma group and represent basic dental services that is subsidised by the Government. They represent approximately 8% of the total number of practising dentists which comprises of approximately 200 dentists. Generates approximately R20 million worth of dentistry annually.
- Average practices will be referred to as the Beta group and offers general and limited specialised services. They have a tariff based on medical aid tariffs or slightly higher.

This sector of approximately 2000 dentists generates approximately R100 million worth of dentistry annually. This group represents 80% of the total number of practising dentists.

- Elite practices consisting of approximately 300 specialist and post-graduate trained dentists, offer superior highly specialised services and they represent 12% of the total number of practising dentists. The tariffs that are charged by this group are generally at South Africa Dentist Rates (2 X higher than medical aid rates) or at rates 1X higher than medical aid tariffs. This group accounts for approximately R80 million worth of dental work generated annually.

Utilising the above information, a graph of the relative market share of the various groups can be drawn.

Figure 3.4. Total Market Share.



Thus

- In the Alpha group, 12% (300 dentists) of the total number of practising dentists control 40% of the market share.
- In the Beta group, 80% (2000 dentists), control 50% of the market share.
- In the Gamma group, 8% (200 dentists) control 10% of the market share.

e) **KEY SUCCESS FACTORS:**

Some of the key success factors of the dental industry are as follows:

Technology related:

- Technological ability to make innovative improvements in the production of the dental service being offered.
- Capability to utilise the Internet for improvement in the value chain activities of the practice.
- Expertise and technical superiority in a given technology adaptation.
- Product innovation capability.

Manufacturing related:

- Low cost production efficiency that captures experience curve effects.
- High quality manufacture of products that have reduced defect rates.
- Sufficient access to skilled labour.
- High labour productivity.
- Full capacity utilisation that decreases the unit cost of the service being offered.
- Ability to customise treatment offerings according to the differing requirements of patients.

Marketing related:

- Efficient and effective technical assistance.
- Courteous and pleasant rendering of service to all patients.
- High degree of product differentiation and wide breadth of services offered.
- Guarantee of quality for more sophisticated dental procedures e.g. crown and bridge work and may include that if any problems occur with the work with 1 year of being completed then the practitioner will replace at reduced rates or free of charge.
- Concessions for frequent patients and for patients that offers referrals.
- Accurate and timeous of dealing with patients treatments.

- Short delivery times of lab work and ability to administer emergency work efficiently.

Skills related:

- Superior workforce talent with sufficient experience in the various specialities in dentistry and the ability to multi-task.
- High degree of quality control and operator efficiency.
- Ability to rapidly adapt to new and innovative techniques and to be able to diffuse this technology through all aspects of the practice.
- Continuous education to keep abreast on advances in dentistry.
- Ability to work as part of a team and to be individually efficient as well.
- Ability to adapt current innovations to the practice and patients needs.

Organisational capability:

- Superior information and management system with regards to patient management.
- Ability to respond quickly to shifting conditions in the environment and market.
- Sufficient managerial ability to lead the dental team forward.
- Sufficient funds to capitalise on market opportunities.
- Superior ability to deploy the Internet to conduct business.

Favourable image and reputation

- As perceived by patients and
- Healthcare professionals in the dental industry and allied fields.

Convenient locations: that favour ease of access to the dental practice.

A plan of action: for Public holidays and emergency treatment of patients.

3.3.2. COMPANY RESOURCE ANALYSIS:

Essential for the provision of a framework to establish what strategies are working and where gaps for improvement exist.

3.3.2.1. OPERATIONAL RESOURCES:

The various resources that the organisation possesses and wants to obtain in the future are further analysed.

a) PRESENT STRATEGY OF THE DENTAL PRACTICE:

Currently the practice is following a differentiation strategy based on the type of service on offer together with average costs and higher quality. The target market is the elite section of the population. The practice is ideally situated in Umhlanga to attract a specific type of patient. The practice has a stable patient base that provides work consistently. The average number of new patients seen per month is higher than the industry average. Profitability is higher than the industry average and is increasing as a greater number of foreign patients have regular treatments.

Continuous employee and skills development occurs to ensure that the practice remains as technologically and new product updated as possible. Stable long-term relationships have been established with key partners e.g. dental laboratories that consistently and reliably produce cost effective and high quality work.

The practice has local, regional, national and global geographic coverage and recently the global patient base has rapidly expanded. The practice currently generates approximately R4 million in services annually. Thus it has a 5 % stake in the Elite, Alpha group (R80 million) of practices and a 2% stake in the total dental market of R200 million. Thus the strategy of the practice is a differentiation strategy targeting a niche market which is represented by an elite clientele of patients with more sophisticated tastes, with higher education levels, higher incomes and higher living standards.

b) SWOT ANALYSIS:

Strengths are internal resources that enable the organisation to deal effectively with its business environment. Internal weaknesses would leave opportunities badly accounted for. Opportunities and threats exist outside the organisation in different areas e.g. changing competitor needs, technological changes and changing legislature.

Opportunities:

- Rapid growth in tourism industry especially to Kwazulu Natal implies greater number of foreign patients that are made aware of South African healthcare (this is largely due to the collapse of certain healthcare systems e.g. National healthcare System in the United Kingdom). Patients are now utilising South Africa as their country of choice for all necessary medical and dental services as they find the standards exceedingly high and the costs very cheap when compared to their country of residence.
- Patients are exceedingly more health and beauty conscious and there is now a boom in cosmetic dentistry.
- Alliances with other healthcare providers and specialists in both the dental and allied fields to integrate forwards or backwards in the value chain of the dental practice.

Threats:

- Technological advancements are changing the structure of the entire industry. This is enabling some competitors to capture the cosmetic and pain conscious segment of the market whilst simultaneously requiring dental practitioners to have minimal skills to capture the full benefits of the new technology. An example may indicate how this is possible. Utilising The Cerec machine, which is responsible for contouring and milling a filling, overlay, inlay or crown (from a ceramic block of material) according to specifications entered into a computer by the dentist, the time and cost of having this work completed by a laboratory, is eliminated. The dentist has to simply prepare the tooth and the machine will make the necessary filling and it then merely has to be

cemented into the patient's mouth, which reduces clinical time, spent on the patient by the operator, reduces the number of patient appointments and the cost of treatment.

- Government regulation of the marketing tactics that may be employed by dental professionals in attracting patients both locally and internationally.
- Inadequate utilisation of general technological advancements with regards to the way business is now conducted e.g. The Internet.

Strengths:

- The organisation has a highly skilled, integrated team that have been working together for ten years and longer. Skills are continuously upgraded in line with internationally accepted standards.
- Strong location advantages due to the increasing number of tourists and patients that require the services of a more elite practice in the Umhlanga area. The exodus of major companies and especially multi-nationals e.g. Unilever that have moved from the Central Business District to relocate themselves in Umhlanga represents a potential new source of patients.
- Comprehensive system for immediate treatment and billing that enables effective and efficient means of managing patients locally, regionally and nationally and internationally.
- Excellent reputation internationally and nationally as one of the best dental teams with a strong patient base.
- Strong informal relationships into the supply and delivery of dental products and the laboratory work necessary for orthodontic, prosthodontic and endodontic work.
- A strong differentiation strategy based on rendering high quality treatments that is also cost-effective and this is due to superior product quality and reduced defect rates relative to competitors, product innovation skills and patents e.g. dental bonnet, proven skills in improving production delivery e.g. implant stent.

Weaknesses:

- Management team that have been resistant to strategic change and currently the practice lacks long-term strategic direction.
- Dependent merely on “word of mouth” type of referral system from existing foreign patients. Clearly another more aggressive form of marketing is required that is both ethical and legal and is conducive to the standards as determined by the various healthcare Governing bodies.
- There is a need for new equipment that will enable the practice to keep abreast of the industry and competitive structure and that will reduce operator clinical times and costs and reduce costs for patients.
- E-commerce and Internet facilities that have been installed but the full capabilities are being left exploited.

c) VALUE CHAIN ANALYSIS:

Assessing the value chain activities for the dental practice is essential as it may reveal areas of cost reductions that do not impede the image of added perceived value by the patients.

The various activities of the value chain are first divided into Primary and Support activities, which is further subdivided into the components.

Primary Activities:

Purchased Supplies and Inbound Activities: The practice tends to purchase supplies on 30-day order cycle, which is based on the requirements of the various treatments. Thus a supply is maintained for all the work necessary for a month in advance but due to the increase in the number of patients treated this cycle has become erratic.

The size of most dental products ensures that minimal capacity is required for storage. Dental suppliers domestically generally order in pre-determined quantities, which does

not cater for sudden fluctuations in demands. Unfortunately most products are imported and this means possible delays in shipping times and stock out situations arising with local dental suppliers. There is thus a great dependency on the stock situation of domestic suppliers. Dental suppliers are however very dependent on the orders regardless of size from dental practices. This occurs as the dental market in South Africa is small in comparison to foreign markets and any business regardless of the quantity ordered is considered important.

The dental practice has capitalised to an extent with regards to its relationship with domestic suppliers in the following ways:

- Due to the established and reliable nature of the practice, preferential rates have been negotiated with most suppliers with regards to dental materials and the maintenance and servicing of certain equipment.
- Free samples are readily available, as suppliers are aware that the practice tries to remain at the forefront of all technological, product and process advancements.
- Preferential rates with regards to seminars and conferences hosted by dental suppliers are provided as suppliers are aware of the marketing potential that their products will receive if accepted and endorsed by the staff at the practice.
- Large and frequent order quantities purchased by the practice in comparison to other practices ensure that suppliers tend to deliver more efficiently.

Operations supporting service delivery:

- The practice has a well-established operational base and all the key staff and processes linked in the production of the service rendered are ideally located near to the practice or are located in the practice. The initial laboratory work is situated in the practice and ensures that the time frame required for preparation and fitting of specialised work e.g. crown and bridges is reduced by approximately two days. The close proximity of external dental laboratories and their courier systems ensure that special work is delivered back to the practice within 8 working days for crown and bridgework and within 3 days for dentures. Implant crowns and full mouth

rehabilitation usually takes 2 weeks to complete. The times appear longer than normal for a dental practice focussing on cost and this is largely due to the standard of the work that is accepted.

- The practice has the highest standards regarding regulation standards pre determined by the various governing bodies in South Africa and internationally. Examples include the protection of both staff, patients and the general public that use facilities in and around the dental practice are protected from radiation through the use of lead lined walls, aprons during radiation and the use of dosimeters to monitor levels of radiation.

- Periodic maintenance and servicing of equipment ensures that they are properly functioning and may be utilised to their full capacity. Staff is also trained to in maintenance to ensure that they minimise equipment downtime, in times when a technician is delayed.
- The practice ensures that every patient that has dental models taken have the models returned to them once immediate work is completed. This prevents models being retaken which saves on dental materials, operator time and patient costs. The patients are thus responsible for their own set of impressions and the practice saves on storage space and the administration that is required.
- Technology utilised ensures that the process involved in creating the various services is effective and efficient to both staff and patients alike.
- A fully equipped spare surgery is utilised for emergency treatment, recovery after anaesthetic and for the placement of specialised dental work. This has been created to minimise disturbances in the other two fully booked surgeries.

Operations concerned with service delivery:

Patients follow a pre-determined method of management. The initial stage is for the patient to book via the telephone or personally with the receptionist for an appointment with the hygienist. The appointment length is usually 1 hour for adults and children over 16 years. Children under 6 require a 1/2-hour appointment length and children between the ages of 7 and 15 require a ¾ hour length appointment. The patient is then scheduled into the appointment book together with the telephone numbers and their file number if they are already patients at the practice.

New patients are allocated the requisite time for appointments. All patients are contacted the day before treatment as a reminder about the time and length of appointments. Patients who have appointments on a Monday after contacted on the Friday before.

The receptionist screens patients that arrive for appointments in the following ways:

- New patients have to fill out a medical and personal history form that becomes an integral part of their records. These patients get allocated a number and have a hard copy file and computer file which are correlated to each other. This serves as

a backup in the case of computer crashes and power failure situations. A hard copy of the file names and numbers of patients is continually updated and expanded to ensure that all patients are recorded twice.

- Regular patients also have their records continually updated.
- Patients referred by other dental practitioners usually are requested to obtain relevant dental documentation and records from the previous practitioner or referring practitioner.

Generally all patients except emergency patients first visit is with the hygienist. The responsibility of the hygienist is to perform the initial assessment of the patient's needs and perform an overall evaluation of the oral condition of the mouth. This initial stage is completed with the aid of salient radiographs and if necessary a scaling and polishing and most importantly with patient oral hygiene instruction and motivation. Dietary, oral care and new dental product and process advancements and advice are discussed during this session. The dentist also performs a consultation together with the hygienist to chart down the necessary treatment that the patient requires.

The patient is then provided with a treatment plan that delineates the number, type and cost of treatment to be completed. This quotation may be submitted by the patient to the medical aid to ascertain the amount of funds that the patient will be allocated and the amount that they will have to add in. Once the patient accepts the quote, appointments are scheduled.

Some patients that require more complex work are scheduled for a discussion appointment with the practice manager and the dentist and hygienist. During this appointment all the potential options available to the patient is discussed. The practice manager will simultaneously provide a quotation for every option available. The most suitable option is then selected and the appointments for treatment are scheduled. The practice manager and hygienist also ascertain what type of sedation or relaxation the patient requires if they are nervous or require complex, long duration appointments.

Patients, who have completed the requisite initial treatment, are placed into a maintenance phase and regular recalls are initiated. The computer programme Exact,

which is also utilised to record all computer files for all patients, generates recalls. The next recall is assigned the day of the patient's treatment with the hygienist.

Recalls are based on the following conditions:

- Patients with excellent oral hygiene i.e. brushing twice daily and flossing nightly and have stable oral tissue are given yearly recalls.
- Patients with average to fair oral tissue are given 6 monthly recalls and this would include a consultation with the dentist. Patients with generally good hygiene but with stains for food, smoking and coffee or tea are also presented with 6 monthly recalls. These patients do not necessarily have a consultation with the dentist but may only see the hygienist. Children under 12 are also encouraged to visit every 6 months as they are in the mixed dentition stage of tooth development and require greater motivation and more specialised dental care by the hygienist.
- Children with orthodontic appliances, periodontal maintenance patients and patients with other specialised work are encouraged to have more regular sessions with the hygienist and this is usually 3 to 4 monthly.

The primary treatment strategy of the practice is prevention and the entire focus of the staff and the work completed is towards prevention and rehabilitation of the teeth and surrounding oral tissues to obtain maximum dental function. Aesthetics is important but is viewed as a component of restoring full function to the mouth.

Foreign patients are booked similarly however they may have provisional bookings made for the dentist prior to arrival in South Africa. This ensures that sufficient time has been allocated for whatever work may be necessary. Generally these patients will provide a rough framework of the type of treatment they might require and the maximum time necessary is afforded. The length of time of their visit is important in determining if laboratory work for any prosthodontic treatment can be completed timeously.

Emergency time is allocated on a daily basis to assist patients that have any problems that require immediate attention. The practice's receptionist refers patients that cannot get appointments or afford the tariffs of the practice to a network of other dentists in and around the area.

Patients are given the option of 10% cash or cheque discount if they settle their bill on the day of treatment and a 5% discount for credit card. Patients over 65 years of age are offered a 20% discount for settlement on the day of treatment. This incentive is partially successful in ensuring that most of the services rendered receive immediate payment. Statements are sent out to patients on a 30,60 and 90 day basis. Telephonic reminders and printed statements are issued to patients that are late with regards to payment. Patients who fail to settle in the required time are handed over to a collection agency and if further failure to pay arises then the patient is blacklisted by the credit bureau.

Distribution and Outbound Logistics:

The main function of the practice is to provide a service hence the outbound logistics and distribution is virtually non-existent, as the patients have to come to the practice to receive the type of service they require.

Only in specific cases patients may be attended to in Theatre. Theatre is usually booked in advance and the same procedure with regards to a quotation is prepared and submitted by the patient to their respective medical aids to obtain an authorisation code which qualifies for eligibility of the requisite treatment. Some patients (in a very limited number of cases) are required to see the dental technician and this is usually arranged at the practice.

There is however instances when the patient has to be given the necessary directions to arrive at the laboratory (usually in the case of work that the technician is able to correct immediately but requires specialised laboratory equipment). Hence there are limited outbound logistics as all the services are rendered at the practice with no extra cost to the patient.

Sales and marketing:

The dental industry and specifically dental practices are limited in the way of sales and marketing by the South African Health Professionals Council. Awareness of the various services rendered and new advances in technology, processes and products is created via the various staff members who are continually expanding their dental education through the attendance of symposiums and conferences.

Marketing of the services is generally completed once the patient is in the chair and staff is able to ascertain what type of requirements that patient has. Patients and their experiences are generally the most eloquent marketing tools for the type of services that is rendered.

Service:

- The staff is always willing to go the extra mile for patients and work on a rotational system to see emergency patients on the weekends and after hours. Emergency time is allocated on a daily basis and is updated hourly to ensure that all patients with emergencies receive attention. Allocation for emergency is made via a fully equipped spare surgery.
- The practice manager first deals with any queries and complaints from both staff and patients on a daily basis. A record of all queries and complaints are recorded on the patient's computer and hard file to ensure that they are dealt with timeously by the appropriate staff.
- Patients that are going away on business or a holiday and are in the middle of treatment are given specific dental products and tailor made dental tools to be able to fix any minor dental problem if the need arises.
- Patients are given oral hygiene instruction as part of the service, which they are not charged for. Children under four years of age that have never seen the dentist are consulted free of charge until they actually allow treatment to commence.

Support Activities:

Research, Technology, and Systems development:

- The development and research occurs in practice have been generally through the identification of gaps that exist in product lines, type of service rendered and process design.
- The organisational culture encourages the testing of boundaries and expanding them outwards. Staff is encouraged to be creative and thus many new products have grown from this need to implement more efficient and effective ways of performing dental procedures.
- The current treatment procedure is in place as it is proven to be the most effective form a series of possible alternatives. Regular staff meetings are encouraged to

identify possible areas of research and development. Constant monitoring of the best practices and their procedures encourage the practice to not only stay abreast of current procedures but to rather gain competitive advantage by being two steps ahead of the chasing pack.

Human Resource Development:

- The organisation has a culture of learning and creativity, which ensures that the best staff is attracted to the practice. An excellent compensation system is in effect, which rewards staff for extra work, and for concerted efforts above and beyond the call of duty. Mini bonuses are awarded on a monthly basis to staff members that excel at their duties and surpass monthly targets.
- A friendly team-focussed environment encourages staff loyalty and longevity. The culture of the organisation encourages teamwork and yet recognises individual efforts.
- Other rewards include days off for the entire practice on
- Regular meetings are encouraged to ascertain the status of staff and their perceptions of the patients they are going to be seeing. Insight and knowledge sharing occurs to ensure that staff are properly equipped to deal with the challenges ahead.

General Administration:

- The payroll function is outsourced as this enables the accounting staff to focus on the day to day business of the practice.
- General daily expenditure is restricted via monthly budget and stringent measures are in place to ensure that petty cash expenditure does not become excessive.
- More staff is required for the general administration department.
- Trained rotational staff is required for days when permanent staff members are on sick leave or on vacation leave.

d) PRICES AND COSTS OF THE DENTAL PRACTICE:

The costs of input (expenses) tends to be above the industry average due to a stringent policy that dictates that only the best dental materials may be utilised. This policy dictates that most of that materials utilised by the practice have to be obtained from overseas.

Prices tend to be between the tariff recommended by medical aids (lowest tariff it is possible to charge privately) and South African Dentists Association rates (this represents a possible ceiling on the rates that most dentist are recommended to charge). Refer to Appendix A⁵¹ for a list of tariffs for the various types of patients.

The tariffs are extremely competitive and are in fact low for a private practice catering to some of the wealthiest patients. Clearly revision regarding the tariffs that should be charged needs to addressed, as the foreign patients tend to be charged a higher international tariff and they tend to appreciate the treatment that is being rendered at such low costs. This is largely due to the difference in exchange rate between South Africa and other countries.

e) THE PRACTICE'S COMPETITIVE POSITION:

A broad assessment of the practice's competitive position is imperative to determine:

- Whether the market position is expected to improve or deteriorate if the present strategy is continued (with minor adjustments being implemented).
- The rank of the practice relative to the position of rivals, with regards to key success factors and each relevant measure of competitive strength and resource capability.
- The practice's ability to protect and improve its market position based upon driving forces, competitive pressures, and the anticipated moves of rivals.
- Whether the practice currently enjoys a competitive advantage over rivals or is at a disadvantage.

⁵¹ Appendix A: List of Practice tariffs from Exact Dental Program.

Signs of Competitive Strength:

- The practice is endowed with valuable resource capabilities, core competencies and competitive capabilities.
- There is a distinctive competence in the provision of high quality and efficient dentistry.
- There is the presence of a strong market share, and the practice is rated as one of the top 10 in South Africa.
- There is the presence of a distinctive strategy that is difficult for rivals to implement.
- Ahead of rivals with regards to expanding into global markets.
- A better-known reputation than rivals.
- Growing customer base and increasing customer loyalty.
- Well-positioned in very attractive market segments.
- Strongly differentiated service offering.
- Above average product and process innovation capability.
- Strong value chain relationships with suppliers of key dental inputs and dental materials.
- Above-average profit margins.

Signs of Competitive Weaknesses:

- Inadequate usage of the Internet and e-commerce which would revolutionise the processes and marketing ability of the practice.
- Under capitalisation on key markets e.g. foreign patients.
- Inadequate managerial direction that is not creative and alert to all the market opportunities available and a distinct lack of strategic direction for the future.
- Inadequate expenditure on new products and technological advancements.

The practice has a strong competitive position locally and regionally and needs to strengthen its national and international standing.

f) CUSTOMER ANALYSIS:

The practice renders different types of dental services to a wide variety of age groups but to a specific segment of the population and that is it delivers its services to the upper middle and upper class segment of the both domestic and foreign sectors of the population.

These patients are from the higher income groups, well educated with sophisticated purchase patterns and sophisticated lifestyles. They are seeking the services of a practice with superior quality of treatment with the cost of the service not being the main priority. They are seeking the services of a practice that can provide all their dental requirements in a single location. The patients of the practice have a high degree of loyalty.

The bulk of the practice, (approximately 85%) is adults, with 12% being teenagers and 3% being children. The majority of referrals have been through other patients or other healthcare professionals. The majority of people have been patients for 10 years and longer and the practice has a reputation as being a family practice with three generations in a family coming to the practice.

Table 3.1: Segmentation according to the type of age of patients.

Type of Patient	Adult	Teenagers	Children
Percentage of Practice	85%	12%	3%

The practice is contracted out implying that there is no contact with medical aids and patients have to settle their accounts and then claim from the medical aid. There are two types of tariffs that are charged. Firstly a standard rate for all domestic patients that is 50% higher than medical aid tariffs and is approximately 50% lower than the rate recommended by the South African Dentists Association. 25% of all the practice's patients are foreign patients the remaining 75% are domestic patients. The 75% of domestic patients are further subdivided into 55% local, 10% regional and 10% national.

Table 3.2: Segmentation of Domestic patients.

SOUTH AFRICAN DOMESTIC PATIENTS. (75% of total number of patients at the practice).			
Location	Local (In Umhlanga and surrounding areas).	Regional (In the Kwa-Zulu Natal area).	National (in South Africa and immediate surrounding countries e.g. Zimbabwe, Lesotho and Swaziland and Mozambique).
% of total number of patients.	55%	10%	10%

Table 3.3: Segmentation of Foreign patients

Country that patients lives in	Percentage of total number of patients,
United Kingdom including Ireland, Britain and Scotland	5%
Pacific Rim countries e.g. Australia, New Zealand, Malaysia, Singapore.	3%
European countries e.g. Spain, Portugal, Italy, France, Greece, Switzerland, Germany, Scandinavian countries	5%
South and North America's including Canada	5%
African countries not surrounding South Africa e.g. Democratic Republic of Congo	5%
Other countries e.g. Mauritius	2%

g) PORTFOLIO ANALYSIS:

Utilising the Boston Consulting Group Matrix the diagram below may be drawn for the practice.

Figure 3.5. Portfolio Matrix for the Practice.

<p><u>Star:</u> Prosthetic Work:</p> <ul style="list-style-type: none"> • Implants • Crowns • Bridges • Dentures • Bite splints 	<p><u>Question mark:</u> Cosmetic dentistry:</p> <ul style="list-style-type: none"> • Laser bleaching
<p><u>Cash Cow:</u></p> <ul style="list-style-type: none"> • General dentistry • Oral Hygiene Department. • Home bleaching 	<p><u>Dog:</u></p> <ul style="list-style-type: none"> • Paediatric dentistry

- The **cash cow** business will always generate an income and is a source of funding for other business units. The cash cow business unit includes general dentistry, which is fillings, 6 monthly and annual scaling and polishing, home bleaching, radiographs and consultations. This part of the business generates a stable sustainable patient base and generally performs all the preparatory work for major specialised dentistry.
- The **star** business unit which is Implantology is generating large amounts of capital for minimal amounts of work and time, however there is a limited number of patients that choose this option due to the cost and length of completion of this particular type of treatment. The income generated from a single implant is equivalent or more than the money generated for an entire day's worth of general dentistry.

- The **question mark** business unit which is currently the laser bleaching unit is proving to create more negative rather than positive results. The laser machine and the specialised bleaching material required are expensive. The material has limited storage and shelf life especially once opened. The material is pre weighted and must be mixed in these proportions. It must be used within 24 hours of being mixed as it loses its potency, which normally results in material wastage due to the amounts that are pre determined. Due to the cost of the materials and equipment capacity under utilisation the cost of the bleaching procedure is much higher than the normal home bleaching method used. Patients are still however attracted to this type of bleaching as instant results are obtained and they also obtain the home-bleaching unit as part of the total laser- bleaching package. The maintenance and servicing of the machine has to be conducted in the United States of America, which has proven to be rather costly and time consuming. The local agent for the machinery and bleaching material is unreliable and difficult to contact. The potential of this business unit is still very promising however material sourcing, capacity utilisation and regular servicing and maintenance of the laser- bleaching equipment needs to be urgently addressed.
- The **dog** business unit is paediatric dentistry as it is time consuming and a low-income treatment. Children are more difficult to treat especially if their first visit to the dentist requires more invasive treatment e.g. fillings. Even treating these patients in theatre is time consuming and costly with little financial reward. The operator time spent treating children especially under six could be utilised more effectively and efficiently.

