Problem:
The evening news has recently run several stories about the economy. At the national level, there are reports of slower economic growth, and possibly a recession. The Fed at a recent meeting agreed to drop interest rates to stimulate the economy. However, oil prices continue to push inflation, so the worry is that the Fed will increase inflation through the interest rate decrease. Some congressional leaders are talking of a tax stimulus package, though others claim it would only lead to more inflation. The lead story in the local news last night was about the local auto assembly plant. Due to lagging sales of the small truck that they manufacture at the plant, the automaker is decreasing production by one half, to one shift per day. This means that approximately 700 people in your local community will soon be without jobs or dental benefits. Because this is a major manufacturer in the area, local officials are very worried about the “ripple” effect of losing so many high paid jobs. The estimates of the Business Index show an expected decline in the economy for the next quarter.

You must develop a strategy to respond to the impending economic problems. You are still in a growth mode, so you want to maintain or increase patient visits. You also want to maintain profitability through maintaining revenue and decreasing costs. Finally, you want to position yourself for additional future growth. There are several strategies to consider to accomplish these ends. You might do nothing, figuring that your practice is strong enough that the economic downturn won’t severely affect it. You could plan to expand the practice. During this time, equipment would be less expensive and staff should be available. You could cut costs and wait for the economic storm to pass. You could increase efforts to attract new patients to offset anticipated patient loss from the layoffs. By lowering fees and increasing advertising, you believe that you can attract enough new patients for the practice to prosper. Or you could try to hold existing patients and aggressively seek additional patients through a combination of much lower fees, decreasing your credit policy to