3.3.2.2. FINANCIAL INFORMATION OF THE PRACTICE:

The business entity of this practice is a sole proprietorship that has minimal requirements with regard to reporting financial performance or financial position to others. Most of the funding for such a business is provided by the owner and or by loans from specific financial institutions such as Medical Leasing Services (MLS) Bank which provides preferential rates on loans and leasing agreements to healthcare professionals.

The practice does comply with certain formalities such as registration with the Receiver of Revenue and, Unemployment Insurance Commissioner, Workmen's Compensation Commissioner. Registration with the Receiver of Revenue is essential as the sole proprietor is responsible for deducting SITE (Standard Income Tax on Employees) and PAYE (Pay As You Earn) from the income of employees in accordance with the prescribed tax tables. In addition, the amount of VAT (Value Added Tax) will have to be calculated and forwarded to the Receiver of Revenue.

A sole Proprietorship has not had legal status in its own right and this has two important consequences. Firstly the liability of the sole proprietorship is not limited should the business fail. In the event of liquidation of the business, the personal possessions of the owner, and in many instances, those of the spouse, are liable to be lost to creditors to the extent that the sole proprietorship cannot repay its debt. Secondly, the sole proprietorship is taxed as an individual. The business itself is not subject to tax. Any profits accruing to the business and any salary paid to the owner will form part of the owner's taxable income, which will be taxed at the current applicable rate of 36% paid as provisional tax twice yearly.

The business ceases to exist once the owner sells the business or if he/she dies. Although the sole proprietorship does not have a separate legal personality, it is always viewed as a separate entity from the owner for accounting purposes. The financial information is that of the business only and will be addressed to the owner. There are no legal requirements regarding financial reporting, but records must be kept for taxation purposes.

**ANNUAL FINANCIAL STATEMENTS OF DR D. FELTON
FOR THE PERIOD ENDED 28 FEBRUARY 2003**

GENERAL INFORMATION

1. **NATURE OF THE BUSINESS** : DENTAL PRACTITIONER
2. **BANKERS** : STANDARD BANK – UMHLANGA
3. **ADDRESS** : 58 PROTEA MALL
UMHLANGA ROCKS
4320

TELEPHONE: 031) 561 1411
FAX: 031) 561 4155

MARKSON AND COMPANY ACCOUNTING

42 THE MEWS OFFICE PARK
16 UMHLANGA ROCKS DRIVE
UMHLANGA RIDGE
4319

TEL: 031) 561 1445
FAX: 031) 561 1446

**APPROVAL OF THE FINANCIAL STATEMENTS
BY THE OWNER**

THE FINANCIAL STATEMENTS APPEARING ON THE FOLLOWING PAGES
HAVE BEEN APPROVED AND SIGNED BY THE OWNER ON 08 MARCH
2003.

DR D. FELTON

ACCOUNTANTS REPORT

THE FINANCIAL STATEMENTS APPEARING ON THE FOLLOWING PAGES
HAVE BEEN PREPARED FROM THE INFORMATION SUPPLIED BY THE
OWNER.

08 MARCH 2003

G. MARKSON

**DR D. FELTON
BALANCE SHEET AS AT 28 FEBRUARY 2003**

CAPITAL EMPLOYED

OWNERS EQUITY		1131 900-00
CAPITAL	(1) **	250 000-00
RETAINED INCOME	(2) **	881 900-00
LONG-TERM LIABILITIES		90 000-00
LOAN FROM MLS BANK		90 000-00
		<u>1221 900-00</u>

EMPLOYMENT OF CAPITAL

FIXED ASSETS		1050 000-00
LAND AND BUILDINGS		750 000-00
EQUIPMENT	(3) **	120 000-00
MOTOR VEHICLES	(4) **	180 000-00
GOODWILL		50 000-00
WORKING CAPITAL		121 900-00
CURRENT ASSETS		140 900-00
INVENTORY		20 000-00
DEBTORS		100 000-00
CASH RESOURCES	(5) **	20 900-00
LESS: CURRENT LIABILITIES		19 000-00
CREDITORS		19 000-00
		<u>1221 900-00</u>

NOTES:

- Denotes the capital that was initially utilised to start the business.
- Indicates the income retained for the year ending February 2003.
- Net cost of equipment after depreciation is removed. Depreciation for equipment is calculated on the reducing balance method and is R30 000 for the year.
- Net cost of motor vehicles after depreciation is removed. Depreciation is calculated on the Fixed balance method and the total cost of the asset is divided by a fixed period of time, in this instance the period is ten years. The fixed depreciation cost is thus R20 000 per year.
- Cash resources refer to petty cash and cash in the bank cumulatively.

**DR D. FELTON
INCOME AND EXPENDITURE STATEMENT AS AT 28 FEBRUARY 2003**

INCOME

TURNOVER	4005 784-00
Add: OTHER INCOME	<u>2 000-00</u>
INTEREST FROM BANK	<u>2 000-00</u>
	<u>4007 784-00</u>

EXPENDITURE	
ACCOUNTING FEES	2 500-00
BANK CHARGES	6 354-00
BAD DEBT COLLECTION FEES	6 700-00
DENTAL SUPPLIES	469 000-00
DEPRECIATION	50 000-00
ELECTRICITY AND WATER	18 860-00
INSURANCE	18 840-00
INTEREST ON LOAN	13 050-00
JOINT SERVICES BOARD	9 580-00
MAINTENANCE	3 000-00
RENT	150 000-00
SALARIES AND WAGES	2348 000-00
STATIONERY	4 000-00
TELEPHONE AND FAX	26 000-00
	<u>3125 884-00</u>

NET RETAINED PROFIT **881 900-00**

NOTES

- The retained income is taxed as the personal tax rate for the sole proprietor at the annual rate of 36% provisional tax paid to the Receiver of Revenue in two instalments.
- The cost of services is the expenditure as this is a service business and replaces the cost of sales in typical income statements.

3.3.2.2.1. SEGMENTAL ANALYSIS OF THE PRACTICE

Table 3.4. Segmental Analysis By Department

TOTAL TURNOVER = R4005 784-00		TOTAL NUMBER OF HOURS WORKED = 3840	
GENERAL DENTISTRY	ORAL HEALTH DEPARTMENT	PROSTHODONTIC	COSMETIC
R1400 000-00 at 1248 hours (per year)	R960 000-00 at 1728 hours (per year)	R1447 784-00 at 824 hours (per year)	R200 000-00 at 40 hours (per year)
		(R63 252-00 at 36 hours per year by the hygienist and the remainder by the dentist at R1384 532-00 at 788 hours.)	(R60 000 000-00 at 12 hour per year by the dentist and the remainder of R140 000-00 at 28 hours by the hygienist).
= R11667-00 at 10.48 hours per month.	=R80 000-00 at 144 hours per month.	=R120649-00 at 68.67 hours pr month.	=R16667-00 at 3.33 hours per month.

Table 3.5. Segmental Analysis By Staff

DENTIST CONTRIBUTION	HYGIENIST CONTRIBUTION
R1400 000-00 (general dentistry) + R1384 532-00 (prosthodontic dentistry) + R60 000-00 (cosmetic dentistry)	R960 000-00 (Oral hygiene department) + R63 252-00 (Prosthodontic dentistry) + R140 000-00 (Cosmetic dentistry)
Total = R2844 532-00 per year	Total = R1163 252-00 per year
1248 hours (General dentistry) + 788 hours(Prosthodontic dentistry) + 12 hours (Cosmetic dentistry)	1728 hours(Oral hygiene department) + 36 hours (Prosthodontic dentistry) + 28 hours (Cosmetic dentistry)
Total = 2048 hours per year	Total = 1792 hours per year
Contribution per hour = <u>R2844 532-00</u> 2048 hours = R1388-93 per hour	Contribution per hour = <u>R1163 252-00</u> 1792 hours = R649-36 per hour

The number of hours worked and the level of profit created by the oral hygienist is attributable to the fact that lower tariffs are charged for general oral hygiene work and that cosmetic dentistry is still growing. The hygienist fee has only been increased by 10% for the year. The dentist's tariffs have been increased by 20% for the next financial year. The services generated by the dentist commands a higher price at lower number of work hours.

3.3.2.2.2. FINANCIAL ANALYSIS:

This analysis is conducted to determine what the present financial welfare of the organisation is and if it is in a position to initiate specific strategic moves that may require funding both internally and externally. The analysis will also aid in drawing up a general picture regarding the type of strategies that may be implemented and the type of organisation the practice is that is , is it risk adverse or a risk taker?

a) RETURN:

Profitability analysis:

Will be analysed utilising 6 ratios and they are as follows:

$$\begin{aligned}\text{Gross margin percentage} &= \frac{\text{Gross Margin}}{\text{Sales}} \times \frac{100}{1} \\ &= \frac{4007784 - 3125884}{4005784} \times \frac{100}{1} \\ &= \frac{881900}{4005784} \times \frac{100}{1} \\ &= 22.02 \%\end{aligned}$$

This ratio indicates the percentage of profit that is obtained for every R1 of sales generated. The remainder of the percentage out of 100% indicates the cost price of rendering the service per R1. Thus the implication is that for every Rand generated 22.02% are profit and 77.98% is required to create the service or is the cost of the sale.

$$\begin{aligned}\text{Net Percentage Margin} &= \frac{\text{Net Profit}}{\text{Total Sales}} \times \frac{100}{1} \\ &= \frac{881900}{4005784} \times \frac{100}{1} \\ &= 22.02\%\end{aligned}$$

This ratio indicates that each time a R1 of sales occurs, 22.02% is profit that accumulates to the business(practice), which indirectly implies that the owner receives this over and above his salary.

Return on Assets before Interest and Tax (ROABIT)

$$\begin{aligned} \text{ROABIT} &= \frac{\text{Net Operating Profit}}{\text{Total Assets}} \times \frac{100}{1} \\ &= \frac{881900}{1221900} \times \frac{100}{1} \\ &= 72.17\% \end{aligned}$$

This ratio indicates how well total assets have been utilised in earning profit, before any parties are awarded by distribution of profit including the Receiver of Revenue in the form of tax and the providers of debt capital by the way of interest. Every Rand invested in total assets generates 72.17 cents in profit.

$$\begin{aligned} \text{Return on Equity (ROE)} &= \frac{\text{Net Profit}}{\text{Owners Equity}} \times \frac{100}{1} \\ &= \frac{881900}{1131900} \times \frac{100}{1} \\ &= 77.91\% \end{aligned}$$

This represents the residual net profit, which is available to the owner after being divided by the owner's equity. Currently the owner is receiving a 77.91% return, which is high.

Return on assets before Interest but after Tax (ROABIAT)

$$\begin{aligned} \text{ROABIAT} &= \frac{\text{Net Profit} + [\text{Interest} \times (1 - \text{Tax rate})]}{\text{Total assets}} \times \frac{100}{1} \\ &= \frac{881900 + [13050 \times (1 - 0.36)]}{1221900} \times \frac{100}{1} \\ &= \frac{881900 + [13050 \times 0.64]}{1221900} \times \frac{100}{1} \\ &= \frac{894950}{1221900} \times \frac{100}{1} \\ &= 46.88\% \end{aligned}$$

This ratio indicates how efficiently the assets of the practice are utilised to generate a profit. This ratio considers taxation to be an unavoidable and unmanageable expense. The ratio is utilised to indicate how well the management of the practice has succeeded in making efficient use of the assets of the practice

to generate profits. As taxation is considered to be an inevitable expense which management is not in a position to reduce, the assessment of its efficiency in the use of assets is calculated after taxation is deducted.

Return on Capital Employed (ROCE):

$$\begin{aligned}
 \text{ROCE} &= \frac{[\text{Net Profit} + \text{Interest} \times (1 - \text{Tax rate})]}{\text{Capital employed}} \times \frac{100}{1} \\
 &= \frac{[881900 + 13050]}{1221900} \times \frac{100}{1} \\
 &= \frac{894950}{1221900} \times \frac{100}{1} \\
 &= 73.24\%
 \end{aligned}$$

Return on capital employed has been calculated utilising only long-term capital and attempting to measure the net profit after tax but before the providers of this long-term capital have been rewarded. A return of 73.24% indicates that for every R1-00 of total long-term capital employed, 73.24 cents has been earned after tax and is thus available for distribution to the providers of capital.

b) **RISK PROJECTIONS:**

Three different factors influence financial risk projections. They are as follows:

Liquidity: These ratios help to determine whether the practice will be able to meet its financial obligations in the short term. It is a measure of the liquidity reflected by the working capital, which is the difference between current assets and current liabilities. Two ratios have been selected both of which are frequently employed by management.

They are:

$$\begin{aligned}\text{Current ratio} &= \frac{\text{Current assets}}{\text{Current liabilities}} \\ &= \frac{140900}{19000} \\ &= 7.42 \\ &= 7.42 : 1\end{aligned}$$

This ratio indicates the proportion of current assets to liabilities and is relatively high. Thus the practice has more assets in proportion to liabilities.

$$\begin{aligned}\text{Acid Test ratio} &= \frac{(\text{Current assets} - \text{Inventory})}{\text{Current liabilities}} \\ &= \frac{140900 - 20000}{19000} \\ &= \frac{120900}{19000} \\ &= 6.36 \\ &= 6.36 : 1\end{aligned}$$

This ratio is the real test of liquidity as it removes inventory (which is not easily converted to cash) from the calculation of current assets. Interpreted this means that the practice has R6.36 to meet every R1.00 which will require repayment in the short term.

Efficiency: Five ratios have been selected to assess the efficiency of the practice in managing its fixed and current assets. Assets are compared to turnover in order to determine how the relative use of assets over the period of time has performed in generating sales Rands. The three most important working capital items are tested in order to determine whether they have been efficiently used.

$$\begin{aligned}
 \text{Fixed Asset Turnover} &= \frac{\text{Turnover}}{\text{Fixed assets}} \\
 &= \frac{4005784}{1050000} \\
 &= 3.82 \\
 &= 3.82 : 1
 \end{aligned}$$

This ratio indicates the extent to which fixed assets have been efficient in generating sales. It indicates that for every Rand invested in fixed assets, R3.82 was generated in sales.

$$\begin{aligned}
 \text{Total Asset Turnover} &= \frac{\text{Turnover}}{\text{Total assets}} \\
 &= \frac{4005784}{1221900} \\
 &= 3.28 \\
 &= 3.28 : 1
 \end{aligned}$$

This ratio measures the way in which total assets have generated sales.

$$\begin{aligned}
 \text{Day's Inventory} &= \frac{\text{Inventory X 365}}{\text{Cost of sales (expenses)}} \\
 &= \frac{20000 \times 365}{3125884} \\
 &= 2.34 \text{ days}
 \end{aligned}$$

Indicates the quantity of inventory on hand in relation to the quantity purchased each day. There is a high level of efficiency in the movement of inventory on hand. This could be seen to be an indicator of the increase in activity of the practice, which requires a shorter inventory cycle.

Debtor's Collection period = 40% of Total Turnover is credit based with 60% thus being cash based. This amounts to the following proportions
 40% = R 1602 313.60 and 60% = R2403 470.40

$$\begin{aligned}
 &= \frac{\text{Debtors} \times 365}{\text{Credit sales}} \\
 &= \frac{100000 \times 365}{1602313.60} \\
 &= 22.78 \text{ days}
 \end{aligned}$$

The debtor collection period has been approximated based on the monthly age analysis of the practice and has been projected for the year. It indicates that the practice receives the majority of its outstanding balances within or by 22.78 days, which is excellent for the cash flows.

Creditor's Settlement Period: To calculate the time taken to settle debts with creditors the credit purchases for the year must be known. As the opening and closing inventory as well as the cost of sales for the year in question must be known. Thus credit purchases is calculated as follows:

$$\begin{aligned}
 \text{Credit purchases} &= \text{Cost of Sales} + \text{Closing Inventory} - \text{Opening Inventory} \\
 &= 3125884 + 20000 - 20000 \\
 &= 3125884
 \end{aligned}$$

$$\begin{aligned}
 \text{Creditor's Settlement Period} &= \frac{\text{Creditors} \times 365}{\text{Credit purchases}} \\
 &= \frac{19000 \times 365}{3125884} \\
 &= 2.22 \text{ days}
 \end{aligned}$$

These ratio measures how long it takes the practice to pay its creditors and it indicates that the practice does not have creditors "howling at the door" rather debts are paid efficiently.

Financial Leverage: These ratios examine the financing structure of the business. They focus on the combination of owner's equity and outside financing (long and short-term) used by the practice. Three ratios have been selected for this purpose are:

$$\begin{aligned}
 \text{Debt ratio} &= \frac{\text{Total debt}}{\text{Total assets}} \times 100 \\
 &= \frac{90000 + 19000}{1221900} \times 100 \\
 &= \frac{109000}{1221900} \times 100 \\
 &= 8.92\%
 \end{aligned}$$

The debt ratio has been defined as total debt compared to total assets. The total debt includes long-term loans and current liabilities. Thus the practice has a total debt to total asset ratio as follows 8.92: 1. The implication is that 8.92 cents of every R1.00 of total assets is debt.

$$\begin{aligned}
 \text{Debt to equity} &= \frac{\text{Long-term loans}}{\text{Owners equity}} \times 100 \\
 &= \frac{90000}{1131900} \times 100 \\
 &= 7.95
 \end{aligned}$$

The debt to equity ratio has attempted to concentrate only on long-term debt that is debt, which requires a reward in the form of interest. The comparison is thus between long-term loans and owners equity. Thus for every R1.00 of owners equity raised 7.95 cents was raised through long-term debt.

$$\begin{aligned}
 \text{Interest Cover} &= \frac{\text{Net operating profit before interest and tax}}{\text{Interest}} \\
 &= \frac{881900}{13050} \\
 &= 67.58 \text{ times}
 \end{aligned}$$

The interest cover ratio, often referred to as the "times interest earned ratio" shows the number of times which the net profit is able to cover the interest which is due. It is calculated before tax and interest in order to reflect the position more accurately.

c) **BREAK-EVEN ANALYSIS:**

In strategic terms the break-even provides an estimate of the sales required before profits start to be earned. In the case of the dental practice it is evident that this is the point when sales = expenses incurred. The practice is unable to break down costs into fixed and variable costs as it is rendering a service. The current break-even point is what the practice needs to make to pay its expenses and this equates to 3125884-00. To determine the current cash value per hour at the practice the turnover of R4005784-00 and the number of hours it takes to achieve this is required which is 3840 hours.

Hence

$$\frac{4005\ 784-00}{3840}$$

$$= R1043.17$$

$$\text{per hour.}$$

Utilising the current strategy the combined efforts of the dentist and hygienist will reach the break-even point within:

$$\frac{3125884-00}{1043.17}$$

$$= 2996.52$$

$$\text{hours.}$$

Thus the break-even point is R3125 884-00 and is achieved within 2996.52 hours.

3.3.2.3. HUMAN RESOURCES:

Dental staff: The team comprises a dentist (27 years experience), who also has a post graduate qualification as a prosthodontist implying that he is a specialist in crown and bridge, implantology, dentures and other forms of malocclusion. The dentist is well reputed to as one of the best in the business and is the sole proprietor of the practice. There is an oral hygienist with 6 years of experience and who has undergone specialisation in implant, orthodontic and prosthodontic work.

Support staff: There is a practice manager who has been with the practice for 19 years and is also a qualified dental assistant, who doubles as both the practice manager and assistant when the situation arises. There is a full time assistant who has 23 years experience and has recently joined the practice. There is a full-time bookkeeper that manages all the accounts related matters. There is a fulltime sterilisation assistant who has been with the practice for 10 years and ensures that all the equipment are sterilised and also does routine maintenance work. A part-time cleaner is also employed to maintain the general hygiene of the practice. A full time receptionist who has been with the practice for 12 years is also present that is responsible for scheduling appointments for the dentist and hygienist and is responsible for the switchboard.

- It is important to note that there has been a low turnover of staff members. In total there has been only four oral hygienists in 27 years. Normal dental industry standards determine the working time for most hygienists working in a practice continuously to be averaged at approximately 4 years. The average at the practice is approximately 7 years. There have been two receptionists and 6 dental assistants, three bookkeepers in total. The employee turnover rate is extremely low in comparison to the general industry levels.
- There is an informal culture that determines the standards and expected levels of employee commitment and roles. This informal structure also governs appropriate employee behaviour. There is an informal attitude of aiding other employees and contributing towards the growth of the organisation that extends beyond the normal job descriptions of employees.

- All employees have to undergo induction training a minimum of two days prior to commencement of any formal work being initiated. The practice manager is responsible for employee induction and training and all other staff members' aid during this process and the first month on a new employees induction.
- Working conditions are also conducive towards maximum decentralisation towards the management of the various departments and staff are well compensated and rewarded for individual input. Regular weekly meetings keep all members of staff continuously abreast of events that have occurred or that are about to occur that affects the day to day operations of the practice. These meetings serve as a forum for the airing of any grievances, suggestions and discussions on patients, specific new technology and advances or workshops regarding the industry products and processes.
- There is a policy towards continuous development of the skills and qualifications of the various members of the team as it is recognised that the human resource function is key element in the service offering of the practice.

3.3.2. PURPOSE OF THE PRACTICE:

Currently the practice has no formal vision, mission or objectives. It has a general attitude to provide the best service possible to patients. This means only the highest quality materials are sourced and price is no object. The staff that are employed are generally some of the best in their specific fields and are committed to the standards set by management. The quality of care must also be reasonably affordable and must be consistent. The market that the practice has unconsciously targeted is the upper middle and upper class domestic and foreign patient's that belong to higher education, income and lifestyle groups.

3.3.3. CORE COMPETENCIES OF THE PRACTICE:

A core competence gives a company competitive capability but it becomes a distinctive competence when the capability is a superior competence in comparison to rivals.

Some of the core competencies of the practice are:

- **Architecture:** Represented by the network of relationships and contracts both within and around the practice. The knowledge and routine that responds to market changes and the ability to exchange information in and around the practice's long-term relationships with suppliers and other relevant partners, have resulted in strategic benefits that competitors find difficult or impossible to replicate.
- **Reputation:** Concerned with the establishment of long-term relationships with other strategic partners and patients as well as other practices and healthcare providers. The reputation of the practice is one that continually strives to consistently provide superior quality, timeous, market-related and innovative dental care.
- **Operational capabilities:** Ability of the practice is to maximise the treatment offering to patients that minimised the number of appointments and time spent at the dentist. Effective planning of treatment reduces both patient and operators time wastage and reduce cost in the form of reducing the number of appointments required for the completion of treatment. The practice's ability to manage patient requirements, scheduling of treatments and operator's time and the booking of the various surgeries to ensure that there are no bottlenecks sets it apart from competitors.
- **Innovative capabilities:** Adaptation of current processes has lead to reduced operational times and operator fatigue whilst simultaneously creating more effective processes that are fine-tuned to patient and operator requirements. Currently the different operators within the practice continuously strive for ways to create more effective operational procedures e.g. implant stent that was created by the dentist to be utilise during the placement of implants. The stent enables the exact position of the implant to be placed intra-osseously thus reducing the time of implant placement by half. This implies that implants may now be placed in half

the time that was previously required. Patients may be spared from extra costs by some of the innovation created e.g. a Bonnet which is an acrylic resin sheath that is bonded to the crown of a tooth with orthodontic wire that is bent in to shape. During crown removal for recementation the bonnet rather than the crown is tapped, which reduces damage to the crown thus rendering it reusable. The patient thus saves on the cost of a new crown as commonly crowns fracture when they are tapped on directly.

- **Human resource capabilities:** Ability to attract and retain highly skilled and qualified, talented staff members. This is directly attributable to the creative and innovative nature of the practice and the reward system that encourages continuous striving for better results and more creativity in dealing with patients.

3.4. SUMMARY

The practice case study has been analysed to determine what the current strategy is like and to aid in the diagnosis of areas of improvement.

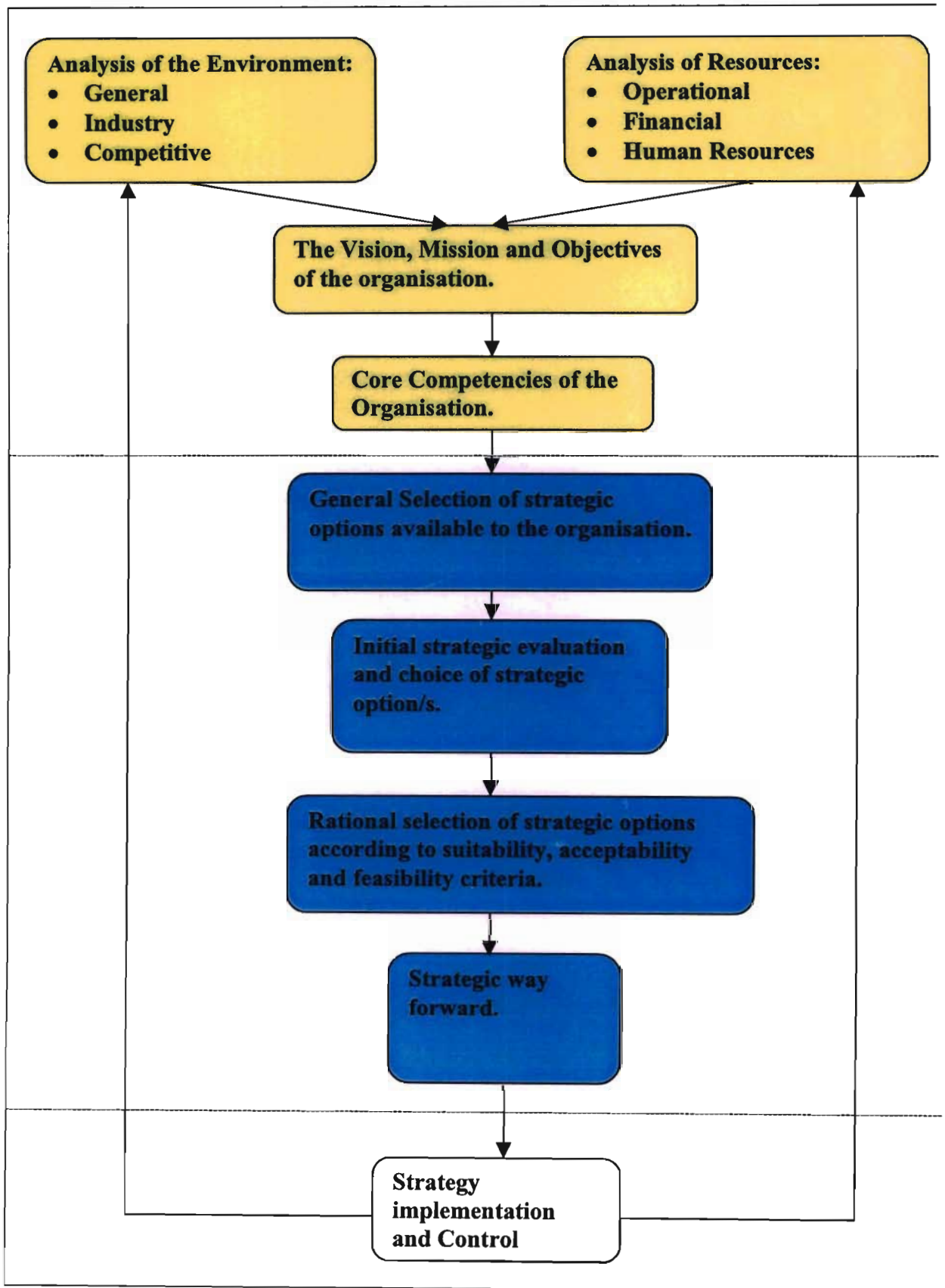
The practice underwent a series of analytical techniques that determined both External and Internal potential areas where the practice has advantages and disadvantages. The next chapter will deal with the evaluation of the analyses conducted in Chapter Three.

CHAPTER 4

EVALUATION OF THE PRACTICE

The focus of this Chapter is to evaluate the practice and to determine the strategic direction forward. In the Strategic Model presented on the next page, the areas highlighted in Blue indicate the sections discussed within this Chapter.

Figure 4.1. Evaluation Component of the General Model.



4.1. INTRODUCTION:

Chapter four encompasses the evaluation of the various analyses conducted in Chapter three. The purpose underlying the evaluation of the practice is necessary to determine what the direction forward is going to be.

4.2. STRATEGIC EVALUATION:

A general evaluation will be completed prior to a more specific evaluation utilising the evaluation criteria illustrated in Chapter Two.

4.2.1. INITIAL STRATEGIC EVALUATION:

The initial strategic evaluation of the practice will be conducted utilising the Competitor and SWOT analyses.

a) COMPETITOR ANALYSIS:

Utilising the environmental analysis conducted in chapter three (a list of key factors that have major influences on the industry is derived), an impact based competitor analysis is derived which enables the practice to profile competitors in context to market segment, customer and managers perceptions of value.

Impact Analysis.

Alpha: Elite practices generally that have specialised staff with postgraduate qualifications e.g. prosthodontic practice that offers basic dentistry and combines this with the various types of crown and bridge, denture and implant work. These practices tend to be expanded through aggressive amalgamation with smaller general practices that expand the acquiring practice's scope to encompass other market segments, thus increasing market share and eventually profits.

Beta: average practices that provide adequate levels of basic dentistry with occasional specialised dentistry. These practices tend to form the bulk of the dental practices in South Africa and are general practices run by a dental surgeon or dentist offering mainly basic dentistry but at levels of service, cost and skill higher than the gamma group

Gamma: Public healthcare dentists that are established in the numerous hospitals and clinics. They provide basic dentistry with no frills and at low costs.

Delta: refers to the dental practice under investigation and the practice offers both specialised and general dentistry and preventative dentistry.

Scoring System:

Very positive	+ 3
Positive	+ 2
Mildly positive	+ 1
Neutral	0
Mildly negative	- 1
Negative	- 2
Very Negative	- 3

Table 4.1. Key Success Factors Analysis

List of key factors	Alpha	Beta	Gamma	Delta
The Internet and e-commerce capabilities that have revolutionised the way business is being conducted.	+3	+1	0	0
Increasing globalisation of the industry, which has created a single large industry rather than an industry that, is fragmented on the basis of the differences in technology and quality of the dental services of different countries.	+3	+2	0	+2
Increase in the long-term industry growth rate specifically in South Africa.	+3	+1	0	+1
Positive shift in patient attitudes, lifestyle and societal concerns that is focussing on dentistry in the form of rehabilitative, cosmetic and preventative dentistry.	+3	+1	+1	+2
Positive shift in the preferences of patients i.e. patients require more differentiated rather than standardised services in a single location and are reluctant to visit multiple practices for treatment.	+3	+2	0	+2
Shift in patient demographics that include foreign patients, new user segments due to growth in incomes and spending power of the domestic patient.	+3	+1	0	+2
Shift in the structure of the industry due to government deregulation.	0	-1	-2	0
Dental technology, process and product advancements that have lead to cost and efficiency savings as well as increasing differentiation of the service offerings.	+3	+1	-2	+1
Competitive intensity has increased due to increases in the growth of the dental industry and the above-average profitability.	0	-2	0	-1
Dentist bargaining power has shifted in their favour.	+3	+1	0	0
Total Scores	+24	+7	-3	+9

It is evident from the above analysis that the elite practices have the resources necessary to capitalise on the impact factors presented by the Industry competitor impact based analysis. The practice under investigation has not fully capitalised on the key industry factors that would lead to competitive success that is the Internet and e-commerce capabilities, inadequate adaptation to new technologies, processes and products as well insufficient capitalisation on shifts in patients preferences and purchase patterns.

Competitive standing by market segment.

Alpha, Beta and Gamma and Delta still have the same connotations.

Scoring System

Very strong	+ 3
Strong	+ 2
Average	+ 1
Neutral	0
Moderately weak	- 1
Weak	- 2
Very weak	- 3

Table 4.2. Market Segment Analysis

Market segment	Alpha	Beta	Gamma	Delta
General dentistry	+3	+2	+1	+2
Specialised dentistry	+3	0	-1	+3
Cosmetic dentistry	+3	0	-2	+2
Preventative dentistry	+3	+1	0	+3
Total Scores	+12	+3	-2	+10

Utilising the analysis presented above it is clear that the alpha group of practices has penetrated all the market segments but it is not evident what percentage of market coverage each group of competitors has.

The delta practice has room for further penetration into its main competitors (Alpha groups) market segments and for improvement in its current strategy to enjoy the benefits of the elite practices of the Alpha Group.

Understanding Perceived Added Value.

The perceptions of both management and patients need to be identified the issue of salience is to determine whether managers perceptions of perceived value correlate to patient perceptions. Perceived value is determined in relation to cost and differentiation of the type of treatment offerings of the various competitors and this is ranked against a list of characteristics of perceived value.

The weighted scores for the other groups of practices have been estimated after interviews with the respective owners of such practices where interviewed via the telephone and after telephone and personal interviews with patients that attended the various other groups of practices.

The data for the analysis was derived in the following way:

- Five characteristics of perceived value where determined and listed in a questionnaire format.
- Patients where requested to rate each of the characteristics importance which could be assigned the lowest value possible being 1 and the highest value possible being 10 such that all five characteristics together had to provide a total value of 50. This represented a weighted score, which enabled the individual importance of each characteristic to be determined.

The tables below reflect first the weighted scores for management of the various practices and finally the second table reflects the weighted scores for the various patients of these practices.

Table 4.3. Weighted scores of Management

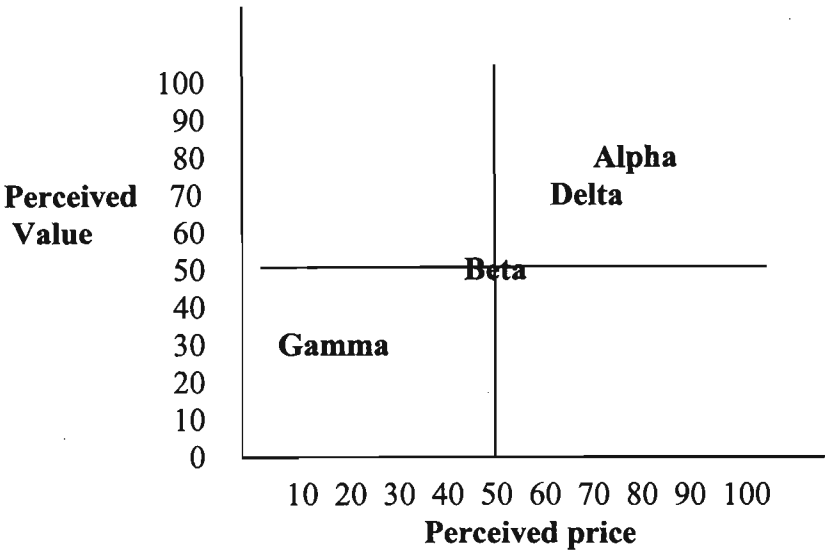
Characteristic of perceived value	Alpha	Beta	Gamma	Delta
Affordability (costs of the various services).	8	7	9	8
Reputation of the practitioner/practice	8	5	1	8
High product differentiation and variety of type of service offering.	8	5	1	8
Superior operational/ technical ability of the practitioner/s.	9	6	2	8
Location and availability of the practitioners services.	8	5	1	8
Total score out of 50	41	28	14	40
Weighted value out of 100	82	56	28	80

Table 4.4. Weighted scores of patients.

Characteristic of perceived value	Alpha	Beta	Gamma	Delta
Affordability (costs of the various services).	6	8	10	6
Reputation of the practitioner/practice	8	4	2	8
High product differentiation and variety of type of service offering.	9	5	1	7
Superior operational/ technical ability of the practitioner/s.	8	5	5	8
Location and availability of the practitioners services.	9	5	5	8
Total score out of 50	40	27	23	37
Total score out of 100	80	54	46	74

It is evident that Delta group has slightly overrated their perceived value when compared to the perceived value of patients. The only other group of competitors, who has a major discrepancy between patients and management’s perceived value, is the Gamma group. This may be attributed to the fact that patients perceptions of Public healthcare is very poor and management’s perceptions is that they are providing an essential service that has no room for frills.

Figure 4.2. Perceived Value



The perceived value of management and patients tends to be more or less correlated and that practices are pursuing strategies that tend to capitalise on patients perceived value systems. It is evident that the opportunities and threats reflected may be applicable to groups of practices based on the strategies and resources that the have.

The discrepancy that is evident between management and patients perceptions of value with regard to the Gamma group is as a result of what patients expect and the gap that is evident as to the kind of service that management perceives they are required to provide. The analysis of these factors go beyond the scope presented in this study and requires additional research.

The Delta group (which is the focus of the study) is still lagging behind with its competitive strategies when compared to the leading group of practices. It requires a competitive strategy that capitalises to a greater extent on the key industry success to improve its current strategy to be able to create greater actual and perceived value added.

b) SWOT ANALYSIS:

The practices strengths and weaknesses are compared against the opportunities and threats in an impact analysis. For the sake of convenience, the opportunities and threats, strengths and weaknesses of the environment in which the practice finds itself is first listed and assigned a title.

Table 4.5. Opportunities

Opportunities	Title
<ul style="list-style-type: none">• Increase in the number of foreign patients to South Africa due to greater awareness of the quality and costs of SA healthcare combined with inadequate healthcare in their country of residence.	Opportunity Issue (OI) 1
<ul style="list-style-type: none">• Positive shift in patients concerns regarding cosmetic and dentistry	OI 2
<ul style="list-style-type: none">• Growth in the number of domestic alliances with allied dental and other healthcare providers.	OI 3

Table 4.6. Threats

<u>Threats</u>	<u>Title</u>
<ul style="list-style-type: none">• Change in industry and competitive structure due to technological advancements.	Threat Issue (TI) 1
<ul style="list-style-type: none">• Inadequate marketing tools due to government regulation.	TI 2
<ul style="list-style-type: none">• Outdated methods of conducting business i.e. not utilising the Internet and e-commerce.	TI 3

Table 4.7. Strengths

Strengths	Title
<ul style="list-style-type: none"> Highly skilled, well-integrated dental team that is loyal and that can multi-task. They have working together for ten years and longer. They have continuously upgraded skills, in line with internationally accepted standards. 	Strength Issue (SI) 1
<ul style="list-style-type: none"> Strong location advantages that will enable the practice to capitalise on both local and foreign patients. 	SI 2
<ul style="list-style-type: none"> Comprehensive patient management system. 	SI 3
<ul style="list-style-type: none"> Excellent reputation both locally and internationally. 	SI 4
<ul style="list-style-type: none"> Numerous strong informal relationships with key suppliers and manufacturers of dental inputs. 	SI 5
<ul style="list-style-type: none"> Strong differentiation strategy. 	SI 6

Table 4.8. Weaknesses

Weaknesses	Title
<ul style="list-style-type: none"> Management that lacks long-term strategic direction and that has been resistant to change 	Weakness Issue (WI) 1
<ul style="list-style-type: none"> Poor marketing system. 	WI 2
<ul style="list-style-type: none"> Inadequate current levels of equipment. 	WI 3
<ul style="list-style-type: none"> Inadequate utilisation of existing Internet and e-commerce facilities 	WI 4

Impact Analysis.

Finally the SWOT analysis is tabulated together and ranked.

Scoring System:

Denotes that a strength the practice possesses would help it take advantage or, or counteract a problem arising from an environmental change or a weakness that would be offset by the change. The range being from and including +1 to +3, with +1 being the least positive and +3 being the most positive.	+
Denotes that a strength would be reduced by the environmental change or a weakness would prevent the practice from overcoming the problems associated with an environmental change or be accentuated by the change. The range being from and including -1 to -3, with -1 being the least negative and -3 being the most negative.	-
Denotes that current strength or weakness would not be affected by an environmental change	0

Table 4.9. SWOT Matrix

Opportunities and Threats	OI 1	OI 2	OI 3	TI 1	TI 2	TI 3	+	-
Strengths								
SI 1	+2	+2	0	-3	+1	0	+5	-3
SI 2	+2	+2	+1	0	0	0	+5	0
SI 3	+2	+2	-2	0	+1	0	+5	-2
SI 4	+2	+3	-3	+1	0	0	+6	-3
SI 5	+2	+3	-3	0	0	+1	+6	-3
SI 6	+1	+3	-3	+1	0	0	+5	-3
Weaknesses								
WI 1	0	0	-1	0	0	-2	0	-3
WI 2	-2	-2	-3	-2	-3	-3	0	-15
WI 3	-1	-2	-1	-2	-1	0	0	-7
WI 4	-2	-3	-3	-2	0	+2	+2	-10
Impact Scores	+11	+15	+1	+2	+2	+3		
	-5	-7	-19	-9	-4	-5		
Total Scores	+6	+8	-18	-7	-2	-2	+34	-49

It is evident from the above weighted analysis that certain opportunities like rapid technological advancement coupled with the weakness of inadequate utilisation and exploitation of the Internet and e-commerce is going to lead to problems. Inadequate marketing is going to be largely affected by the threats facing the practice and strategies thus need to be developed to create internal growth of the practice to neutralise the threats and capitalise on the opportunities. The practice does have the necessary tools at its disposal to implement more efficient utilisation of the Internet and e-commerce however it has been largely ignored as a means of achieving growth.

From the suitability analysis conducted the practice is able to eliminate certain strategic options from the potential list of 15. It is clearly evident that the practice is currently in a profit and strategy winning situation hence the strategic options of turnaround, divestiture, liquidation or filing for bankruptcy is inapplicable.

The innovation strategy is not particularly relevant, as the focus of the practice is to expand the usage of the current product offerings.

The practice needs to obtain sustainable competitive and profit advantages not superficial advances that are eroded once competitors catch up to the innovation. The incessant game of trying to stay ahead of the chasing pack that is typical of an innovation strategic option is too risky. Currently the practice does focus on innovation of its processes and products and this is built-in to the tacit knowledge of the operating processes and the knowledge of the staff.

Vertical integration with the company's that supply the practice's inputs is unnecessary as special relationships and a dependency by suppliers upon the practice is evident which negates the necessity of further costs required via integration with these suppliers. The current relationship that exists between the practice and the various suppliers encourages suppliers to ensure high quality product consistency, efficient supply upon demand by the dental practice, which has eliminated the need for extra storage requirements and the various other costs associated with supplying the practice internally.

Horizontal integration is eliminated, as a possibility as currently the practice needs to focus on internal growth and expansion that does not require excessive deviation from the present costs incurred. Perhaps the option of integrating with practices that have similar operating styles may become feasible later on. The funding required by horizontal integration is too substantial and the benefits may not always be guaranteed. The practice may utilise its funds on other options that present with more substantial and more profitable yields.

Diversification both concentric and conglomerate is inapplicable, as the practice needs to focus on its core competencies leading it forward to new markets. The implications of diversification are too risky both strategically and financially. The risky nature of a joint venture with regards to funding and control of the new entity reduces its attractiveness as an option.

This elimination has led to a number of strategic options available to the practice and they are:

- Strategic Option A: Concentrated internal growth focussed on creating value through the reduction of costs within the value chain whilst simultaneously improving the product service offering to patients e.g. through greater utilisation of E-commerce and Internet capabilities.
- Strategic Option B: Growth through the utilisation of a market penetration strategy of domestic and foreign markets using existing products and services. More effective and efficient marketing techniques will be utilised e.g. The Internet as the new marketing tool.
- Strategic Option C is external growth through strategic alliances with domestic and foreign partners.

4.2.2. SUITABILITY ANALYSIS

Screening is the process of comparing the relative merits of different strategies. The basis on which specific strategies may be assessed varies from an absolute basis, against each other, or against the “do nothing” situation. The three contrasting approaches to screening are:

- Ranking options represents the systematic way of analysing the specific options for their suitability or fit with the factors arising from the strategic analysis.
- Decision trees, which also assess specific options against a list of key strategic factors. However, options are ranked by progressively eliminating others.
- Scenarios, which attempt to match specific options with a range of possible future outcomes and are particularly useful where a high degree of uncertainty exists. Scenarios provide a means of keeping many more options under consideration.

The option of to “do nothing” arises out of perhaps the organisation should continue to embark on its existing strategy and reap the benefits whilst they last. However it is imperative to note that the organisation that does not identify opportunities for the future and capitalise on them will soon face dire implications to their profitability and market share.

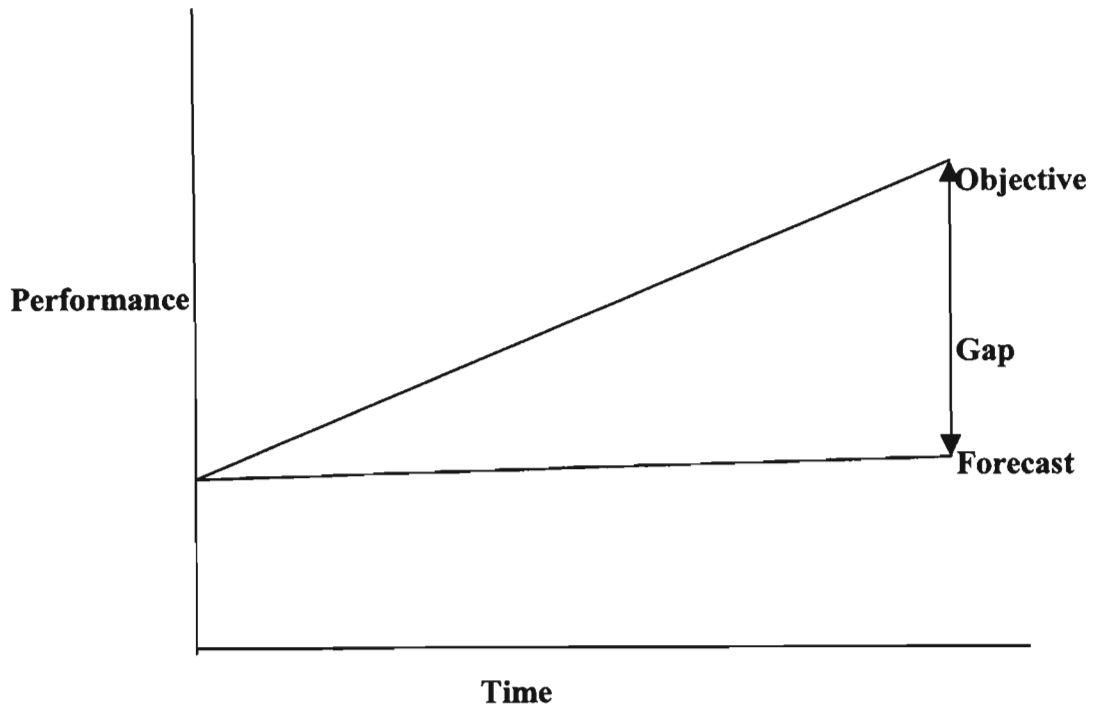
In assessing strategies for the future, management is usually concerned with understanding the incentive to change. Thus the shortfall between the current strategies and the organisations future obligations and aspirations. This shortfall is referred to as the gap and a gap analysis is conducted to assess the need for change.

The gap analysis aids management in the following ways:

- Creates a better understanding of the dynamics of the competitive environment.
- In the development of strategies to catch market leaders, or strategies to stay ahead of the chasing pack.

Essentially the gap analysis defines where the organisation is currently, identifies where the organisation would like to be and finally illustrates ways of achieving the this and ultimately closing the gap. A diagram illustrating a performance gap analysis reflected below.

Figure 4.3. Gap Analysis



Key:

- **Objective:** Where the organisation wants to be.
- **Gap:** The difference between the forecast and the objective and the ways and means of getting to the objective.
- **Forecast:** The present position of the organisation.

When gaps are identified, management has three alternatives:

The practice has identified that presently it has a 5% stake in the Alpha group segment of 40% and a 2% market share in the total market share. The practice would like to grow its current market share by approximately 15% over the next three years and that it is evidently not possible if the present strategy is continued hence the practice has to evaluate its objectives in a number of ways and they are:

1. **Redefine the objectives:** The first task, when a discrepancy is identified between the objectives and the forecast is to check that the organisation's objectives are realistic and achievable.
2. **Does nothing:** Reorganisation and redirection is common in the business environment but there is strong evidence to suggest that people become weary of continual changes and disruptions.

3. **Change the strategy:** When a gap is identified between the objectives and the forecast and the first two options are considered and then rejected, the only alternative is to develop a new strategy and change the current strategy.

Performance gaps consist of the following three segments:

1. **Improvement gaps.** These are gaps, which may be narrowed through the utilisation of internal changes that improve the efficiency and effectiveness of existing operations.
2. **Expansion gaps.** These are gaps, which may be narrowed by internal strategies that increase growth, such as increasing market penetration, product development and targeting new markets.
3. **Diversification gaps.** When improvement and expansion strategies have not yet fully eliminated the gap then management may conclude that existing business cannot meet the organisation's objectives and an alternative strategy must be sought to ensure growth. These growth strategies include both diversification and integration strategies.

Value chain improvements through the efficient and effective usage of the Internet and e-commerce will ensure improvement gaps are eliminated. Foreign and domestic Market development through the effective and efficient utilisation of the Internet and e-commerce will reduce expansion gaps.

a) SUITABILITY OF STRATEGIC OPTIONS UTILISING THE SWOT ANALYSIS:

Table 4.10. Suitability using SWOT analysis

STRATEGIC ISSUES	STRATEGIC OPTION A	STRATEGIC OPTION B	STRATEGIC OPTION C
OPPORTUNITIES			
OI 1	+2	+3	+3
OI 2	+2	+3	+2
OI 3	0	0	+3
THREATS			
TI 1	+1	+2	+2
TI 2	+1	+3	+2
TI 3	+2	+3	0
STRENGTHS			
SI 1	+2	+2	+1
SI 2	+1	+3	+3
SI 3	+1	+2	+1
SI 4	+1	+3	+3
SI 5	+3	0	+2
SI 6	+3	+3	+1
WEAKNESSES			
WI 1	+3	+1	-2
WI 2	0	+2	+1
WI 3	0	0	+2
WI 4	+2	+1	0
POSITIVES	+22	+33	+26
NEGATIVES	0	0	-2
TOTAL SCORES	+22	+33	+24

From the above analysis it is evident that all three strategies have a positive impact on the practice however a weighted analysis with emphasis be paid to certain key factors may reveal a single strategic route forward for the organisation.

The weighted analysis is conducted and Opportunity Issue 1 is identified as the most important issue facing the practice. This Opportunity Issue (OI1) affects Strength Issues as well and they are multiplied by a factor depending on the influence of the OI 1 impact on the Strengths and weaknesses of the practice.

Table 4.11. Suitability using Weighted SWOT Analysis

STRATEGIC ISSUES	STRATEGIC OPTION A	STRATEGIC OPTION B	STRATEGIC OPTION C
OPPORTUNITIES			
OI 1 * 3	+6	+9	+9
OI 2	+2	+3	+2
OI 3	0	0	+3
THREATS			
TI 1	+1	+2	+2
TI 2	+1	+3	+2
TI 3	+2	+3	0
STRENGTHS			
SI 1	+2	+2	+1
SI 2 * 2	+2	+6	+6
SI 3	+1	+2	+1
SI 4* 2	+2	+6	+6
SI 5	+3	0	+2
SI 6* 2	+6	+6	+2
WEAKNESSES			
WI 1	+3	+1	-2
WI 2	0	+2	+1
WI 3	0	0	+2
WI 4	+2	+1	0
POSITIVES	+33	+48	+37
NEGATIVES	0	0	-2
TOTAL SCORES	+33	+48	+35

It is clearly evident from this type of analysis that Strategic Option B is the way forward, however the other two strategies are not going to be discarded. Strategic Option A will be amalgamated with Strategic Option B and will be utilised to reduce costs whilst improving service and product levels to both internally to the practice itself and externally to the patients.

Strategic Option C will not be discarded and may be utilised at a later stage once Options A and B have been implemented.

Further analysis of suitability will be conducted to evaluate the selected strategic options in correlation to the specific situation that the practice finds itself in.

b) LIFE CYCLE ANALYSIS:

Utilising the Arthur D. Little Life Cycle Matrix, appropriate strategies may be identified in terms of the two axes of the matrix. The two axes being Competitive Position on the Y-axis and Stages of Industry Maturity on the X- Axis. The motivation behind utilising this matrix is that it is ideal for use in markets that do not appear to reach maturity like the dental industry.

The position within the life cycle is determined by eight factors and the dental practice is evaluated according to these factors below.

- Market growth rate: market growth rate domestically and internationally is increasing. This largely due to growth in consumer sophistication and greater awareness about dental education and the benefits thereof.
- Growth potential: is increasing and there is as yet an undetermined limit on the growth potential of the practice if changes to the current strategy are implemented.
- Breadth of product lines: technology, product and process innovation is leading to increases in the breadth of the product lines. The practice continually strives to introduce new product lines that compliment existing products, thus increasing the product offering and thus catering for a greater number of patient requirements.
- Number of competitors: The larger more established dental practices are becoming fewer in number as dentist exit the industry through retirement or through entering into new ventures overseas. Graduate dentists prefer to practice

overseas rather than domestically to gain experience without having to expend on the costs of establishing a new practice in South Africa. Hence the number of competitors are more or less stable in number as some of the dentists that are exiting the industry are being replaced, but not at a rapidly increasing rate. The practice has few competitors but these competitors are well established. They are not concentrated in a specific area but rather split into the various provinces in South Africa. Locally competition is minimal.

- Spread of market share between these competitors: The largest portion of the market share is dominated by a few well established dental practices that have staff with many years of combined dental and managerial experience. These practices have established viable and surplus reserves of capital that enable capturing of market opportunities rapidly. This has ensured that these practices are always at the forefront of technological, process, product and market opportunities. The remaining practices are competing for a price of the remainder of the market share. They are not always able to capture market opportunities and tend to be followers with regards to adaptation to new technology, processes, and products. This occurs due to insufficient managerial and dental experience, lack of funding that prevents hiring of staff to augment the functions that are lacking, or insufficient funding that prevents capturing of market opportunities. The dental practice has a substantial portion of the market share and is in competition for market share with just a few established practices that are targeting the same niche markets.
- Customer loyalty: Smaller less established practices that offer basic dental services struggle to develop a loyal sustainable customer base. They are continuously developing strategies (usually price cutting or utilising cheaper, lower quality or expired dental products) that serve to poach customers away from other dental practices. The dental practice has a loyal sustainable patient base that is steadily increasing. The practice has an excellent reputation for rendering high standards of quality service efficiently. Fellow practitioners and allied healthcare workers as well as patients perceive this reputation. Referrals by allied healthcare practitioners, fellow practitioners and patients are common.
- Entry barriers: In the dental industry entry barriers are high due to the cost of capital and equipment, the cost of establishing a reputation and a sustainable patient base. Entry barriers are increasing as technology advances and the cost of

new dental technology is increasing. New practices have to expend large sums of capital prior to them even seeing their first patient and this could prove detrimental if the practice takes longer than anticipated to establish a patient network. Stringent regulation by the Government with regards to the marketing of dental practices also places strain on newly established practices in trying to develop a patient base. Sans advertisement the new practitioner is dependent on word-of-mouth referrals.

The competitive position of the dental practice is strong as it still has a few strong competitors all vying for the same target market and trying to establish a dominant position. All these practices in the strong competitive position have the potential to become the dominant leader. The versatility of the strategies that may be implemented implies that no single strong practice will have an established lead for a long period of time unless they develop sustainable strategies that capitalise on their core competencies.

Currently most dental practices that occupy the strong competitive position tend not to be concerned with each other's strategy but rather follow strategies of their own choice, represented by block A2 B2 on the grid below. The practice however wants to move to the position A2 B1 on the grid, which represents the growth phase as a dominant competitor.

It is evident from the figure presented in Chapter 2 that the dental practice falls into the **strong** competitive position and is in the **growth** phase of industry maturity.

Figure 4.4. Competitive Position and Stages of Industry Maturity.

COMPETITIVE SCOPE	STAGES OF INDUSTRY MATURITY			
	Embryonic A1	Growth A2	Mature A3	Ageing A4
Dominant B1	<ul style="list-style-type: none"> Fast growth Start up 	<ul style="list-style-type: none"> Fast growth Attain cost leadership Renew Defend position 	<ul style="list-style-type: none"> Defend position Attain cost leadership Renew Fast growth 	<ul style="list-style-type: none"> Defend position Focus Renew Grow with industry
Strong B2	<ul style="list-style-type: none"> Fast growth Catch up Attain cost leadership Differentiate 	<ul style="list-style-type: none"> Attain cost leadership Renew, focus Differentiate Grow with industry 	<ul style="list-style-type: none"> Attain cost leadership Renew, focus Differentiate Grow with industry 	<ul style="list-style-type: none"> Find niche Hold niche Hang in Grow with industry Harvest
Favourable B3	<ul style="list-style-type: none"> Start up Differentiate Focus Fast growth 	<ul style="list-style-type: none"> Differentiate, focus Catch up Grow with industry 	<ul style="list-style-type: none"> Harvest, hang in Find niche, hold niche Renew, turnaround Differentiate, focus Grow with industry 	<ul style="list-style-type: none"> Retrench Turnaround
Tenable B4	<ul style="list-style-type: none"> Start up Grow with industry Focus 	<ul style="list-style-type: none"> Harvest, catch up Hold niche, hang in Find niche Turnaround Focus Grow with industry 	<ul style="list-style-type: none"> Harvest Turnaround Find niche Retrench 	<ul style="list-style-type: none"> Divest Retrench
Weak B5	<ul style="list-style-type: none"> Find niche Catch up Grow with industry 	<ul style="list-style-type: none"> Turnaround Retrench 	<ul style="list-style-type: none"> Withdraw Divest 	<ul style="list-style-type: none"> Withdraw

The strategies selected will aid in reposition the offerings of the organisation and help to assist in positioning form strong to dominant.

c) POSITIONING:

Dental practice is currently pursuing a differentiation strategy that is targeting a niche market of sophisticated patient that has a need for more than basic dental requirements. These patient are well educated, are willing to spend money and time on their dental work (they view their dentistry as an investment), they are looking for cosmetic dentistry and other technological and product innovations.

The patients are generally well established and well known to the various staff members in the practice and come regularly for preventative treatments. They tend to be proactive with regards to their hygiene and are looking for ways to improve condition of their oral tissues.

The dental practice has to however decide if the current strategy is effective in leading the practice forward to face the challenges and opportunities of the future. Assessing the particular positioning strategy of the practice in its markets may be examined as follows:

1. Firstly list key resources and competencies underpinning the strategy (obtained from the list of competencies conducted earlier).
2. These are then examined in terms of the different bases of product or market strategy. They are thus examined in terms of whether they will ensure cost reduction or will they contribute to perceived value by patients.
3. Each of these resources and competencies are revisited to establish whether they are sustainable or difficult to imitate (i.e. core competencies or unique resources). These criteria are then assessed as to whether they are
 - Valuable to patients.
 - Rare (not easily obtained by competitors)
 - Complex (made up of several organisational processes).
 - Embedded in the tacit knowledge or routines of the organisation.

Table 4.12. Resources and Competencies Evaluation

Resources and competencies underpinning strategy	Which of these resources/competencies are likely to contribute to:		Which will be sustainable/difficult to imitate			
	Cost reduction	Added perceived value.	Valued	Rare	Complex	Tacit
Architecture	Yes	Yes	Yes	Yes	Yes	Yes
Reputation		Yes	Yes	Yes	Yes	Yes
Operational capabilities	Yes	Yes	Yes	Yes	Yes	Yes
Innovative capabilities	Yes	Yes	Yes	Yes	Yes	Yes
Human resource capabilities		Yes	Yes	Yes	Yes	Yes

Even though the current strategy will continue to ensure success for the practice, the intention is not to let opportunities that will propel the organisation forward, to be missed. Hence the new strategies will assist in capitalising on the opportunities that will ensure growth of the organisation

d) VALUE CHAIN EVALUATION:

The Value Chain activities of the practice are relatively efficient however there are aspects that can be improved to provide a more effective and efficient service.

The first stage is to identify the key activities within the value chain and to simultaneously list the areas that could be improved. The Value Chain activities will be subdivided and discussed under Primary and Support activities.

Table 4.13. Primary Value Chain Activities.

PRIMARY ACTIVITIES		
TYPE OF ACTIVITY	ASPECTS PERFORMED SATISFACTORILY	ASPECTS REQUIRING IMPROVEMENT
Purchased supplies and Inbound activities	<ul style="list-style-type: none"> • Efficient order and inventory maintenance cycle. • Minimal inventory storage required due to size of dental products. • Efficient creditor’s payment cycle. 	
Operations supporting service delivery	<ul style="list-style-type: none"> • Well-established network of key operating staff in ideal locations. • Regular maintenance of equipment and proper operatory standards ensure that full capacity utilisation is met. 	<ul style="list-style-type: none"> • More equipment required for spare surgery to ensure that greater utilisation of this facility is ensured.
Operations concerned with service delivery	<ul style="list-style-type: none"> • Well-established patient record and domestic booking system. • Effective and efficient Treatment management system including a recall 	<ul style="list-style-type: none"> • Foreign patients get provisional bookings that sometimes not in keeping with their individual plans and requirements. • Debt collection system that requires telephonic and printed statement

	<p>system.</p> <ul style="list-style-type: none"> • Established system for the Treatment of emergency cases. • Full focus on preventative and rehabilitative system coupled with patient education that ensures patients are kept constantly informed of advances in techniques and technology. 	<p>reminders. This could be more effectively managed.</p> <ul style="list-style-type: none"> • Patients who change their details generally have to wait until they are booked in for an appointment before they can update their details. This system could be managed more expediently.
Distribution and Inbound logistics	<ul style="list-style-type: none"> • There is virtually no outbound logistics as the support staff and the patients have to come to the practice to receive and work. • Dental Theatre work for children is generally combined with other work that they may require so a single anaesthetic is administered. 	<ul style="list-style-type: none"> • They only instance of outbound logistics is Theatre work performed on children and this has proven to be time consuming and cost-ineffective as time spent in theatre could provide greater income utilised on patients at the practice. • Theatre staff often determines dates and times and not by the practice hence they are not always convenient.
Sales and Marketing	<ul style="list-style-type: none"> • Current system is through referrals and word-of-mouth. 	<ul style="list-style-type: none"> • Clinical staff spend too much time explaining the various service offerings that could be of greater value spent on performing actual clinical work. There is an inadequate marketing system in place.
Service	<ul style="list-style-type: none"> • Dedicated well-trained staff whose main focus is the provision of the highest levels of service. 	<ul style="list-style-type: none"> • Established system for handling complaints and queries. This is time consuming and staff are often complaining of having to deal with these issues during clinical sessions.

Table 4.14. Support Activities within the Value Chain.

SUPPORT ACTIVITIES		
TYPE OF ACTIVITY	ACTIVITIES PERFORMED SATISFACTORILY	ACTIVITIES THAT COULD BE IMPROVED
Product R&D, Technology and Systems development.	<ul style="list-style-type: none"> Organisational culture that encourages creativity in service delivery and operations, products and process development. 	<ul style="list-style-type: none"> Late to adapt new technologies to current processes and insufficient monitoring of best practices of competitors.
HR Management.	<ul style="list-style-type: none"> Loyal, dedicated well-educated and highly skilled team that work exceptionally well as a unit and independently. 	<ul style="list-style-type: none"> Require further staff to augment existing functions especially when permanent staff is on sick leave or annual leave.
Procurement	<ul style="list-style-type: none"> Well established relationships with dental suppliers. 	<ul style="list-style-type: none"> Dependency on dental suppliers still to great, thus requiring new initiatives to wean the practice of dental suppliers and source materials independently.
Firm infrastructure	<ul style="list-style-type: none"> Generally well organised and supportive informal infrastructure. 	<ul style="list-style-type: none"> Need a clearly defined Vision, Mission and objectives of the organisation. Organisation too traditional in its approach and needs to adapt to e-commerce capabilities.

Thus from the evaluation of the Value Chain it is evident that the selected strategic options will counteract the areas that require improvement.

e) PORTFOLIO ANALYSIS:

The aim is to identify whether the selected strategic option/s will change the current position of the various components of the practice's portfolio. Thus, the question is asked whether the strategies selected will improve the position of the star and cash cow businesses whilst reducing the strategic financial and operational losses incurred by the question mark and dog business units.

The new strategies will aim to increase the productivity of the Star, Cash Cow and Question mark business units, whilst simultaneously minimising the operating inflows into the Dog unit. The question mark business will be turned around from a slightly under-performing unit to either a cash cow or star business.

The various business units are defined below and the projections that the new strategy will create are illustrated below.

Figure 4.5. Portfolio Matrix

<p>Star: Prosthetic Work:</p> <ul style="list-style-type: none"> • Implants • Crowns • Bridges • Dentures • Bite splints 	<p>Question mark: Cosmetic dentistry:</p> <ul style="list-style-type: none"> • Laser bleaching
<p>Cash Cow:</p> <ul style="list-style-type: none"> • General dentistry • Oral Hygiene Department. • Home bleaching 	<p>Dog:</p> <ul style="list-style-type: none"> • Paediatric dentistry

The expected projections for each unit are illustrated in the Figure below.



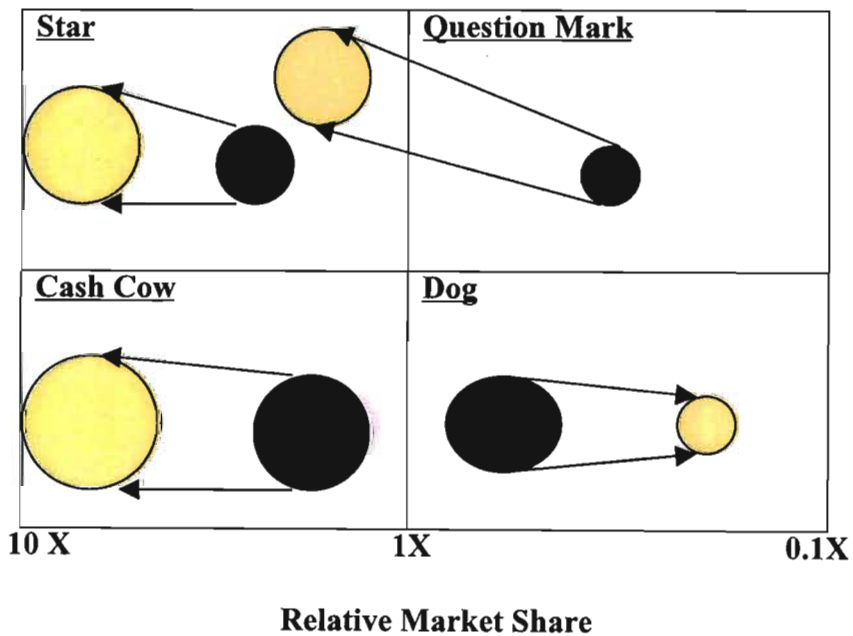
Current Position Symbol	Projected Position Symbol
	

Figure 4.6. Projected Matrix.



Thus the strategic options selected do meet the suitability criteria and may now be evaluated via the acceptability and feasibility criteria.

4.2.3. ACCEPTABILITY EVALUATION:

The suitability evaluation revealed that the strategic options selected would result in changes in the right direction. Thus an acceptability analysis may now be conducted for strategic options A and B. Strategic option C will be evaluated once the other two options have been successfully implemented and are ensuring further growth of the practice.

The strategy has to meet the following criteria to be deemed acceptable.

- Financial targets that include minimum growth of the practices profit by 30% over the next 3 years. Which effectively equates to growth in profits of 10% per annum.
- Increase in market share of 15% of the Alpha group over the next three years. Effectively meaning a growth of 5% per annum. At the end of three years the practice will have a total market share of 11% in the Alpha group ($15\% \times 40\% = 6\% + 5\%$ (existing market share)).
- Improvement in the costs and quality of services performed that benefit the various stakeholders who are staff and the practice internally and the patients and the community externally.
- Improvement in the domestic and foreign reputation of the practice due to the quality and type of services being rendered.

In assessing the acceptability of the selected strategic options, the following information will be evaluated:

a) RETURN:

The various costs of implementing the selected strategic options are tabulated and explained below:

Table 4.15. Requirements for the Strategic Options

Requirements	Cost of Requirements
Inter-active website to be utilised for patient queries, complaints, communication and as a marketing tool.	R50 000-00
Two Ultrasonic scalers with prophylactic Function.	R20 000-00
Digital intra-oral camera and accessories.	R20 000-00
New Dentsply White lights X 3	R10 000-00
Office equipment including new office chair, fax and computer with necessary accessories (HP laser printers, scanner and CD writer).	R20 000-00
Re-training of existing staff and of new staff members to augment existing staff functions.	R10 000-00
Salary of part-time new staff member to augment existing functions	R40 000-00 annually
<u>TOTAL</u>	<u>R170 000-00</u>

Return on Capital Employed (ROCE):

$$\begin{aligned} \text{ROCE year 1} &= \frac{\text{Net profit before Interest and Tax}}{\text{Capital employed}} \times 100 \\ &= \frac{[970090^* + 11158^*]}{1391900^*} \times 100 \\ &= \frac{981248}{1391900} \times 100 \\ &= 70.50\% \end{aligned}$$

970090* = 881900 X 10%(expected increase in profit per annum)

11158* = 76950 (R90 000 – R130505 (MLS Bank Loan)) X 14.5%

1391900* = 1221900 + 170 000 (expenses of the new strategy is provided by the previous years retained income not from other sources of capital).

$$\begin{aligned} \text{ROCE year 2} &= \frac{\text{Net profit before Interest and Tax}}{\text{Capital employed}} \times 100 \\ &= \frac{[1067099^* + 9540^*]}{1271900^*} \times 100 \\ &= \frac{1076639}{1271900} \times 100 \\ &= 77.35\% \end{aligned}$$

1067099* = 970090 X 10%(expected increase in profit per annum)

9540* = 65792 (R76950 – R11158 (MLS Bank Loan)) X 14.5%

1271900* = 1221900 + 50 000 (continued expenses of the new strategy).

$$\begin{aligned} \text{ROCE year 3} &= \frac{\text{Net profit before Interest and Tax}}{\text{Capital employed}} \times 100 \\ &= \frac{[1173809^* + 8157^*]}{1271900^*} \times 100 \\ &= \frac{1181966}{1271900} \times 100 \\ &= 92.93\% \end{aligned}$$

1173809* = 1067099 X 10%(expected increase in profit per annum)

8157* = 56252 (R65792 – R9540 (MLS Bank Loan)) X 14.5%

1271900* = 1221900 + 50 000 (continued expenses of the new strategy).

The ROCE's for all 4 years are tabulated below and plotted onto a graph.

Table 4.16. Forecasted ROCE'S

YEAR	ROCE PERCENTAGE	CHANGE IN ROCE
CURRENT	73.24%	
1	70.50%	(2.74%)
2	77.35%	6.85%
3	92.93%	15.58%

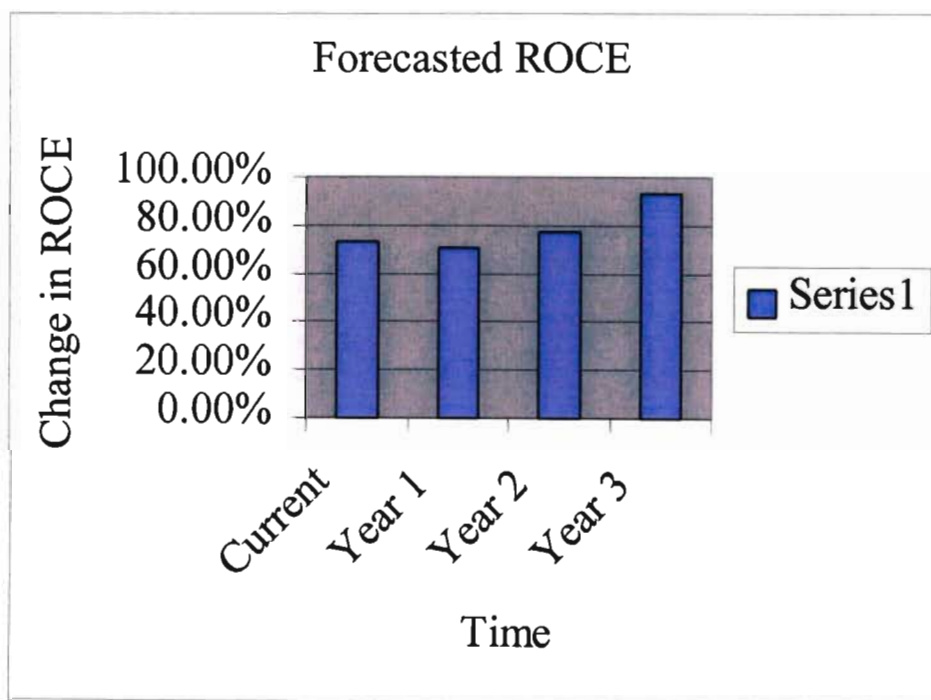


Figure 4.7. Forecasted ROCE'S

Discounted Cash Flows (DCF):

Table 4.17. Discounted Cash Flows

Present Value of Cost of Capital at 12%	Year	Cash Flow	Present Value of Cash Flow
	Current	R881 900	R881 900
0.893	1	R881 900 X 10%= R970 090	R970 090 X 0.893= R866 290
0.797	2	R970 090 X 10%= R1067 099	R1067 099 X 0.797= R850 478
0.712	3	R1067 099 X 10%= R1173 809	R1173 809 X 0.712= R835 752
TOTAL		R4092 898	R3434 420

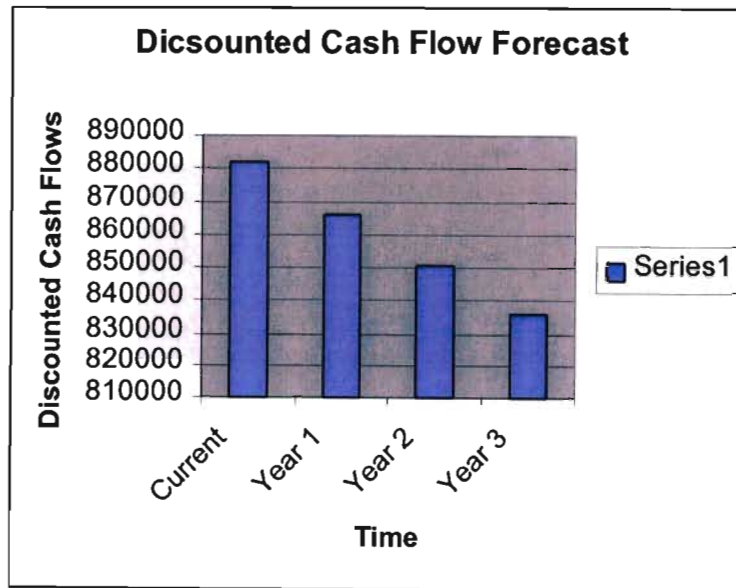


Figure 4.8. Discounted Cash Flows

Payback:

The payback period for this project is immediately as the Cost of R170 000 incurred will be paid from the retained income of the practice, which currently is R881 900.

The continuing costs of approximately R50 000 for year 2 and 3 are also immediately payable.

The above three methods of return are of benefit when dealing with tangible costs with fixed inflows. The practice has a large number of intangible costs hence further analysis is required as shown below.

Cost-benefit analysis:

Amore accurate reflection of the situation is presented as this analysis includes intangible and tangible factors which is important in service driven organisations.

Table 4.18. Cost-Benefit Analysis.

COST/BENEFIT	INFLOWS	OUTFLOWS
Benefits <ul style="list-style-type: none"> • Greater market penetration • Increase in profits • Increase in reputation • Attractiveness to foreign tourists • Attractiveness to domestic visitors • Creation of employment 	R6 000 000-00 R1 200 000-00 R1 000 000-00 R1 000 000-00 R 500 000-00 R 120 000-00	
Costs <ul style="list-style-type: none"> • Implementation cost 		R 270 000-00
TOTAL	R9820 000 – R270 000 = R9550 000-00	
Present value of Net Benefits (NPV) at the Internal rate of Return (IRR) of 12%	R9550 000-00 X 0.712 = R6799 600-00	

b) RISK:

Liquidity ratios:

Current ratio present = 7.42 : 1

This ratio indicates the proportion of current assets to liabilities and is relatively high.

Thus the practice has more current assets in proportion to current liabilities liabilities.

Acid Test ratio = 6.36 : 1

This ratio is the real test of liquidity as it removes inventory (which is not easily converted to cash) from the calculation of current assets. Interpreted this means that the practice has R6.36 to meet every R1.00 which will require repayment in the short term.

These two ratios will be forecasted to remain the same as the current liabilities and assets will not deviate too much from the existing levels.

Efficiency ratios:

The three most important working capital items are tested in order to determine whether they have been efficiently used.

Table 4.19. Fixed Asset Turnover:

Year	Fixed Asset Turnover	Explanations
Current	<u>R4005785</u> R1005000 = R3.98 :R1	
1	<u>R4406362</u> * R1076000 [^] = R4.1 : R1	*(Turnover increased by 10%) ^(Add in new equipment at R70000 + other equipment that has depreciated to R96000 + Vehicles that has depreciated to R160000)
2	<u>R4846998</u> * R1022800 [^] = R4.74 : R1	*(Turnover increased by 10%) ^(Land at R750000 + Equipment at R132800 + Vehicles at R140000)
3	<u>R5331698</u>* R976240 [^] = R5.46 : R1	*(Turnover increased by 10%) ^(Land at R750000 + Equipment at R106240 + Vehicles at R120000)

Assumptions:

- Land Value remains constant at R750 000
- No new equipment and vehicles are purchase in this period.
- No other fixed assets are purchased during this time.

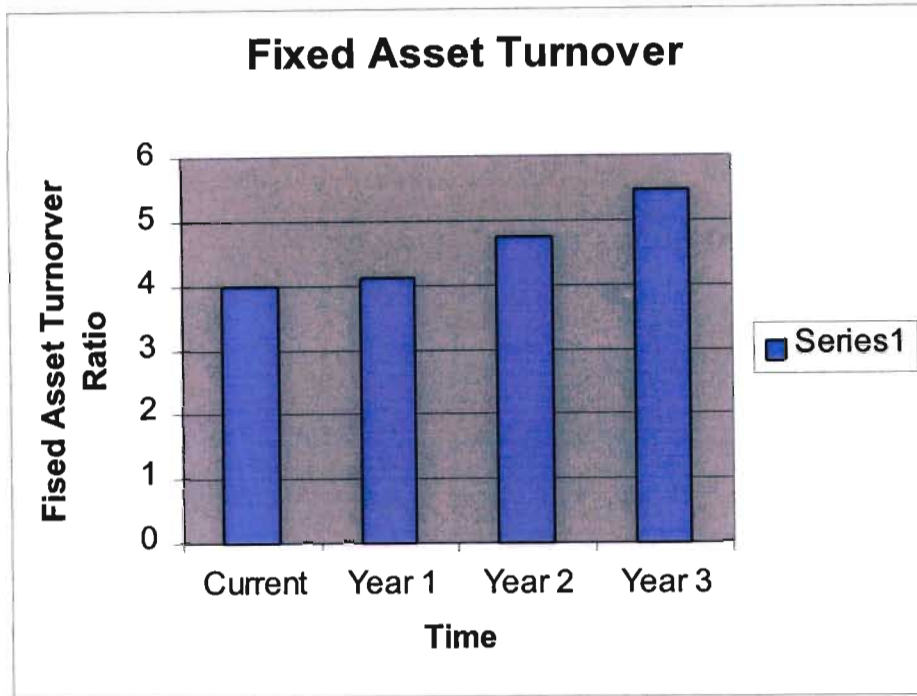


Figure 4.9. Fixed Asset Turnover.

All factors thus holding constant imply that the Fixed Asset Turnover is strengthening year-on-year.

Total Asset Turnover:

Table 4.20. Total Asset Turnover.

Year	Turnover (Increasing by 10% annually)	Total Assets (Fixed + Current)	Total Asset Turnover Ratio
Current	R4005784	R1050000 + R171900 = R1221900	3.28 times
1	R4406362	R1076000 + R171900 = R1247900	3.53 times
2	R4846998	R1022800 + R171900 = R1194700	4.06 times
3	R5331698	R976240 + R171900 = R1148140	4.64 times

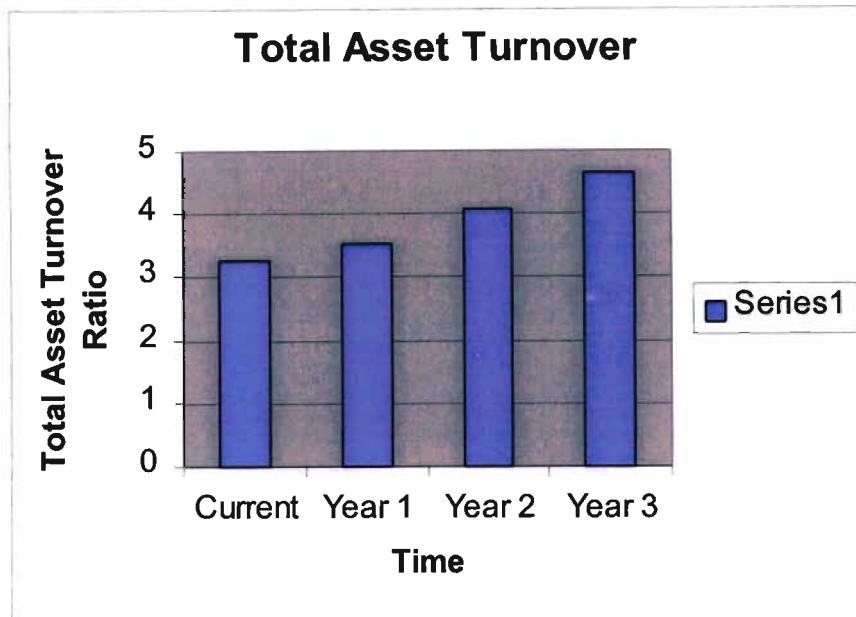


Figure 4.10. Total Asset Turnover.

With fixed assets decreasing whilst Turnover is simultaneously increasing and the current assets remaining more or less constant, the ratio will improve year-on-year, thus creating positive Total Asset Turnover. Those for every R1 of Assets utilised a higher number of Rands are being generated.

Debtor's Collection period = 40% of Total Turnover is credit based with 60% thus being cash based. The Debtors collection period will be minimally affected as the increase in Turnover of 10% will be targeting the cash patients.

Creditor's Settlement Period:

These ratio measures how long it takes the practice to pay its creditors and it indicates that the practice does not have creditors "howling at the door" rather debts are paid efficiently. The practice will continue to improve on its credit payments period.

Leverage ratios: Three ratios have been selected for this purpose as follows:

Table 4.21. Debt to Asset Ratio

<u>Year</u>	<u>Debt to Asset Ratio</u>	
Current	R109000 R1221900 = 8.92%	
1	R76950 * R1247900 [^] = 6.17%	*(Loan amount of R90 000 reduced by R13050) ^(Fixed assets of R1076000 + Working capital of R121900 + Goodwill of R50000)
2	R65792 * R1194700 [^] = 5.51%	*(Loan reduced by R11158) ^(Fixed Assets of R1022800 + Working capital of R121900 + Goodwill of R50000)
3	R56252* R1148140 [^] = 4.90%	*(Loan reduced by R 9540) ^(Fixed assets at R976240 + Working capital of R121900 + Goodwill of R50 000)

Thus the total debt in proportion to Total Assets is decreasing improving the leverage, of the practice. The assumptions are:

- The working capital and goodwill amounts remain constant.
- The Fixed asset of land remains constant.
- The annual interest rate charged for the repayment of the loan is constantly 14.5%.

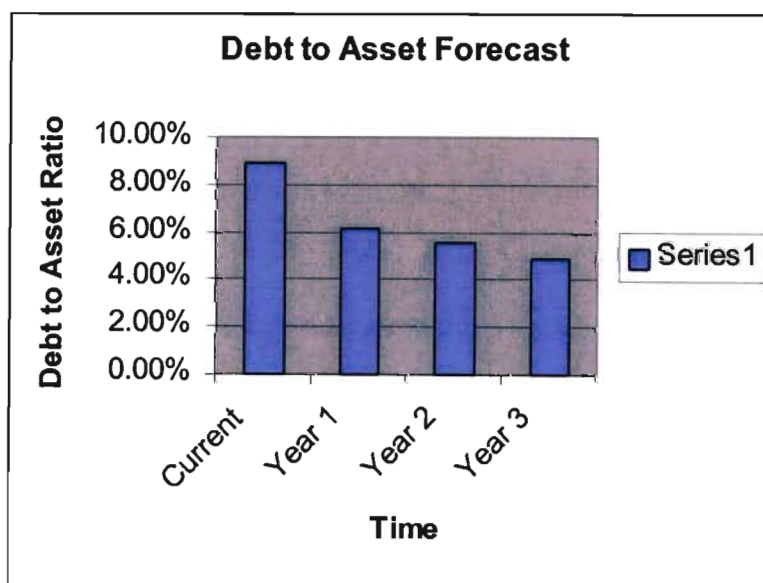


Figure 4.11. Debt to Asset Ratios Forecasted.

Debt to equity:

Table 4.22. Debt To Equity Forecasts

Year	Long-term loan	Owners Equity	Debt to Equity Ratio
Current	R90000	R1131900	7.95 times
1	R76950	R1245090	16.18 times
2	R65792	R1369599	20.82 times
3	R56252	R1506559	26.78 times

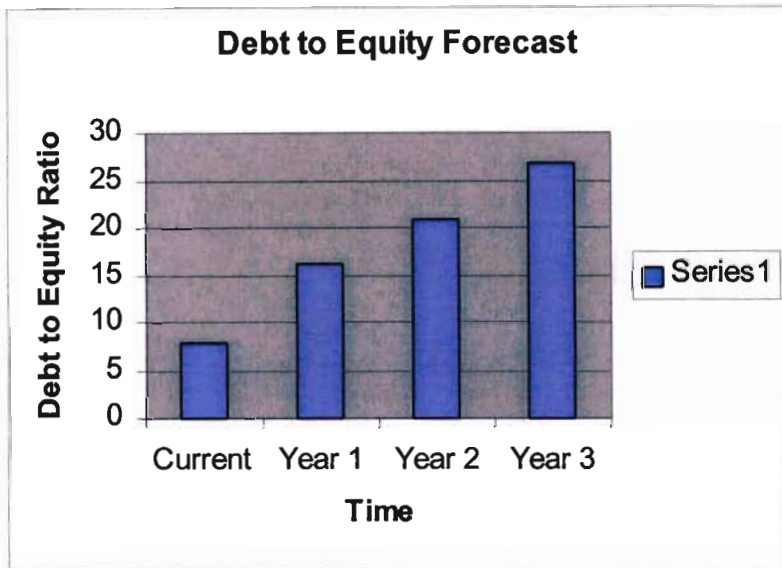


Figure 4.12. Debt to Equity Forecast.

This ratio aids in determining the proportion of debt to Equity. The ratio is increasing as a result of the Owners Equity experiencing a 10% increase in the retained income. The assumption is made that the Capital invested is still R250 000. The proportion of Debt is simultaneously decreasing.

Interest cover ratio:

Table 4.23. Interest Cover Ratio Forecast.

Year	Net Operating Profit before interest and Tax	Interest	Interest Cover Ratio
Current	R881900 + R13050 = R894950	<u>R13050</u>	= 68.58 times
1	R970090 + R11158 = R981248	R11158	= 87.94 times
2	R1067099 + R9540 = R1076639	R9540	= 112.86 times
3	R1173809 + R8156 = R1181965	R8156	= R143.92 times

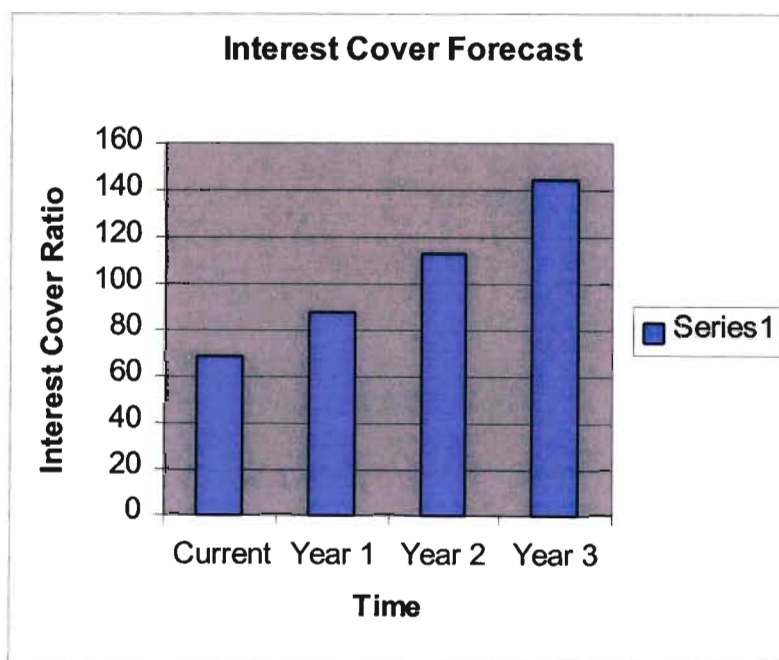


Figure 4.13. Interest Cover Forecast.

This ratio will increase as the interest paid on the loan decreases and the net profit increases by 10% annually. Thus there will be a greater proportion of profit to cover the interest owed.

4.2.4. FEASIBILITY:

a) FUNDS FLOW ANALYSIS:

The practice has two options with regards to raising the capital required to fund the new strategic initiative.

- Firstly the practice could obtain a loan from a specialist bank that caters health professionals e.g. Investec Bank at a preferential rate of 12%.
- Secondly the practice could utilise part of the retained income from the previous year.

Option 2 appears to be the most sensible option as the practice has a surplus of R881900-00 to invest as the proprietor pleases. The practice will thus save on the payment of interest if a loan has to be raised. The effect is also maintains the liquidity, financial leverage and efficiency ratios of the practice.

b) RESOURCE DEPLOYMENT ANALYSIS:

The competencies analysis conducted earlier in the suitability analysis provides a framework for the resource deployment analysis. The analysis of the various elements that the new strategy requires has been illustrated in the acceptability analysis prior to the ROCE analysis.

The new strategy will increase the distinctive competencies of the practice, as the service being offered will be differentiated to a greater extent. Therefore the new competencies required will:

- Full capacity utilisation of the Internet and E-commerce technology.
- Full capacity utilisation of the Marketing and Differentiation tools provided by Internet and E-commerce technology.

c) BREAK-EVEN ANALYSIS:

Table 4.24. Break-even Analysis Forecasted.

Year	Turnover	Number of Hours worked	Rands/Hour	Hours to reach Break-even
Current	R4005784	3840	$\frac{R4005784}{3840}$ = R1043.17 per hour	$\frac{R3124884}{R1043.17}$ = 2995.57 hours
1	R4406362	3840	$\frac{R4406362}{3840}$ = R1147.49 per hour	$\frac{R3124884}{R1147.49}$ = 2723.23 hours
2	R4846998	3840	$\frac{R4846998}{3840}$ = R1262.24 per hour	$\frac{R3124884}{R1262.24}$ = 2475.67 hours
3	R5331698	3840	$\frac{R5331698}{3840}$ = R1388.46 per hour	$\frac{R3124884}{R1388.46}$ = 2250.61 hours

Assumptions

- The amount of R3124884, which is the total expenses of the practice, remains constant over the period concerned. The total number of hours worked remains constant.

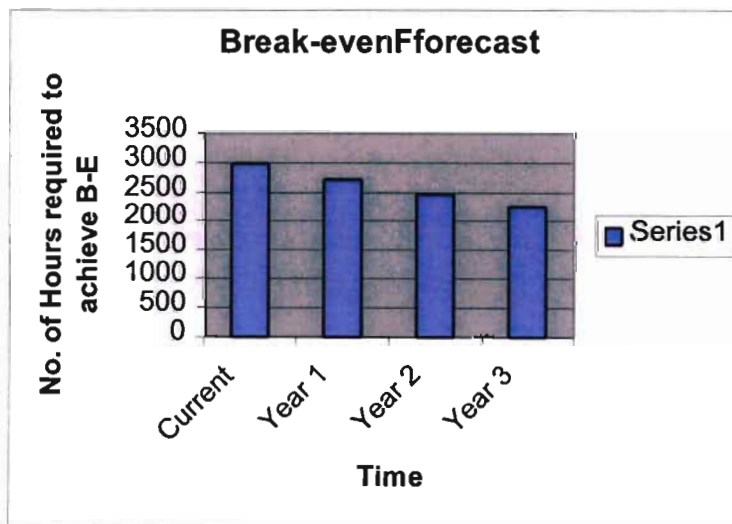


Figure 4.14. Break-even Forecast.

It is thus evident that the earnings per hour are increasing per annum and the total number of hours it requires to reach the break-even point is reducing in number. Thus from the various evaluation criteria the necessities for the implementation process may be conducted.

4.3. SUMMARY

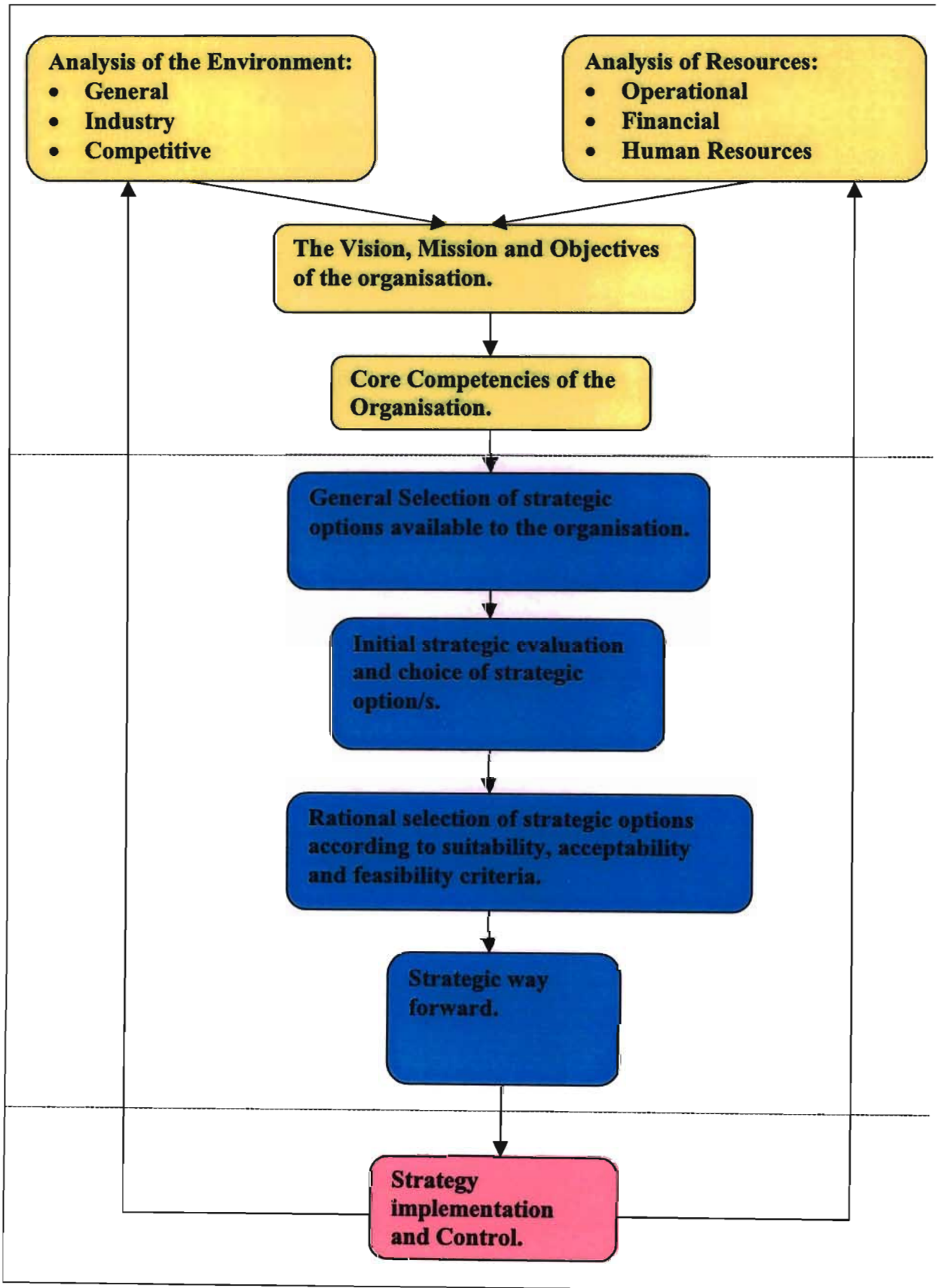
The evaluation of all the salient factors relevant to the practice has been conducted to determine what the strategic direction forward is. This is necessary to assist in determining what the best strategic route forward that will minimise the threats and weaknesses of the practice and will capitalise on the strengths and opportunities presented.

Three strategic options have been selected that are compatible with the current and future goals of the practice and their implementation will be discussed in Chapter Five.

CHAPTER FIVE: **IMPLEMENTATION AND CONTROL**

The implementation of the selected strategies presented in the previous Chapters is discussed in Chapter Five. The area highlighted in Pink in the Strategic Model presented on the next page illustrates the topic discussed in this Chapter.

Figure 5.1. Implementation and Control Component of General Model.



5.1. INTRODUCTION:

Successful implementation of a strategy is dependent on the principal strategy implementation tasks, which are as follows:

- To build the practice's competencies, capabilities and resources to carry out the strategy successfully.
- Develop budgets that steer ample resources into those value chain activities critical to developing strategic success.
- Establishment of strategy supportive policies and procedures.
- Instituting best practices and pushing for continuous improvements in how value chain activities are performed.
- Installing information, communication, e-commerce, and operating systems that enable the practice staff to successfully carry out their strategic roles daily.
- Tying rewards and incentives to the achievement of performance objectives and good strategy execution.
- Creating a strategy-supporting work environment and culture.
- Exerting the internal leadership needed to drive implementation forward and keep improving on how the strategy is being executed.

Thus based on the above tasks the implementation procedure for the practice will be addressed.

5.2. THE PURPOSE OF THE PRACTICE:

Its Mission, Values, and Guideline principles define the purpose of the practice.

5.2.1. MISSION:

Our mission is to consistently provide dental care of the highest aesthetic and functional quality at affordable rates to both domestic and foreign patients, utilising the clinical expertise of only the best, most highly skilled staff and the highest quality inputs available. Our direct focus will be the preventative, rehabilitative and cosmetic dental need of our patients, which will lead to both internal and external growth that, will result in a shift from a strong to a dominant market position.

5.2.2. VALUES:

To accomplish the mission of the practice the following values are fundamental to our success.

- **People:** Our people are the source of our strength. They determine our reputation and vitality. Involvement and teamwork are our core human values.
- **Services:** Our services are the result of our efforts and are of the highest quality and are the best in serving patient's world-wide. As our services are viewed, so are we viewed.
- **Profits:** profits are the ultimate measure of how efficiently we provide our patients with the best services for their needs. Profits are required to survive and grow.

5.2.3. VISION:

To serve our patients with the highest quality service through continuous development in our products, processes and systems and through the utilisation of our most valuable asset-our staff. We aim to be the market leader in our target niche market segment and to strengthen our domestic and international reputation and market coverage.

5.2.4. GUIDING PRINCIPLES:

They are:

- Provision of services and products of the highest quality. We are dedicated to serving our patients through the provision of the highest quality and value.
- We will always respond to our patients with promptness, respect and integrity.
- Through technical and skills-related processes, product leadership and innovation, we will meet the challenges and the requirements of our target market.
- We are committed to the provision of an enjoyable, challenging environment for our employees (our most valuable asset) through continuous enhancement of education and skills.

5.2.5. PRACTICE CULTURE:

- Power structure: The leadership and decision making role is carried out by the owner and chief dentist in the practice but will assistance will be provided by all members of staff.
- The control systems: are largely informal but performance orientated.
- Organisational structure: There is an informal structure in place as each member of staff is responsible for the optimum functioning of their division and final reporting is to the owner of the practice.
- Routines: Staff are expected to quickly adapt to the practice ideal of how tasks should be performed however there is a distinct lack of formal procedures as to how to conduct oneself.
- Symbols: There is a clear absence of status symbols and equality is important.
- Rituals: Rewards system based on the extra effort that individual staff members make to improve the quality of service, increase revenues produced, process and product improvements and length of service.
- Stories and cases: Discussed to emphasis the expected levels of behaviour of staff.

The culture of the practice has the advantage of being able to be flexible and adaptive to the changing conditions that surround the practice. However there is a need for rule, regulations and codes of conduct to be documented to ensure consistency. The practice owner is risk-averse and unlikely to spend large sums of capital on new strategies as he is due for retirement within the next 7 years.

5.2.6. OBJECTIVES:

Our objectives are:

- Financial objectives which are to increase the Profits by a minimum of 10% annually over the next three years.
- Human Resources: To be able to retain the current staff and attract highly skilled new staff members that are able to “fit in” with the high standards of the practice. The objective is to continue to support and encourage them and to create greater awareness of their skills and reputations in our target market. Addition of 1 extra part-time employed staff member that must be able to multi-task.
- Operational Objective: To increase the efficiency and effectiveness of the various aspects of the Value Chain through full utilisation of the Internet and E-commerce capabilities. Thus to be able to decrease the costs of inputs and increase the quality of outputs by 5%.
- Marketing objective: To increase the market share of the practice within the elite Alpha Segment by a minimum of approximately 15% over the next three years.

5.3. STRATEGIC OPTIONS OF THE PRACTICE:

Thus the practice will focus on the three-year time frame for implementation of the first two strategies and thereafter will consider the option of utilising strategic alliances to grow the practice.

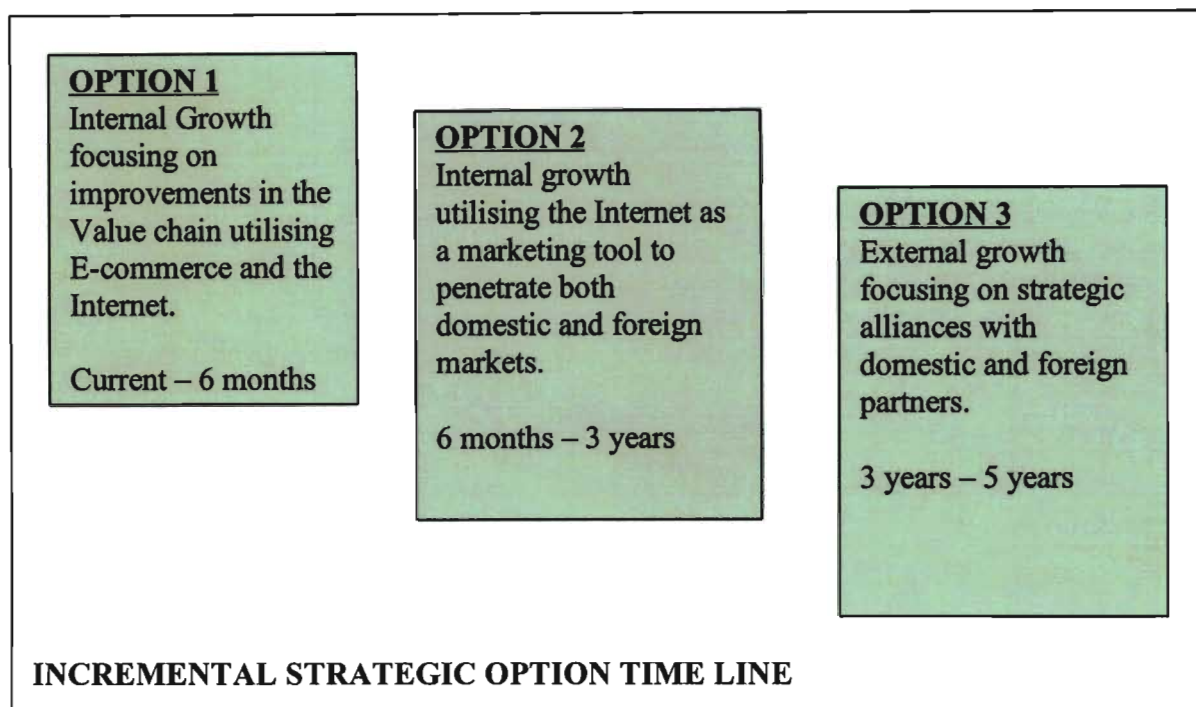


Figure 5.2. Strategic Option Time Frame for Implementation.

If strategic options One and Two create the positive results expected before the three-year time-line then Strategic Option Three will be implemented ahead of schedule. Strategic Option Three will depend on the success of Options One and Two as it will utilise Internet and E-commerce technology to integrate backwards into the Reservation and booking systems of selected partners.

5.4. KEY SUCCESS FACTORS FOR THE IMPLEMENTATION.

E-commerce enterprises are building elaborate networks of suppliers, service providers, and patients who communicate, exchange data and transact business via the Internet and other electronic media in ways that produce value for patients and for one another. The networks that are constructed are both integrated (to create value chain links) and fluid (to respond to fast-changing conditions). At this stage competing successfully in the Internet economy revolves around several key factors.

- An innovative business model. One of the factors that set e-commerce enterprises apart from traditional businesses is their use of new and different business models. The fact that Internet technology is conducive to doing business in radically different and innovative ways – the rules of business in an Internet world are different from traditional business rules.
- The capability to adjust the practice's business model and strategy quickly in response to changing conditions and emerging opportunities. Operating at Internet speed is essential because the pace of technological and market changes is so rapid.
- Focusing on a limited number of competencies and performing a relatively specialised number of value chain activities. The remaining value chain activities must be outsourced e.g. the Accounting function has been outsourced to an Accounting Company specialising in this type of work. This enhances the organisational structure and shifts the focus onto what the practice does best.
- Staying on the cutting edge of technology. To stay ahead of the chasing pack, the practice will have to ensure that its Internet facilities and equipment are updated regularly. Technological expertise that is not core to the practice needs to be developed using outsourcing strategies.
- Using innovative marketing techniques that are efficient in reaching the targeted audience and effective in stimulating purchases or whatever other actions are required to produce a profitable revenue stream. The website developed by the

practice has to be attractive to its targeted audience and should not merely provide information in the standard format.

- Engineering an electronic value chain that enables differentiation. Striving for sustainable competitive advantage over competitors is as essential in E-commerce as it is in traditional business methods.

5.5. MOTIVATION FOR IMPLEMENTATION:

The more the practice's differentiated offering appeals to patients, the more patients affiliate themselves to the practice and the stronger the resulting competitive advantage. Stronger successful differentiation will allow the practice to

- Command a premium price for its products and services. Patients will be charged mostly International tariffs rather than the domestic private tariffs.
- Increase sales (because additional patients will be attracted to the differentiating service offered.). Ultimately the aim is to increase the current market share of the practice by 15% of the total Elite, Alpha segment of the market.
- Gain patient buyer loyalties to its brand (because patients will be strongly attracted to the differentiating features offered and bond with the practice and its products.)
- Will enable the practice to indelibly re-position itself in the minds of its competitors, patients both current and future and allied and associated healthcare workers.

5.6. IMPLEMENTATION OF STRATEGIES ONE AND TWO:

Strategic Option One is the implementation of strategies that improve the Value Chain activities through concentrated internal growth. These changes will strive to further differentiate the services and products of the practice from its competitors and the rest of the market.

Strategic Option Two will utilise the Internet as a Marketing tool to penetrate into new geographical areas using existing services and products. This strategy focuses on expansion that attracts new patients to the existing services of the practice through

slight alteration in the product offering.

Implementations of both strategies require the Internet and e-commerce facilities together with an interactive practice website. This has been selected due to it being the most affordable and legal method of expanding the current offering into the foreign market. To differentiate itself on the basis of offering a superior quality of service, the practice needs to concentrate on having an easy to use and navigate website; an array of functions and conveniences for the patient's to utilise to deliver the promises of the practice.

5.6.1. REQUIREMENTS FOR IMPLEMENTATION:

The practice has existing Internet and e-commerce facilities in existence however they have not been utilised at their full capacity. The Internet and associated facilities must be treated as an essential component of how the practice will conduct business in the future. Internet commerce needs to be part of a broader electronic business strategy, a strategy that embraces all the ways that we let our patients conduct business with us electronically. The following additional requirements are necessary:

- To counteract this problem an important component of the implementation process is the training of two staff members with professionally accredited institutions with regards to the various functions available via the use of the Internet and associated facilities.
- An additional part-time member of staff will be required to augment the existing staff functions. Depending on the success of the chosen strategies this new staff member may become a full-time, permanent staff member.
- The website that will be created will not be created by members of staff but will be outsourced to a professional web designer.
- An Internet Service Provider such as MWeb or Ananzi will be selected to replace the existing Internet Service Provider that is always off-line and too slow with regards to information being downloaded.
- Further hardware required is another laser jet printer and a scanner. The rest of the equipment is already in existence.

5.6.1.1. Requirements of the website:

a) **The Content:** The contents will include the following information and should approximate 2 pages in length.

- The site must have a name that must be easy to spell, short, simple and suggestive of the category of work being performed, unique, speakable, alliterative, shocking, a Proper name not a verb and be personalised. Thus an ideal name would be UDP (Umhlanga Dental Practice).
- The site must have global appeal and be understandable to a wide selection of people of different nationalities. The selected language medium will be English as the patients should be able to speak a bit of English if they are going to have treatment in South Africa.
- The first paragraph will include information about the history of the practice such founding members, age of the practice. The purpose of the organisation, its mission, values, guiding principles and vision should be communicated within this opening paragraph.
- The next paragraph should include some information about the location of the practice and surrounding areas of interest e.g. how far away from the international and domestic airports the practice is, surrounding shopping and entertainment facilities, hotels, bed and breakfast inns and sport and recreation facilities.
- The next paragraph should include information on the type of practice that UDP is. The various staff members and their qualifications together with years of experience should be included. A professional group picture of the members of staff should be included. Information regarding allied staff e.g. Laboratory technicians must also be included.
- There should be information on the various services offered, together with the approximate costs and expected time required for each treatment, as well as pre-requisite work that may be necessary e.g. study models prior to crown and bridgework. Pictures of before and after picture should be utilised to create visual impact.

b) Marketing Considerations: The following will be applied to market the website.

- A “What’s New” icon to tell patients about new information and services being offered.
- Changing information to create sustainable interest in the site. This will be achieved through free dental advice.
- Other related and interesting sites associated with the services of the practice will be included.
- The website must have all contact details in a format that is interesting and attractive to readers as it represents the first contact between the patients and the practice.
- The reader/patient should be invited to add comments on the website and on what type of services they would like to see added to the practice’s repertoire.

c) Interface: An interface is a visual display of digital information.

- The interface must be interesting, fun and attractive and must lead the patient to a highly interactive experience. The website must be interactive, to encourage patients and prospects to interact with the offerings of the practice. Interactivity is defined as the ability to type in instructions and has the site deliver the information requested in the form requested in. The interactive ability must extend to providing additional information to the patient over and above the information requested. The practice staff should be able to add in information. The site must also be able to provide estimate costs of treatment in various combinations when requested. Interactivity also means that the site must be able to estimate the amount of time required performing a treatment depending on the dental situation that the patients find themselves in.
- The interface should not detract from the content of the website.

d) **Organisation:** Organisation is critically important when creating a homepage of a website. Information must neatly organised in a manner that aids readability and quick access to pertinent information. It should have the following:

- Practice Logo: to allow readers to identify what site they are in.
- Welcoming message: The details of what business the practice is in and what information is located on the page.
- Index: Let's readers know how quickly information is available. May be text or picture icon format.
- Pictures: Present a professional image and add to the visual impact. They should be small as large pictures take too long to download. Create the same picture in a large version that is displayed when the reader clicks on the small picture.
- Notes: explains where to obtain more information.
- Access to easy contact: details of the practice must be available to enable patients to make contact.
- Text and Graphics: Must be utilised to explain the content of the website.
- Text/Picture options: enables the reader to view the information with or without pictures. Without pictures generally means that the information is downloaded more quickly.
- File size: Giving readers an idea of the file size allows them to be prepared for the length of time it will take to download. People become frustrated when a page sends a large file because it is slow to appear on screen.
- Easy access to information: The contents of the website are the most important information and should be well organised in a Table of Contents for ease of access.
- Test the page with different browsers: Each software browser displays text, colour, and spacing differently. This is done to see what suits the practice best.
- Colours: Use bright or lightly coloured pictures to attract attention. Then build the rest of the interface and menu around that.

e) **Icons:** Icons are necessary to help readers find information quickly as there are no instruction manuals on how to utilise the Web page.

- f) **Menus:** Menus provide an easy way to find information. Successful strategies include creating an overall menu that leads readers to greater levels of information and depth.
- Each menu should have information on how to contact the practice so they do not have to wait for the end of the site to access this information.
 - They should be organised with the most eye-catching material first otherwise the reader may not get to see them if the initial information is boring.
 - Create a menu that has a short description of each major service, the costs, and time required to complete the various services.
 - Should provide users with an option to return to the top of the page.
- g) **Test Drive/Usability:** the website must be tested for all of the above factors before it is launched. This is completed to ensure that all the problems within the system are eradicated. The site is also tested for simplicity of use, readability and attractiveness.

5.6.1.2. Publicising the Website:

The website must be published through international and domestic healthcare and specifically dental directory. My also be published in complementary Home pages of allied healthcare via hyperlinks to the website of e.g. the Laser Hair Removal Clinic in Musgrave. The website address must be printed on the practice's stationery.

5.6.1.3. Creation and Maintenance of the Website:

The website will be outsourced to a creative, professional web designer. The same organisation will be responsible for continuous upgrades and maintenance of the site.

Reasons for outsourcing this function:

- The decision to outsource this function is based on the fact that the practice does not have the requisite skill necessary to design its own website and maintain it, hence it will be outsourced to an organisation that specialises in this type of function. This implies that the practice is able to focus on its core competence of providing high quality dentistry to its target market rather than on focusing on non-

core activities.

- The costs of training and acquiring the necessary staff to build a website and maintain it in-house are too high. The option to outsource reduces the cost of the entire project, which is suitable to an organisation that is concerned with minimising costs.
- By outsourcing this function to an external source the practice will constantly be made aware of any upgrades in the service and they will occur automatically. Any problems with the Internet facilities that may arise becomes the responsibility of the IT organisation rendering the service.

5.7. EFFECTS OF IMPLEMENTATION ON THE ACTIVITIES OF THE PRACTICE:

Concentrated internal growth for the practice that will require full capacity utilisation of the Internet and E-commerce technology has been selected as the medium to further differentiate the services and products of the practice. To implement these changes the practice will be required to revamp its value chain activities in the following ways:

Primary Activities:

Inbound activities:

Incorporating the use of the Internet has expedited the receiving and storing of materials in many industries and will have a major impact on the inbound activities of the dental practice. The practice can form direct linkages into existing inventory websites of its major suppliers and will be able to assess the existing levels of its suppliers product and order without having to keep an extensive inventory that will require additional storage.

The practice can go even further by eradicating local suppliers and receiving materials directly from manufacturers by direct access to their inventory website. The costs involved in the latter method is minimal as ordering over the Internet grown radically in the past 5 years.

Advantages:

- Direct sourcing of inventory means that the practice is able to avoid stock-out situations of local suppliers, which frequently results in the loss of both patients and the practice's time and money.
- Cost effectiveness is increased as the additional costs of local suppliers are eradicated by ordering direct from the manufacturer.
- The practice is able to gain access to all the information that manufactures are able to create about the various products/materials available to the dental industry without the usual bias that local suppliers have. This bias is usually as a result of alliances between local suppliers and the manufacturers of certain products/materials. Thus local suppliers may only carry products from a specific manufacture and other materials that refuse to carry will not be available to the practice.

Operations supporting service delivery:

a) The Internet may be utilised to alert it regular maintenance technicians to the time and date of the next service for equipment and even be able to make payment to the various technicians via E-banking.

b) Technical difficulties with equipment that may arise during times when a technician is unavailable immediately may be counteracted by logging into the manufacture of the equipment's website for online technical advice. This may provide time and cost saving intervention until a technician is available in the cases of major problems. In the instance of minor technical problems, the staff may be able to correct the problem with the assistance of technical support staff over the Internet or form a call-centre. Therefore there the need to have a technician to solve the problem, is eradicated.

The advantages of this is:

- The practice saves equipment and clinician down-time as the immediate advice and technical help will be available.
- The costs and frequency of technician call-outs will be reduced.
- Major service on equipment can create extreme costs and this may be partially circumvented by ordering parts directly from manufactures and suppliers rather

than through the technicians that fit them. This will typically create savings by eliminating the inflated charges for parts that technicians charge.

- Reduction in patient appointment and clinical hours lost due to equipment repair. Frequently when equipment experience technical problems, clinical time is wasted as there is a wait for the technician to sort out the problem.

Operations concerned with Service Delivery:

- a) Bookings for both domestic and foreign patients may be made utilising the Internet. This will enable patients to utilise the interactive method of booking to facilitate appointments that are both convenient and of adequate length. Thus patients that are on holiday for a certain period of time will be able to transfer itinerary information to the receptionist, enabling her to book adequate amounts of time for the work they require. The interactive website will provide information on the various services being offered and the length required and approximate costs of the procedures.

This has a number of advantages, which are:

- Patients and clinical time is not wasted on appointments that are too long or too short.
- Cost are reduced by eliminating any wasted clinical hours and by ensuring that all available time is productive.
- Patients are more aware of the various services being offered, the time they must allocate for treatment and the cost of treatment.

- b) Change of details may be completed via the practice website so information is constantly updated. New patients that are required to fill out forms prior to being accepted as patients may now do so via and electronically down loadable form that may be e-mailed back to the receptionist for printing and attaching to the file of the patients.

Advantages of this are as follows:

- The practice is constantly aware of all patients' most current details (including updated and revised medical histories), which makes assimilation and updating of patient information more effective.
- Hard copy printing costs are reduced as patients may bring in filled forms that they have printed themselves on paper they have purchased, not the practice.
- Time normally spent on filling out the requisite forms during the first visit, may not be utilised more efficiently and effectively elsewhere within the patients treatment.

c) Statements, receipts and quotations processed in both in printed and telephonic format may be electronically processed.

Advantages of this is:

- This further eliminates printing costs associated with printing hardcopies unless requested by the practice. The costs of printing hardcopies are transferred to the patient.
- Patients do not have to wait immediately once treatment is completed for a statement, receipt, or quotation as they may receive it in electronic format. This saves time for both the clinical staff (who have to document all treatments and their costs immediately after treating a patient.) and the bookkeeper that has to receipt information immediately. This principal works on the basis of trust as patients will pay first and receive their electronic statement and receipt that afternoon. The other option of immediate payment and retrieval of the statement and receipt in hard copy format from the practice will still be available.
- The practice manager is the only person involved in charging out for treatment rendered and for quotations. The bookkeeper is the only person responsible for receiving payments and the issuing of statements and receipts. This creates efficiency within the system. This eradicates all clinical staff from having to waste time on entering treatment codes and costs.

Distribution and Inbound logistics:

The logistics concerned with theatre work may be eliminated by directly accessing the website for theatre bookings for the various hospitals that the practice is associated with.

Advantages of this include:

- Direct access to all theatre bookings and the bookings are not subject to the hospital receptionist's bias.
- Access to selected staff e.g. the anaesthetist. This ensures that the quality of the operatory procedure is guaranteed, eliminating uncertainty regarding the skills and techniques employed by unknown staff to the practice staff. This reduces operator and staff stress and increases confidence. Enabling a transfer of confidence to any anxious parents and family members.

Sales and marketing:

An interactive website with all the services, products, costs and time frames for the various treatments will be created to form an electronic brochure for the benefit of both domestic and foreign patients.

Advantages of this is as follows:

- Referrals through word-of-mouth may now strengthened by the information in the electronic brochure.
- The SADA has no rulings regarding advertising on the Internet and thus for current period it is an ideal medium for advertising the practice.
- Patients have access to information that is current, informative and accurate.
- Clinical staff do not have to spent a large proportion of time on explaining the various services of the practice as this information is freely available on a website. This system eradicates clinical time being lost and ensures that the time may be utilised more effectively elsewhere for treatment.
- This will effectively create another means of advertising for the practice and create its own source of referrals.

Service:

After sales service complaints and queries may be handled by the interactive website.

Advantages of this are as follows:

- The patient's complaint or query will be dealt with immediately by the practice manager who will be responsible for checking the complaints and query section of the website frequently.
- The frustration of clinical staff of having to deal with complaints and queries during treatment time will be eradicated.
- Delays in responding to complaints and queries will be reduced and possibly eradicated.
- This system will also identify key areas that are being complained or queried. This will induce changes in the clinical procedures to eradicate complaints and address queries. The possibility of increasing effectiveness of the services rendered can only be improved.

Support Activities:**Product R&D, Technology and Systems Development:**

The practice will be abreast of current dental technology, product and process Research and development due to the vast amounts of information available on the Internet. Thus the practice manager may create abridged handouts for the clinical staff on the various advances in the dental industry.

Advantages:

- The practice and clinical is able to access necessary information on dentistry without having to sift through volumes of information and simultaneously is able to update themselves and patients of developments.
- The access to Internet information will aid in competitor profiling and understanding and identifying the best practices of competitors in general.

Human Resources:

a) New Staff that is required to augment existing staff functions and to locum for permanent staff during period of absence (due to illness, studies or annual leave) may be identified from Internet job sites and from online employment agencies.

Advantages:

- The cost of utilising an online advertising agency is a fraction of using a physical employment agency.
- The online agency has access to a greater number of staff and a greater number of flexible staffing options that suit the various staffing requirements of the practice.
- Agency bias for the type of person that will suit the practice will be eliminated, as the staff of the practice will compile a list of potential candidates based on their requirements. Hence all applicants are given an equal opportunity of being chosen.

b) Independent files for the various employees may be maintained to identify the levels of work each one produces and the incentives they have been given and what they would prefer to have. This may be constantly updated in keeping with International standards of the Dental industry so that existing staff will be retained, especially in an industry riddled with high staff turnover rates.

Advantages:

- Retaining existing staff reduces the cost of having to constantly re-train new staff members.
- Being treated by a new clinician at every visit unsettles patients and this could create negative connotations about the services and reputation of the practice.

Procurement:

The practice will have access to all manufacturers and will be able to source raw materials of the highest quality and value. The practice will also be able to eradicate the middleman supplier out of the equation.

Advantages:

- The practice will reduce the cost of mark-ups of local suppliers.
- Inventory stock-out situations may be eradicated completely.
- The practice will have access to a wider variety of dental inputs and will be able to thus make more informed choices free from supplier bias.
- The direct system creates a more effective inventory storage system, as inventory will be order a day or two before requirement eliminating the need for additional storage space however minimal.

Firm infrastructure:

The practice may utilise the E-commerce capabilities of the Internet to reduce the traditional approaches to the various day to day administrative functions of the practice.

a) Thus via the Internet various activities such as billing patients and communication and banking may be conducted.

Advantages:

- Time and cost effectiveness and efficiency.

b) The traditional approach to the practice may be a deterrent to attracting new patient's as it did not allow for any advertising possibility. By formulating a website that clearly delineates what the practice is about and its various service offerings will attract more patients.

Advantages:

- New way of marketing the practice and its services.
- The practice is able to branding itself and re-position itself in a more elite group that has access to a wider market of potential patients. The practice will be viewed as keeping up to date with current technology and thus will be more attractive to patients.

5.8. IMPLEMENTATION OF STRATEGIC OPTION THREE:

The practice will utilise the existing Internet and E-commerce strategies to integrate backwards into the strategic partners it selects as be able to provide greater value to the service rendered by the practice.

- For the implementation of Strategic option three, the practice needs to start capitalising on current contacts in the various fields of interest that will expand the practice externally.
- The practice needs to be able to integrate into the reservation systems of the following entities: Hotels (Beverly Hill Sands, Umhlanga Beach Cabanas, and the Protea hotel catering for the various tiers of service levels.).
- Bed and Breakfast Inns in the surrounding areas (approximately three that are managed and owned by existing patients of the practice).
- Game Reserves in the surrounding areas e.g. St Lucia and Shuluwe Game Reserve.
- Allied healthcare providers will also be partnered e.g. Orthodontists, Maxillo-Facial surgeons, Dermatologists, Cardiac Surgeons, Orthopaedic Surgeons and Plastic Surgeons.
- Relationships with hire car services must also be initiated as well as the ability to obtain domestic and International flight reservations. This will be addressed via the utilisation of the Travel Agent that arranges all the practice's staff flight arrangements.
- Currently there are existing informal partnerships with some of the above specialists however the relationships need to be strengthen to ensure that our patients will be able to attain priority bookings that is suitable to their itinerary.
- In return for being able to obtain preferential bookings and perhaps rates, the strategic partners will be obtaining a steady reputable source of clients. Hence the relationships have to be mutually beneficial.
- Information about these various extended options will be offered to encourage patients to make bookings via these partners. Ultimately the practice will be providing a care package that will provide arrangements for the entire patient's needs.
- Ultimately as these strategic options brings in the required rate of return,

additional staff may be required to augment the existing staff functions.

- The aim of this strategy is to provide a superior service that is highly differentiated from the offerings of the other members of the Alpha Segment. Thus financial and strategic growth will be ensured. Ultimately the practice will attain a first mover advantage and obtain the coveted Industry Leader position.

5.9. RESULTING DIFFERENTIATION FROM THE IMPLEMENTATION.

Thus for the practice differentiation is accentuated from the offerings of rival competitors in the following ways:

- New competitors to the market have to exceed try and match the efficiency and cost advantages created by utilising the Internet throughout the Value chain. Thus start-up costs will be higher for new competitors.
- New competitors will have to have to think of more creative ways of attracting the practices customers away as they will have to deal with a more strongly differentiated brand, competitive position and reputation that has a loyal patient base.
- The practice's inputs have become cheaper to acquire and yet quality has not been compromised, strengthening the offerings of the practice in the minds of its patients. These savings and quality improvements will be transferred directly to the patients.
- Quick response to changes in the dental industry and direct access to current information regarding innovative process and products, technology, skills and systems and R&D.

5.10. POSSIBLE DISADVANTAGES OF USING THESE STRATEGIES.

There are a number of issues that may need to be addressed and counteracted prior to the strategies being implemented. They are:

- There are security implications of changing from a traditional business to e-business and they must be addressed. Failure to address security issues by the practice will result in collapse of the entire system and cost and system inefficiencies that could harm the reputation, services and position of the practice. To ensure privacy and security, all patients will have no access to each other confidential information, as the interactive website will be a separate entity from the patient's information and treatment database. The website will have the typical protection domain to protect the privacy of the patient's from the public user domain.
- There is a constant need to change and update the website to ensure that the momentum is sustained. Information must be updated to keep patients constantly aware of improvements. The maintenance and upgrade function will initially be the responsibility of the Web designers and eventually the domain of the staff members that have been professionally trained on E-commerce and Internet technology.
- "Netiquette " refers to all the terminology utilised for the technology of the Internet. Internet activities are governed by speed and a distinct lack of clutter, hence the practice website and all Internet communication must meet with the acceptable communication protocols. This problem will be eradicated via proper training of staff in Internet communication protocols.
- Training must eventually be provided for all key members of staff to ensure that there is no dependency created to one member of staff. This problem will be alleviated by trained staff members transferring knowledge and skills to other members of staff, and/or professional training.
- Competitors that start seeing the success of the practice's strategies can initiate strategies similar in nature as these strategies are cheap and easy to implement. This problem may be counteracted by continuous improvements in the strategic initiatives, monitoring of competitors and the environment.

5.11. CONTROL OF THE IMPLEMENTATION PROCESS:

Monitoring and control of the implementation process is essential as information may be utilised to assess:

- Resource allocation choices.
- Monitor progress on implementation.
- To evaluate the performance of individual staff and division of the organisation as they go about the achievement of their implementation tasks.
- To monitor the environment for significant changes from the planning assumptions and projections.
- To provide a continuous feedback and fine-tuning mechanism designed to combat the fast-changing markets typical of the dental segment.

Strategic control systems monitor the main elements of the strategy and its objectives.

These include

- Financial measures.
- Patient satisfaction.
- Quality measures
- Market share

5.11.1. RECOMMENDATION FOR MANAGING THE STRATEGIC CHANGE:

Change in any organisation can be quite daunting especially in organisations that have been successful utilising strategies that have been operational for a long period of time.

- Ideally in the practice the changes that will be introduced will not be too stressful as they will draw on technology and practices that are already in place.
- A formal set of guidelines governing the roles of the various members of staff will be implemented. This will delineate the expected duties of the different staff members. Members of the team that have multiple tasks will be clearly identified and these various tasks will be identified.
- A reporting system for all problems will first be addressed to the practice manager and then to the dentist if the problem is not solved initially.
- The change will be implemented incrementally and staff will be retrained incrementally to ensure that all selected members of staff are proficient in the various tasks concerning the new strategy.
- The shared vision of the organisation must be constantly re-enforced from upper management and endorsed by all levels of staff. The entire practice must be made see the value of each individual's role in contributing towards the success of the strategy and its implementation.
- There must be continuous control measures in place to ensure that expected goals are achieved and that deviations are quickly identified and handled. The practice's attitude and culture of empowering individuals to take charge of a situation and react immediately in the best possible means available will assist this.

Careful consideration of all the above-mentioned factors will allow for a strategy to become a successful business strategy that is creating sustainable value for the organisation and its stakeholders.

5.12. SUMMARY

The chapter provided a possible method of implementation of the selected strategies and proposed that the strategies be implemented incrementally. The various inputs required for successful implementation is also discussed. The implementation procedure has got to take into consideration what resources the practice currently has and what is required otherwise the implementation procedure would be compromised.

The three selected strategic options are provided with a guiding time frame to indicate when an approximate deadline for each strategic option has to be implemented. The importance of this is that it provides the practice with a control mechanism that aids in determining if a strategy has been successful to implement the next strategy especially if implementation is occurring prior to the date previously determined. This implies that the strategy implementation has been successful and implementation of the next phase is ahead of schedule.

There must be adequate control measures in place to track any deviations in strategy and to quickly correct them or capitalise on them. The strategy implementation process must be carefully guided through the various recommendations discussed above.

Finally the practice needs to consider all key inputs into the services it renders to be able to implement successful, sustainable, value-creating initiatives.

CONCLUSION:

The practice is thus an entity of the sole proprietor and dentist. He is due to retire in approximately seven years time and was looking for a means to capitalise on the growth of the current market share of the practice.

After a careful analysis, a number of strategic options were available. These various strategic options underwent and evaluation to determine the most appropriate option given the current circumstances surrounding the organisation.

Once the strategic option had been identified, it has to be implemented and the various factors surrounding implementation and control was discussed. The practice thus has an option that is easy and cost effective to implement and that takes into consideration the various stakeholders within the practice.

Ultimately the goal of the selected strategic option is to create cost and quality efficiency and effectiveness to lead the organisation forward and to gain a greater slice of the market share of its target market segment. For the practice to remain as the one of the forerunners of its strategic group, it has to be aware of changes in the environment surrounding it and adapt the current strategy to these changes or start to implement new strategies.

Any organisation that responds by focusing on its core competencies and continuously seeking windows of strategic opportunities whilst simultaneously detracting from areas of weakness will evolve into organisations of the future that grow through sustainable advantages.

The idea of any strategic change is not to be intimidated by the change but to recognise that it is a continuous process that is the result of various triggers. Triggers such as the Environment (both internal and external to the organisation), Business relationships (new alliances, partnerships, new value chain linkages), Technology (both direct and indirect) and People.

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APPENDIX A

10/09/2003 09:03

From Code: 8101
 To Code: 8599
 Sorted By: User Code
 Fee Table: PR 03

User Code	ADA Code	Description	Graphic	Prov Type	Pr. Cost	Fee	Inactive
8101	8101	Examination -Full mouth (charting & trea		Doctor		117.00	
8102	8102	Consultation Comprehensive		Doctor		260.00	
8104	8104	Specific consultation		Doctor		92.00	
8105	8105	APPOINTMENT NOT KEPT		Doctor		115.00	
8106	8106	Written quotation		Doctor		102.00	
8107	8107	Intra-oral radiograph-per film		Doctor		72.00	
8108	8108	Maximum for 8107		Doctor		715.00	
8109	8109	Infection control: Per dentist hygienist		Doctor		18.00	
8110	8110	Sterilisation of instruments.		Doctor		69.00	
8113	8113	Occlusal radiographs		Doctor		162.00	
8115	8115	Panelipse x-ray		Doctor		195.00	
8117	8117	Study models - unmounted		Doctor		125.00	
8119	8119	Study models (mounted-movable condyl		Doctor		249.00	
8129	8129	After hours treatment		Doctor		423.00	
8131	8131	Emergency Treatment/relief of pain	Frame	Doctor		171.00	
8132	8132	Emergency RCT	Square	Doctor		284.00	
8133	8133	Re-cementing inlays crowns bridges-per	Frame	Doctor		181.00	
8135	8135	Removal of crowns	Frame	Doctor		345.00	
8136	8136	Access through a prosthetic crown inlay	Frame	Doctor		133.00	
8137	8137	Emergency temp crown	Frame	Doctor		592.00	
8137TCL	8137	Lab processed temp crown	Frame	Doctor		135.00	
8140	8140	Fee: Treatment/ General anaesthetic		Doctor		290.00	
8141	8141	Inhalation sedation		Doctor		125.00	
8141OX	8141	Oxygen		Doctor		125.00	
8143	8143	Inhalation sedation add fee		Doctor		63.00	
8144	8144	Sedation		Doctor		544.00	
8145	8145	Local anaesthetic-per visit		Doctor		29.00	
8145LA	8145LA	Local Anaesthetic		Doctor		29.00	
8146	8146	Resin bonding for restorations		Doctor		118.00	
8155	8155	Prophy		Doctor		137.00	
8157	8157	Re-burnishing & polishing restorations-c		Doctor		112.00	
8159	8159	Scaling & polishing		Doctor		216.00	
8159H	8159H	Scale and Polish		Hygiene		216.00	
8160	8160	Gross Scale		Doctor		144.00	
8161	8161	Topical application fluoride		Doctor		70.00	
8163	8163	Fissure sealant-per tooth	Frame	Doctor		69.00	
8163MQ	8163	Max f/sealant per quad	Frame	Hygiene		145.00	
8167	8167	Treatment: Hypersensitive dentine per v		Doctor		91.00	
8169	8169	Bite splint TMJ hard		Doctor		667.00	
8169S	8169S	Bite splint TMJ soft		Doctor		403.00	
8170	8170	Minor occlusal adjustment		Doctor		188.00	
8171	8171	Mouth protectors		Doctor		171.00	
8173	8173	Space maintainer-fixed per abutment-ur		Doctor		319.00	
8175	8175	Space maintainer-removable (all-inclusiv		Doctor		411.00	
8176	8176	Periodontal screening		Doctor		173.00	
8179	8179	Plaque removal-periodontally compromi		Doctor		116.00	
8180	8180	Perio scale + Polish		Doctor		303.00	
8182	8182	Quad root planning	Quadrant	Doctor		186.00	
8185	8185	Quad gingectomy	Quadrant	Doctor		597.00	
8186	8186	Sext. gingectomy		Doctor		556.00	
8188	8188	Biopsy -intra-oral		Doctor		347.00	
8192	8192	Suturing -soft tissue injury	Quadrant	Doctor		278.00	
8193	8193	Implant abutment per restoration.	Crown	Doctor		2662.00	
8194	8194	Surg Placement of implant	Implant	Doctor		1713.00	
8195	8195	Surg Placement of 2nd implant	Implant	Doctor		1283.00	
8196	8196	Surg Placement of 3rd implant	Implant	Doctor		856.00	
8198	8198	Exposure of single osseo-integrated im	Implant	Doctor		634.00	
8199	8199	Exposure of a 2 osseo-integrated implan	Implant	Doctor		478.00	
8200	8200	Exposure of a third & subsequent osseo	Implant	Doctor		304.00	
8201	8201	Extraction-Single tooth	Extraction	Doctor		188.00	
8202	8202	Extraction-Each additional tooth-same q	Extraction	Doctor		74.00	
8209	8209	Surgical removal of tooth (raising of mu	Extraction	Doctor		485.00	
8210	8210	Ext of 1st impacted tooth	Extraction	Doctor		1080.00	
8211	8211	Removal of 2nd imp/unerup tooth	Extraction	Doctor		580.00	
8212	8212	Removal of add imp tooth	Extraction	Doctor		328.00	
8213	8213	Surg removal of residual roots 1st tooth	Frame	Doctor		666.00	
8214	8214	Surgi removal-residual roots-Each sub	Extraction	Doctor		503.00	
8215	8215	Surgical exposure-impacted unerupted t	Extraction	Doctor		1246.00	
8220	8220	Suture		Doctor		63.00	
8221	8221	Local treatment-post-extraction haemorr		Doctor		124.00	

* Inactive Treatment Code

Treatment Code List

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User Code	ADA Code	Description	Graphic	Prov Type	Pr. Cost	Fee
8223	8223	Local treatment post ext haem add visit		Doctor		85.00
8225	8225	Treatment-septic socket-initial visit		Doctor		108.00
8227	8227	Treatment-septic socket-each additional		Doctor		84.00
8231	8231	Full U&L dent incl of base	Implant	Doctor		2800.00
8232	8232	Full Uor L dent incl of base	Implant	Doctor		1443.00
8233	8233	Partial denture One tooth	Implant	Doctor		799.00
8234	8234	Partial denture Two teeth	Implant	Doctor		799.00
8235	8235	Partial denture Three teeth	Implant	Doctor		1197.00
8236	8236	Partial denture Four teeth	Implant	Doctor		1197.00
8237	8237	Partial denture Five teeth	Implant	Doctor		1197.00
8238	8238	Partial denture Six teeth	Implant	Doctor		1591.00
8239	8239	Partial denture Seven teeth	Implant	Doctor		1591.00
8240	8240	Partial denture Eight teeth	Implant	Doctor		1591.00
8241	8241	Partial denture Nine or more teeth	Implant	Doctor		1591.00
8251	8251	Cast gold clasp or rest per clasp or res		Doctor		148.00
8253	8253	Wrought gold clasp or rest per clasp or		Doctor		148.00
8255	8255	Stainless steel clasp or rest per clasp		Doctor		148.00
8257	8257	Lingual bar or palatal bar		Doctor		203.00
8259	8259	Reline of denture		Doctor		653.00
8259M	8259M	Reline of denture (laboratory)		Doctor		653.00
8261	8261	Re-model of denture		Doctor		1085.00
8263	8263	Reline of denture in selfcuring acrylic		Doctor		413.00
8265	8265	Tissue conditioner & soft self-cure inte		Doctor		272.00
8267	8267	Soft base re-line per denture (heat cure)		Doctor		953.00
8269	8269	Repair-denture or other intra-oral appli		Doctor		221.00
8269DR	8269DR	Repair of denture		Hygiene		221.00
8270	8270	Add clasp to existing partial denture		Doctor		148.00
8271	8271	Add tooth to existing denture		Doctor		148.00
8273	8273	Additional fee benefit: Impression requi		Doctor		107.00
8275	8275	Adjustment of denture		Doctor		124.00
8277	8277	Gold Inlay in denture		Doctor		237.00
8279	8279	Metal (chrome cobalt gold) base to full	Implant	Doctor		935.00
8281	8281	Metal (chrome cobalt gold) base to part	Implant	Doctor		2101.00
8301	8301	Direct pulp capping	Square	Doctor		50.00
8303	8303	Indirect pulp capping	Square	Doctor		226.00
8304	8304	Rubber dam per arch		Doctor		138.00
8305	8305	Apexification of root canal per visit	Square	Doctor		226.00
8307	8307	Amputation of pulp (pulpotomy)	Square	Doctor		226.00
8308	8308	Lazer Bleaching		Doctor		2178.00
8309	8309	Bleach guards		Doctor		209.00
8310	8310	Supply-bleaching materials		Doctor		270.00
8325	8325	Bleaching of non-vital teeth per tooth	Surface	Doctor		403.00
8327	8327	Each additional visit: Bleaching-non-vit		Doctor		185.00
8328	8328	RCT comp add canal ant/pre	Square	Doctor		277.00
8329	8329	RCT prep&comp add canal ant/pre tooth	Square	Doctor		293.00
8330	8330	Removal-fractured post instrument (& or	Square	Doctor		246.00
8332	8332	RCT prep 1st visit ant	Square	Doctor		157.00
8333	8333	RCT prep 1st visit molars	Square	Doctor		218.00
8334	8334	Re-preparation of previously obturated c	Square	Doctor		235.00
8335	8335	RCT comp anterior &premolar	Square	Doctor		721.00
8336	8336	RCT comp molars	Square	Doctor		993.00
8337	8337	RCT comp per add canal	Square	Doctor		320.00
8338	8338	RCT prep&comp ex molars	Square	Doctor		955.00
8339	8339	RCT prep&comp molars 1stc canal	Square	Doctor		1210.00
8340	8340	RCT prep&comp add canal molars	Square	Doctor		293.00
8341	8341	Amalgam-One surface	Surface	Doctor		205.00
8342	8342	Amalgam-Two surfaces	Surface	Doctor		259.00
8343	8343	Amalgam-Three surfaces	Surface	Doctor		345.00
8344	8344	Amalgam-Four or more surfaces	Surface	Doctor		424.00
8345	8345	Preformed post retention-per post	Square	Doctor		257.00
8347	8347	Pin retention- restoration-first pin	Square	Doctor		157.00
8348	8348	Pin retention- restoration-each addition	Surface	Doctor		135.00
8349	8349	Carving contouring-plastic restoration (Doctor		77.00
8351	8351	A/Etch fill 1 surface anterior	Surface	Doctor		210.00
8352	8352	Acid etch fill 2 surface anterior	Surface	Doctor		284.00
8353	8353	Acid etch fill 3 surface anterior	Surface	Doctor		367.00
8354	8354	Acid etch fill 4 surace or more	Surface	Doctor		445.00
8355	8355	Composite veneers-Direct	Surface	Doctor		547.00
8356	8356	Bridge per abutment - only applicable to	Abutment	Doctor	218.75	303.00
8357	8357	Preformed metal crown	Crown	Doctor		365.00
8358	8358	Inlay metallic-One surface-anterior	Surface	Doctor		502.00
8359	8359	Inlay metallic-Two surfaces-anterior	Surface	Doctor		734.00
8360	8360	Inlay metallic-Three surfaces-anterior	Surface	Doctor		1229.00
8361	8361	Gold inlay 1 surface posterior	Surface	Doctor		596.00
8362	8362	Gold inlay 2 surface posterior	Surface	Doctor		872.00

Inactive Treatment Code

Treatment Code List

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Jser Code	ADA Code	Description	Graphic	Prov Type	Pr. Cost	Fee
3363	8363	Gold inlay 3 surface posterior	Surface	Doctor		1457.00
3364	8364	Gold inlay 4 surface posterior	Surface	Doctor		1611.00
3365	8365	Inlay metallic-Four or more surfaces-a	Surface	Doctor		1611.00
3366	8366	Pin retention -part of cast restoration	Surface	Doctor		265.00
3367	8367	Acid etch fill 1 surf. posterior	Surface	Doctor		264.00
3367 DECID	8367D	Acid etch fill 1 surface post	Surface	Doctor		264.00
3368	8368	Acid etch fill 2 surface posterior	Surface	Doctor		360.00
3368 DECID	8368D	Acid etch fill 2 surface posterior	Surface	Doctor		360.00
3369	8369	Acid etch fill 3 surface posterior	Surface	Doctor		462.00
3369 DECID	8369D	Acid etch fill 3 surface posterior	Surface	Doctor		462.00
3370	8370	Acid etch fill 4 surface posterior	Surface	Doctor		558.00
3370 DECID	8370	Acid etch fill 4 surface posterior	Surface	Doctor		558.00
3371	8371	Inlay-ceramic 1 surface	Surface	Doctor		653.00
3372	8372	Inlay-ceramic 2 surfaces	Surface	Doctor		889.00
3373	8373	Inlay-ceramic 3 surfaces	Surface	Doctor		1471.00
3374	8374	Inlay-ceramic 4 /more surface	Surface	Doctor		1782.00
3376	8376	Prefabricated post core-in addition to c	Surface	Doctor		651.00
3379	8379	Cost of gold post (black)		Doctor		497.00
3379 R	8379	Cost of gold post (red)		Doctor		378.00
3379B	8379	Cost of gold post (blue)		Doctor		334.00
3379P	8379	Cost of gold post (purple)		Doctor		414.00
391	8391	Cast post core-single	Square	Doctor		381.00
393	8393	Cast post core-double	Square	Doctor		599.00
395	8395	Cast post & core - triple	Square	Doctor		877.00
396	8396	Cast coping	Frame	Doctor		247.00
397	8397	Cast core + pins	Square	Doctor		599.00
398	8398	Core build-up +including any pins	Crown	Doctor		599.00
401	8401	Cast full crown	Crown	Doctor		1889.00
403	8403	Cast three-quarter crown	Crown	Doctor		1889.00
405	8405	Acrylic jacket crown	Crown	Doctor		1887.00
407	8407	Acrylic veneered crown	Crown	Doctor		1889.00
409	8409	Porcelain jacket crown	Crown	Doctor		1889.00
411	8411	Porcelain veneered crown	Crown	Doctor		1889.00
413	8413	Facing replacement	Surface	Doctor		366.00
414	8414	Add fee fit crown to existing clasp	Square	Doctor		114.00
420	8420	Sanitary pontic	Pontic	Doctor		919.00
422	8422	Posterior pontic	Pontic	Doctor		1230.00
424	8424	Anterior pontic (including premolars)	Pontic	Doctor		1542.00
505	8505	Pantographic recording		Doctor		955.00
521	8521	Provisional splinting: Extracoronal wire		Doctor	91.00	126.00
523	8523	Provisional splinting: Extracoronal wire		Doctor	132.50	183.00
529	8529	Provisional crown: Not placed during rou	Crown	Doctor	108.66	150.00
590	8590	Periodic maintenance: Existing implant		Doctor	42.16	58.00
599	8599	Precision attachment		Doctor		654.00

-End of Report---

From Code: 8101
 To Code: 8599
 Sorted By: User Code
 Fee Table: SADA

User Code	ADA Code	Description	Graphic	Prov Type	Pr. Cost	Fee	Inactive
3101	8101	Examination -Full mouth (charting & trea		Doctor	184.00	184.00	
3102	8102	Consultation Comprehensive		Doctor	427.00	427.00	
3104	8104	Specific consultation		Doctor	124.00	124.00	
3105	8105	APPOINTMENT NOT KEPT		Doctor	184.00	184.00	
3106	8106	Written quotation		Doctor	309.00	309.00	
3107	8107	Intra-oral radiograph-per film		Doctor	117.00	117.00	
3108	8108	Maximum for 8107		Doctor	946.00	946.00	
3109	8109	Infection control: Per dentist hygienist		Doctor	23.00	23.00	
3110	8110	Sterilisation of instruments.		Doctor	74.00	74.00	
3113	8113	Occlusal radiographs		Doctor	184.00	184.00	
3114	8114	Hand-wrist radiograph		Doctor	485.00	485.00	
3115	8115	Panelipse x-ray		Doctor	485.00	485.00	
3117	8117	Study models - unmounted		Doctor	132.00	132.00	
3119	8119	Study models (mounted-movable condyl		Doctor	342.00	342.00	
3121	8121	Photographs (for diagnostic treatment or		Doctor	132.00	132.00	
3122	8122	Bacteriological studies for determinatio		Doctor	92.00	92.00	
3123	8123	Caries susceptibility tests		Doctor	92.00	92.00	
3129	8129	After hours treatment		Doctor	452.00	452.00	
3131	8131	Emergency Treatment/relief of pain	Frame	Doctor	184.00	184.00	
3132	8132	Emergency RCT	Square	Doctor	302.00	302.00	
3133	8133	Re-cementing inlays crowns bridges-per	Frame	Doctor	184.00	184.00	
3135	8135	Removal of crowns	Frame	Doctor	367.00	367.00	
3136	8136	Access through a prosthetic crown inlay	Frame	Doctor	141.00	141.00	
3137	8137	Emergency temp crown	Frame	Doctor	633.00	633.00	
3140	8140	Fee: Treatment/ General anaesthetic		Doctor	302.00	302.00	
3141	8141	Inhalation sedation		Doctor	132.00	132.00	
3143	8143	Inhalation sedation add fee		Doctor	68.00	68.00	
3144	8144	Sedation		Doctor	86.00	86.00	
3145	8145	Local anaesthetic-per visit		Doctor	32.00	32.00	
3145LA	8145LA	Local Anaesthetic		Doctor		32.00	
3146	8146	Resin bonding for restorations		Doctor	153.00	153.00	
3147	8147	Use own monitoring equipment in rooms		Doctor	273.00	273.00	
3149	8149	Nutritional counselling for control of d		Doctor	127.00	127.00	
3150	8150	Tobacco counselling for the control and		Doctor	127.00	127.00	
3151	8151	Oral hygiene instructions		Doctor	184.00	184.00	
3153	8153	Follow-up visit -re-evaluation (oral hyg		Doctor	132.00	132.00	
3155	8155	Prophy		Doctor	184.00	184.00	
3157	8157	Re-burnishing & polishing restorations-c		Doctor	184.00	184.00	
3159	8159	Scaling & polishing		Doctor	342.00	342.00	
3160	8160	Gross Scale		Doctor	173.00	173.00	
3161	8161	Topical application fluoride		Doctor	184.00	184.00	
3163	8163	Fissure sealant-per tooth	Frame	Doctor	117.00	117.00	
3165	8165	Application fluoride-laboratory processe		Doctor	217.00	217.00	
3167	8167	Treatment: Hypersensitive dentine per v		Doctor	141.00	141.00	
3168	8168			Doctor	127.00	127.00	
3169	8169	Bite splint TMJ hard		Doctor	710.00	710.00	
3170	8170	Minor occlusal adjustment		Doctor	422.00	422.00	
3171	8171	Mouth protectors		Doctor	184.00	184.00	
3173	8173	Space maintainer-fixed per abutment-ur		Doctor	342.00	342.00	
3175	8175	Space maintainer-removable (all-inclusiv		Doctor	439.00	439.00	
3176	8176	Periodontal screening		Doctor	224.00	224.00	
3177	8177	Oral hygiene instruction for the periodo		Doctor	282.00	282.00	
3178	8178	Oral hygiene evaluation for the periodon		Doctor	153.00	153.00	
3179	8179	Plaque removal-periodontally compromis		Doctor	213.00	213.00	
3180	8180	Perio scale + Polish		Doctor	393.00	393.00	
3182	8182	Quad root planning	Quadrant	Doctor	766.00	383.00	
3183	8183	Intra-muscular or sub-cutaneous injectio		Doctor	86.00	86.00	
3184	8184	Root planing with or without periodontal		Doctor	611.00	611.00	
3185	8185	Quad gingevectomy	Quadrant	Doctor	1006.00	1006.00	
3186	8186	Sext. gingevectomy		Doctor	798.00	798.00	
3188	8188	Biopsy -intra-oral		Doctor	473.00	473.00	
3192	8192	Suturing -soft tissue injury	Quadrant	Doctor	914.00	914.00	
3193	8193	Implant abutment per restoration.	Crown	Doctor	2836.00	2836.00	
3194	8194	Surg Placement of implant	Implant	Doctor	1826.00	1826.00	
3195	8195	Surg Placement of 2nd implant	Implant	Doctor	1370.00	1370.00	
3196	8196	Surg Placement of 3rd implant	Implant	Doctor	914.00	914.00	
3198	8198	Exposure of single osseo-integrated im	Implant	Doctor	676.00	676.00	
3199	8199	Exposure of a 2 osseo-integrated implan	Implant	Doctor	511.00	511.00	
3200	8200	Exposure of a third & subsequent osseo	Implant	Doctor	337.00	337.00	
3201	8201	Extraction-Single tooth	Extraction	Doctor	184.00	184.00	

User Code	ADA Code	Description	Graphic	Prov Type	Pr. Cost	Fee
8202	8202	Extraction-Each additional tooth-same q	Extraction	Doctor	74.00	74.00
8209	8209	Surgical removal of tooth (raising of mu	Extraction	Doctor	797.00	797.00
8210	8210	Ext of 1st impacted tooth	Extraction	Doctor	1320.00	1320.00
8211	8211	Removal of 2nd imp/unerup tooth	Extraction	Doctor	710.00	710.00
8212	8212	Removal of add imp tooth	Extraction	Doctor	401.00	401.00
8213	8213	Surg removal of residual roots 1st tooth	Frame	Doctor	797.00	797.00
8214	8214	Surgi removal-residual roots-Each sub	Extraction	Doctor	619.00	619.00
8215	8215	Surgical exposure-impacted unerupted b	Extraction	Doctor	1528.00	1528.00
8221	8221	Local treatment-post-extraction haemorr		Doctor	132.00	132.00
8223	8223	Local treatment post ext haem add visit		Doctor	90.00	90.00
8225	8225	Treatment-septic socket-initial visit		Doctor	132.00	132.00
8227	8227	Treatment-septic socket-each additional		Doctor	90.00	90.00
8229	8229	Apicoectomy anterior	Square	Doctor	914.00	914.00
8231	8231	Full U&L dent incl of base	Implant	Doctor	2984.00	2984.00
8232	8232	Full Uor L dent incl of base	Implant	Doctor	1539.00	1539.00
8233	8233	Partial denture One tooth	Implant	Doctor	852.00	852.00
8234	8234	Partial denture Two teeth	Implant	Doctor	852.00	852.00
8235	8235	Partial denture Three teeth	Implant	Doctor	1277.00	1277.00
8236	8236	Partial denture Four teeth	Implant	Doctor	1277.00	1277.00
8237	8237	Partial denture Five teeth	Implant	Doctor	1277.00	1277.00
8238	8238	Partial denture Six teeth	Implant	Doctor	1697.00	1697.00
8239	8239	Partial denture Seven teeth	Implant	Doctor	1697.00	1697.00
8240	8240	Partial denture Eight teeth	Implant	Doctor	1697.00	1697.00
8241	8241	Partial denture Nine or more teeth	Implant	Doctor	1697.00	1697.00
8243	8243	Soft base to new denture		Doctor	259.00	259.00
8251	8251	Cast gold clasp or rest per clasp or res		Doctor	159.00	159.00
8253	8253	Wrought gold clasp or rest per clasp or		Doctor	159.00	159.00
8255	8255	Stainless steel clasp or rest per clasp		Doctor	159.00	159.00
8257	8257	Lingual bar or palatal bar		Doctor	217.00	217.00
8259	8259	Reline of denture		Doctor	697.00	697.00
8261	8261	Re-model of denture		Doctor	1157.00	1157.00
8263	8263	Reline of denture in selfcuring acrylic		Doctor	442.00	442.00
8265	8265	Tissue conditioner & soft self-cure inte		Doctor	292.00	292.00
8267	8267	Soft base re-line per denture (heat cure		Doctor	1018.00	1018.00
8269	8269	Repair-denture or other intra-oral appli		Doctor	237.00	237.00
8270	8270	Add clasp to existing partial denture		Doctor	159.00	159.00
8271	8271	Add tooth to existing denture		Doctor	159.00	159.00
8273	8273	Additional fee benefit: Impression requi		Doctor	132.00	132.00
8275	8275	Adjustment of denture		Doctor	132.00	132.00
8277	8277	Gold Inlay in denture		Doctor	292.00	292.00
8279	8279	Metal (chrome cobalt gold) base to full	Implant	Doctor	914.00	914.00
8281	8281	Metal (chrome cobalt gold) base to part	Implant	Doctor	2281.00	2281.00
8301	8301	Direct pulp capping	Square	Doctor	86.00	86.00
8303	8303	Indirect pulp capping	Square	Doctor	243.00	243.00
8304	8304	Rubber dam per arch		Doctor	150.00	150.00
8305	8305	Apexification of root canal per visit	Square	Doctor	243.00	243.00
8307	8307	Amputation of pulp (pulpotomy)	Square	Doctor	243.00	243.00
8308	8308	Lazer Bleaching		Doctor	1569.00	1569.00
8309	8309	Bleach guards		Doctor	255.00	255.00
8311	8311	Follow-up visit-home bleaching per visi		Doctor	124.00	124.00
8325	8325	Bleaching of non-vital teeth per tooth	Surface	Doctor	469.00	469.00
8327	8327	Each additional visit: Bleaching-non-vit		Doctor	217.00	217.00
8328	8328	RCT comp add canal ant/pre	Square	Doctor	342.00	342.00
8329	8329	RCT prep&comp add canal ant/pre tooth	Square	Doctor	427.00	427.00
8330	8330	Removal-fractured post instrument (& or	Square	Doctor	240.00	240.00
8332	8332	RCT prep 1st visit ant	Square	Doctor	184.00	184.00
8333	8333	RCT prep 1st visit molars	Square	Doctor	255.00	255.00
8334	8334	Re-preparation of previously obturated c	Square	Doctor	273.00	273.00
8335	8335	RCT comp anterior & premolar	Square	Doctor	837.00	837.00
8336	8336	RCT comp molars	Square	Doctor	1150.00	1150.00
8337	8337	RCT comp per add canal	Square	Doctor	342.00	342.00
8338	8338	RCT prep&comp ex molars	Square	Doctor	1275.00	1275.00
8339	8339	RCT prep&comp molars 1stc canal	Square	Doctor	1753.00	1753.00
8340	8340	RCT prep&comp add canal molars	Square	Doctor	427.00	427.00
8341	8341	Amalgam-One surface	Surface	Doctor	201.00	201.00
8342	8342	Amalgam-Two surfaces	Surface	Doctor	277.00	277.00
8343	8343	Amalgam-Three surfaces	Surface	Doctor	367.00	367.00
8344	8344	Amalgam-Four or more surfaces	Surface	Doctor	452.00	452.00
8345	8345	Preformed post retention-per post	Square	Doctor	273.00	273.00
8347	8347	Pin retention- restoration-first pin	Square	Doctor	184.00	184.00
8348	8348	Pin retention- restoration-each addition	Surface	Doctor	159.00	159.00
8349	8349	Carving contouring-plastic restoration (Doctor	90.00	90.00
8351	8351	A Etch fill 1 surface anterior	Surface	Doctor	224.00	224.00
8352	8352	Acid etch fill 2 surface anterior	Surface	Doctor	305.00	305.00
8353	8353	Acid etch fill 3 surface anterior	Surface	Doctor	393.00	393.00

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User Code	ADA Code	Description	Graphic	Prov Type	Pr. Cost	Fee
8354	8354	Acid etch fill 4 surface or more	Surface	Doctor	476.00	476.00
8355	8355	Composite veneers-Direct	Surface	Doctor	583.00	583.00
8356	8356	Bridge per abutment - only applicable to	Abutment	Doctor	852.00	852.00
8357	8357	Preformed metal crown	Crown	Doctor	390.00	390.00
8358	8358	Inlay metallic-One surface-anterior	Surface	Doctor	583.00	583.00
8359	8359	Inlay metallic-Two surfaces-anterior	Surface	Doctor	852.00	852.00
8360	8360	Inlay metallic-Three surfaces-anterior	Surface	Doctor	1426.00	1426.00
8361	8361	Gold inlay 1 surface posterior	Surface	Doctor	583.00	583.00
8362	8362	Gold inlay 2 surface posterior	Surface	Doctor	852.00	852.00
8363	8363	Gold inlay 3 surface posterior	Surface	Doctor	1426.00	1426.00
8364	8364	Gold inlay 4 surface posterior	Surface	Doctor	1717.00	1717.00
8365	8365	Inlay metallic-Ffour or more surfaces-a	Surface	Doctor	1717.00	1717.00
8366	8366	Pin retention -part of cast restoration	Surface	Doctor	282.00	282.00
8367	8367	Acid etch fill 1 surf. posterior	Surface	Doctor	282.00	282.00
8368	8368	Acid etch fill 2 surface posterior	Surface	Doctor	384.00	384.00
8369	8369	Acid etch fill 3 surface posterior	Surface	Doctor	493.00	493.00
8370	8370	Acid etch fill 4 surface posterior	Surface	Doctor	597.00	597.00
8371	8371	Inlay-ceramic 1 surface	Surface	Doctor	697.00	697.00
8372	8372	Inlay-ceramic 2 surfaces	Surface	Doctor	1032.00	1032.00
8373	8373	Inlay-ceramic 3 surfaces	Surface	Doctor	1704.00	1704.00
8374	8374	Inlay-ceramic 4 /more surface	Surface	Doctor	2065.00	2065.00
8376	8376	Prefabricated post core-in addition to c	Surface	Doctor	756.00	756.00
8391	8391	Cast post core-single	Square	Doctor	443.00	443.00
8393	8393	Cast post core-double	Square	Doctor	697.00	697.00
8395	8395	Cast post & core - triple	Square	Doctor	1018.00	1018.00
8396	8396	Cast coping	Frame	Doctor	286.00	286.00
8397	8397	Cast core + pins	Square	Doctor	697.00	697.00
8398	8398	Core build-up +including any pins	Crown	Doctor	697.00	697.00
8401	8401	Cast full crown	Crown	Doctor	2190.00	2190.00
8403	8403	Cast three-quarter crown	Crown	Doctor	2190.00	2190.00
8405	8405	Acrylic jacket crown	Crown	Doctor	2190.00	2190.00
8407	8407	Acrylic veneered crown	Crown	Doctor	2190.00	2190.00
8409	8409	Porcelain jacket crown	Crown	Doctor	2190.00	2190.00
8411	8411	Porcelain veneered crown	Crown	Doctor	2190.00	2190.00
8413	8413	Facing replacement	Surface	Doctor	427.00	427.00
8414	8414	Add fee fit crown to existing clasp	Square	Doctor	132.00	132.00
8420	8420	Sanitary pontic	Pontic	Doctor	1066.00	1066.00
8422	8422	Posterior pontic	Pontic	Doctor	1426.00	1426.00
8424	8424	Anterior pontic (including premolars)	Pontic	Doctor	1785.00	1785.00
8501	8501	Consultation		Doctor	228.00	228.00
8503	8503	Occlusal analysis: Adjustable articulo		Doctor	465.00	465.00
8505	8505	Pantographic recording		Doctor	679.00	679.00
8506	8506	Detailed clinical examination records		Doctor	766.00	766.00
8507	8507	Examination diagnosis & treatment plan		Doctor	465.00	465.00
8508	8508	Electrognathographic recording		Doctor	727.00	727.00
8509	8509	Electrognathographic recording-compute		Doctor	1209.00	1209.00
8510	8510	Appointment not kept-per half-hour(By a		Doctor	185.00	185.00
8511	8511	Emergency treatment: Relief of pain (no		Doctor	285.00	285.00
8513	8513	Emergency crown		Doctor	473.00	473.00
8515	8515	Recementing: Inlay crown bridge per ab		Doctor	182.00	182.00
8517	8517	Re-implantation: Avulsed tooth includin		Doctor	487.00	487.00
8521	8521	Provisional splinting: Extracoronal wire		Doctor	247.00	247.00
8523	8523	Provisional splinting: Extracoronal wire		Doctor	568.00	568.00
8527	8527	Provisional splinting: Intracoronal wire		Doctor	182.00	182.00
8529	8529	Provisional crown: Not placed during rou	Crown	Doctor	465.00	465.00
8530	8530	Preformed metal crown		Doctor	395.00	395.00
8551	8551	Major occlusal adjustment		Doctor	1334.00	1334.00
8553	8553	Minor occlusal adjustment		Doctor	425.00	425.00
8554	8554	Bonded veneers		Doctor	1620.00	1620.00
8555	8555	Ceramic-Resin bonded inlay-veneer-On		Doctor	1169.00	1169.00
8556	8556	Ceramic-Resin bonded inlay-veneer-Tw		Doctor	1465.00	1465.00
8557	8557	Ceramic-Resin bonded inlay-veneer-Thr		Doctor	2273.00	2273.00
8558	8558	Ceramic-Resin bonded inlay-veneer-Fou		Doctor	2273.00	2273.00
8561	8561	Goldfoil-Class I & Class VI		Doctor	1221.00	1221.00
8563	8563	Goldfoil-Class V		Doctor	1429.00	1429.00
8565	8565	Goldfoil-Class III		Doctor	1794.00	1794.00
8571	8571	Gold restoration-One surface	Surface	Doctor	845.00	845.00
8572	8572	Gold restoration-Two surfaces	Surface	Doctor	1221.00	1221.00
8573	8573	Gold restoration-Three surfaces	Surface	Doctor	1891.00	1891.00
8574	8574	Gold restoration-Four or more surfaces	Surface	Doctor	1891.00	1891.00
8577	8577	Pin retention		Doctor	281.00	281.00
8581	8581	Single post		Doctor	473.00	473.00
8582	8582	Double post		Doctor	679.00	679.00
8583	8583	Triple post		Doctor	845.00	845.00
8587	8587	Copings		Doctor	389.00	389.00

Treatment Code List

10/09/2003 09:04

User Code	ADA Code	Description	Graphic	Prov Type	Pr. Cost	Fee
8589	8589	Cast core with pins		Doctor	667.00	667.00
8590	8590	Periodic maintenance: Existing implant		Doctor	182.00	182.00
8591	8591	Core build-up -including any pins		Doctor	465.00	465.00
8592	8592	Osseo-integrated abutment restoration		Doctor	2835.00	2835.00
8593	8593	Prefabricated post & core in addition to		Doctor	504.00	504.00
8597	8597	Locks & milled rests		Doctor	191.00	191.00
8599	8599	Precision attachment		Doctor	465.00	465.00

End of Report---

10/09/2003 14:10

From Code: 8101
 To Code: 8599
 Sorted By: ADA Code
 Fee Table: INT 03

User Code	ADA Code	Description	Graphic	Prov Type	Pr. Cost	Fee	Inactive
8101	8101	Examination -Full mouth (charting & trea		Doctor	184.00	220.00	
8102	8102	Consultation Comprehensive		Doctor	427.00	512.00	
8104	8104	Specific consultation		Doctor	124.00	148.00	
8105	8105	APPOINTMENT NOT KEPT		Doctor	184.00	220.00	
8106	8106	Written quotation		Doctor	309.00	370.00	
8107	8107	Intra-oral radiograph-per film		Doctor	117.00	140.00	
8108	8108	Maximum for 8107		Doctor	946.00	1135.00	
8109	8109	Infection control: Per dentist hygienist		Doctor	23.00	27.00	
8110	8110	Sterilisation of instruments.		Doctor	74.00	88.00	
8113	8113	Occlusal radiographs		Doctor	184.00	220.00	
8114	8114	Hand-wrist radiograph		Doctor	485.00	582.00	
8115	8115	Panelipse x-ray		Doctor	485.00	582.00	
8117	8117	Study models - unmounted		Doctor	132.00	158.00	
8119	8119	Study models (mounted-movable condyl		Doctor	342.00	410.00	
8121	8121	Photographs (for diagnostic treatment or		Doctor	132.00	158.00	
8122	8122	Bacteriological studies for determinatio		Doctor	92.00	110.00	
8123	8123	Caries susceptibility tests		Doctor	92.00	110.00	
8129	8129	After hours treatment		Doctor	452.00	542.00	
8131	8131	Emergency Treatment/relief of pain	Frame	Doctor	184.00	110.00	
8132	8132	Emergency RCT	Square	Doctor	302.00	362.00	
8133	8133	Re-cementing inlays crowns bridges-per	Frame	Doctor	184.00	220.00	
8135	8135	Removal of crowns	Frame	Doctor	367.00	440.00	
8136	8136	Access through a prosthetic crown inlay	Frame	Doctor	141.00	169.00	
8137	8137	Emergency temp crown	Frame	Doctor	633.00	759.00	
8140	8140	Fee: Treatment/ General anaesthetic		Doctor	302.00	362.00	
8141	8141	Inhalation sedation		Doctor	132.00	158.00	
8143	8143	Inhalation sedation add fee		Doctor	68.00	81.00	
8144	8144	Sedation		Doctor	86.00	103.00	
8145	8145	Local anaesthetic-per visit		Doctor	32.00	38.00	
8145LA	8145LA	Local Anaesthetic		Doctor		30.00	
8146	8146	Resin bonding for restorations		Doctor	153.00	183.00	
8147	8147	Use own monitoring equipment in rooms		Doctor	273.00	327.00	
8149	8149	Nutritional counselling for control of d		Doctor	127.00	152.00	
8150	8150	Tobacco counselling for the control and		Doctor	127.00	152.00	
8151	8151	Oral hygiene instructions		Doctor	184.00	220.00	
8153	8153	Follow-up visit -re-evaluation (oral hyg		Doctor	132.00	158.00	
8155	8155	Prophy		Doctor	184.00	220.00	
8157	8157	Re-burnishing & polishing restorations-c		Doctor	184.00	220.00	
8159	8159	Scaling & polishing		Doctor	342.00	410.00	
8160	8160	Gross Scale		Doctor	173.00	207.00	
8161	8161	Topical application fluoride		Doctor	184.00	220.00	
8163	8163	Fissure sealant-per tooth	Frame	Doctor	117.00	140.00	
8165	8165	Application fluoride-laboratory processe		Doctor	217.00	260.00	
8167	8167	Treatment: Hypersensitive dentine per v		Doctor	141.00	169.00	
8168	8168			Doctor	127.00	152.00	
8169	8169	Bite splint TMJ hard		Doctor	710.00	852.00	
8170	8170	Minor occlusal adjustment		Doctor	422.00	506.00	
8171	8171	Mouth protectors		Doctor	184.00	220.00	
8173	8173	Space maintainer-fixed per abutment-ur		Doctor	342.00	410.00	
8175	8175	Space maintainer-removable (all-inclusiv		Doctor	439.00	526.00	
8176	8176	Periodontal screening		Doctor	224.00	268.00	
8177	8177	Oral hygiene instruction for the periodo		Doctor	282.00	338.00	
8178	8178	Oral hygiene evaluation for the periodon		Doctor	153.00	183.00	
8179	8179	Plaque removal-periodontally compromi		Doctor	213.00	255.00	
8180	8180	Perio scale + Polish		Doctor	393.00	471.00	
8182	8182	Quad root planning	Quadrant	Doctor	766.00	460.00	
8183	8183	Intra-muscular or sub-cutaneous injectio		Doctor	86.00	103.00	
8184	8184	Root planing with or without periodontal		Doctor	611.00	733.00	
8185	8185	Quad gingectomy	Quadrant	Doctor	1006.00	1207.00	
8186	8186	Sext. gingectomy		Doctor	798.00	957.00	
8188	8188	Biopsy -intra-oral		Doctor	473.00	567.00	
8192	8192	Suturing -soft tissue injury	Quadrant	Doctor	914.00	1096.00	
8193	8193	Implant abutment per restoration.	Crown	Doctor	2836.00	3403.00	
8194	8194	Surg Placement of implant	Implant	Doctor	1826.00	2191.00	
8195	8195	Surg Placement of 2nd implant	Implant	Doctor	1370.00	1644.00	
8196	8196	Surg Placement of 3rd implant	Implant	Doctor	914.00	1096.00	
8198	8198	Exposure of single osseo-integrated im	Implant	Doctor	676.00	811.00	
8199	8199	Exposure of a 2 osseo-integrated implan	Implant	Doctor	511.00	613.00	
200	8200	Exposure of a third & subsequent osseo	Implant	Doctor	337.00	404.00	
201	8201	Extraction-Single tooth	Extraction	Doctor	184.00	220.00	

Inactive Treatment Code

User Code	ADA Code	Description	Graphic	Prov Type	Pr. Cost	Fee
8202	8202	Extraction-Each additional tooth-same q	Extraction	Doctor	74.00	88.00
8209	8209	Surgical removal of tooth (raising of mu	Extraction	Doctor	797.00	956.00
8210	8210	Ext of 1st impacted tooth	Extraction	Doctor	1320.00	1584.00
8211	8211	Removal of 2nd imp/unerup tooth	Extraction	Doctor	710.00	852.00
8212	8212	Removal of add imp tooth	Extraction	Doctor	401.00	481.00
8213	8213	Surg removal of residual roots 1st tooth	Frame	Doctor	797.00	956.00
8214	8214	Surgi removal-residual roots-Each sub	Extraction	Doctor	619.00	742.00
8215	8215	Surgical exposure-impacted/unerupted t	Extraction	Doctor	1528.00	1833.00
8221	8221	Local treatment-post-extraction haemorr		Doctor	132.00	158.00
8223	8223	Local treatment post ext haem add visit		Doctor	90.00	108.00
8225	8225	Treatment-septic socket-initial visit		Doctor	132.00	158.00
8227	8227	Treatment-septic socket-each additional		Doctor	90.00	108.00
8229	8229	Apicoectomy anterior	Square	Doctor	914.00	1096.00
8231	8231	Full U&L dent incl of base	Implant	Doctor	2984.00	3580.00
8232	8232	Full Uor L dent incl of base	Implant	Doctor	1539.00	1846.00
8233	8233	Partial denture One tooth	Implant	Doctor	852.00	1022.00
8234	8234	Partial denture Two teeth	Implant	Doctor	852.00	1022.00
8235	8235	Partial denture Three teeth	Implant	Doctor	1277.00	1532.00
8236	8236	Partial denture Four teeth	Implant	Doctor	1277.00	1532.00
8237	8237	Partial denture Five teeth	Implant	Doctor	1277.00	1532.00
8238	8238	Partial denture Six teeth	Implant	Doctor	1697.00	2036.00
8239	8239	Partial denture Seven teeth	Implant	Doctor	1697.00	2036.00
8240	8240	Partial denture Eight teeth	Implant	Doctor	1697.00	2036.00
8241	8241	Partial denture Nine or more teeth	Implant	Doctor	1697.00	2036.00
8243	8243	Soft base to new denture		Doctor	259.00	310.00
8251	8251	Cast gold clasp or rest per clasp or res		Doctor	159.00	190.00
8253	8253	Wrought gold clasp or rest per clasp or		Doctor	159.00	190.00
8255	8255	Stainless steel clasp or rest per clasp		Doctor	159.00	190.00
8257	8257	Lingual bar or palatal bar		Doctor	217.00	260.00
8259	8259	Reline of denture		Doctor	697.00	836.00
8261	8261	Re-model of denture		Doctor	1157.00	1388.00
8263	8263	Reline of denture in selfcuring acrylic		Doctor	442.00	530.00
8265	8265	Tissue conditioner & soft self-cure inte		Doctor	292.00	350.00
8267	8267	Soft base re-line per denture (heat cure		Doctor	1018.00	1221.00
8269	8269	Repair-denture or other intra-oral appli		Doctor	237.00	284.00
8270	8270	Add clasp to existing partial denture		Doctor	159.00	190.00
8271	8271	Add tooth to existing denture		Doctor	159.00	190.00
8273	8273	Additional fee benefit: Impression requi		Doctor	132.00	158.00
8275	8275	Adjustment of denture		Doctor	132.00	158.00
8277	8277	Gold Inlay in denture		Doctor	292.00	350.00
8279	8279	Metal (chrome cobalt gold) base to full	Implant	Doctor	914.00	1096.00
8281	8281	Metal (chrome cobalt gold) base to part	Implant	Doctor	2281.00	2737.00
8301	8301	Direct pulp capping	Square	Doctor	86.00	103.00
8303	8303	Indirect pulp capping	Square	Doctor	243.00	291.00
8304	8304	Rubber dam per arch		Doctor	150.00	180.00
8305	8305	Apexification of root canal per visit	Square	Doctor	243.00	291.00
8307	8307	Amputation of pulp (pulpotomy)	Square	Doctor	243.00	291.00
8308	8308	Lazer Bleaching		Doctor	1569.00	1882.00
8309	8309	Bleach guards		Doctor	255.00	306.00
8311	8311	Follow-up visit-home bleaching per visi		Doctor	124.00	148.00
8325	8325	Bleaching of non-vital teeth per tooth	Surface	Doctor	469.00	562.00
8327	8327	Each additional visit: Bleaching-non-vit		Doctor	217.00	260.00
8328	8328	RCT comp add canal ant/pre	Square	Doctor	342.00	410.00
8329	8329	RCT prep&comp add canal ant/pre tooth	Square	Doctor	427.00	512.00
8330	8330	Removal-fractured post instrument (& or	Square	Doctor	240.00	288.00
8332	8332	RCT prep 1st visit ant	Square	Doctor	184.00	220.00
8333	8333	RCT prep 1st visit molars	Square	Doctor	255.00	306.00
8334	8334	Re-preparation of previously obturated c	Square	Doctor	273.00	327.00
8335	8335	RCT comp anterior & premolar	Square	Doctor	837.00	1004.00
8336	8336	RCT comp molars	Square	Doctor	1150.00	1380.00
8337	8337	RCT comp per add canal	Square	Doctor	342.00	410.00
8338	8338	RCT prep&comp ex molars	Square	Doctor	1275.00	1530.00
8339	8339	RCT prep&comp molars 1stc canal	Square	Doctor	1753.00	2103.00
8340	8340	RCT prep&comp add canal molars	Square	Doctor	427.00	512.00
8341	8341	Amalgam-One surface	Surface	Doctor	201.00	241.00
8342	8342	Amalgam-Two surfaces	Surface	Doctor	277.00	332.00
8343	8343	Amalgam-Three surfaces	Surface	Doctor	367.00	440.00
8344	8344	Amalgam-Four or more surfaces	Surface	Doctor	452.00	542.00
8345	8345	Preformed post retention-per post	Square	Doctor	273.00	327.00
8347	8347	Pin retention- restoration-first pin	Square	Doctor	184.00	220.00
8348	8348	Pin retention- restoration-each addition	Surface	Doctor	159.00	190.00
8349	8349	Carving contouring-plastic restoration (Doctor	90.00	108.00
8351	8351	A/Etch fill 1 surface anterior	Surface	Doctor	224.00	268.00
8352	8352	Acid etch fill 2 surface anterior	Surface	Doctor	305.00	366.00
8353	8353	Acid etch fill 3 surface anterior	Surface	Doctor	393.00	471.00

User Code	ADA Code	Description	Graphic	Prov Type	Pr. Cost	Fee
8354	8354	Acid etch fill 4 surface or more	Surface	Doctor	476.00	571.00
8355	8355	Composite veneers-Direct	Surface	Doctor	583.00	699.00
8356	8356	Bridge per abutment - only applicable to	Abutment	Doctor	852.00	1022.00
8357	8357	Preformed metal crown	Crown	Doctor	390.00	468.00
8358	8358	Inlay metallic-One surface-anterior	Surface	Doctor	583.00	699.00
8359	8359	Inlay metallic-Two surfaces-anterior	Surface	Doctor	852.00	1022.00
8360	8360	Inlay metallic-Three surfaces-anterior	Surface	Doctor	1426.00	1711.00
8361	8361	Gold inlay 1 surface posterior	Surface	Doctor	583.00	699.00
8362	8362	Gold inlay 2 surface posterior	Surface	Doctor	852.00	1022.00
8363	8363	Gold inlay 3 surface posterior	Surface	Doctor	1426.00	1711.00
8364	8364	Gold inlay 4 surface posterior	Surface	Doctor	1717.00	2060.00
8365	8365	Inlay metallic-Ffour or more surfaces-a	Surface	Doctor	1717.00	2060.00
8366	8366	Pin retention -part of cast restoration	Surface	Doctor	282.00	338.00
8367	8367	Acid etch fill 1 surf. posterior	Surface	Doctor	282.00	338.00
8368	8368	Acid etch fill 2 surface posterior	Surface	Doctor	384.00	460.00
8369	8369	Acid etch fill 3 surface posterior	Surface	Doctor	493.00	591.00
8370	8370	Acid etch fill 4 surface posterior	Surface	Doctor	597.00	716.00
8371	8371	Inlay-ceramic 1 surface	Surface	Doctor	697.00	836.00
8372	8372	Inlay-ceramic 2 surfaces	Surface	Doctor	1032.00	1238.00
8373	8373	Inlay-ceramic 3 surfaces	Surface	Doctor	1704.00	2044.00
8374	8374	Inlay-ceramic 4 /more surface	Surface	Doctor	2065.00	2478.00
8376	8376	Prefabricated post core-in addition to c	Surface	Doctor	756.00	907.00
8391	8391	Cast post core-single	Square	Doctor	443.00	531.00
8393	8393	Cast post core-double	Square	Doctor	697.00	836.00
8395	8395	Cast post & core - triple	Square	Doctor	1018.00	1221.00
8396	8396	Cast coping	Frame	Doctor	286.00	343.00
8397	8397	Cast core + pins	Square	Doctor	697.00	836.00
8398	8398	Core build-up +including any pins	Crown	Doctor	697.00	836.00
8401	8401	Cast full crown	Crown	Doctor	2190.00	2628.00
8403	8403	Cast three-quarter crown	Crown	Doctor	2190.00	2628.00
8405	8405	Acrylic jacket crown	Crown	Doctor	2190.00	2628.00
8407	8407	Acrylic veneered crown	Crown	Doctor	2190.00	2628.00
8409	8409	Porcelain jacket crown	Crown	Doctor	2190.00	2628.00
8411	8411	Porcelain veneered crown	Crown	Doctor	2190.00	2628.00
8413	8413	Facing replacement	Surface	Doctor	427.00	512.00
8414	8414	Add fee fit crown to existing clasp	Square	Doctor	132.00	158.00
8420	8420	Sanitary pontic	Pontic	Doctor	1066.00	1279.00
8422	8422	Posterior pontic	Pontic	Doctor	1426.00	1711.00
8424	8424	Anterior pontic (including premolars)	Pontic	Doctor	1785.00	2142.00
8501	8501	Consultation		Doctor	228.00	273.00
8503	8503	Occlusal analysis: Adjustable articulat		Doctor	465.00	558.00
8505	8505	Pantographic recording		Doctor	679.00	814.00
8506	8506	Detailed clinical examination records		Doctor	766.00	919.00
8507	8507	Examination diagnosis & treatment plan		Doctor	465.00	558.00
8508	8508	Electrognathographic recording		Doctor	727.00	872.00
8509	8509	Electrognathographic recording-compute		Doctor	1209.00	1450.00
8510	8510	Appointment not kept-per half-hour(By a		Doctor	185.00	222.00
8511	8511	Emergency treatment: Relief of pain (no		Doctor	285.00	342.00
8513	8513	Emergency crown		Doctor	473.00	567.00
8515	8515	Recementing: Inlay crown bridge per ab		Doctor	182.00	218.00
8517	8517	Re-implantation: Avulsed tooth includin		Doctor	487.00	584.00
8521	8521	Provisional splinting: Extracoronal wire		Doctor	247.00	296.00
8523	8523	Provisional splinting: Extracoronal wire		Doctor	568.00	681.00
8527	8527	Provisional splinting: Intracoronal wire		Doctor	182.00	218.00
8529	8529	Provisional crown: Not placed during rou	Crown	Doctor	465.00	558.00
8530	8530	Preformed metal crown		Doctor	395.00	474.00
8551	8551	Major occlusal adjustment		Doctor	1334.00	1600.00
8553	8553	Minor occlusal adjustment		Doctor	425.00	510.00
8554	8554	Bonded veneers		Doctor	1620.00	1944.00
8555	8555	Ceramic-Resin bonded inlay-veneer-On		Doctor	1169.00	1402.00
8556	8556	Ceramic-Resin bonded inlay-veneer-Tw		Doctor	1465.00	1758.00
8557	8557	Ceramic-Resin bonded inlay-veneer-Thr		Doctor	2273.00	2727.00
8558	8558	Ceramic-Resin bonded inlay-veneer-Fou		Doctor	2273.00	2727.00
8561	8561	Goldfoil-Class I & Class VI		Doctor	1221.00	1465.00
8563	8563	Goldfoil-Class V		Doctor	1429.00	1714.00
8565	8565	Goldfoil-Class III		Doctor	1794.00	2152.00
8571	8571	Gold restoration-One surface	Surface	Doctor	845.00	1014.00
8572	8572	Gold restoration-Two surfaces	Surface	Doctor	1221.00	1465.00
8573	8573	Gold restoration-Three surfaces	Surface	Doctor	1891.00	2269.00
8574	8574	Gold restoration-Four or more surfaces	Surface	Doctor	1891.00	2269.00
8577	8577	Pin retention		Doctor	281.00	337.00
8581	8581	Single post		Doctor	473.00	567.00
8582	8582	Double post		Doctor	679.00	814.00
8583	8583	Triple post		Doctor	845.00	1014.00
8587	8587	Copings		Doctor	389.00	466.00

Jser Code	ADA Code	Description	Graphic	Prov Type	Pr. Cost	Fee
3589	8589	Cast core with pins		Doctor	667.00	800.00
3590	8590	Periodic maintenance: Existing implant		Doctor	182.00	218.00
3591	8591	Core build-up -including any pins		Doctor	465.00	558.00
3592	8592	Osseo-integrated abutment restoration		Doctor	2835.00	3402.00
3593	8593	Prefabricated post & core in addition to		Doctor	504.00	604.00
3597	8597	Locks & milled rests		Doctor	191.00	229.00
3599	8599	Precision attachment		Doctor	465.00	558.00

--End of Report--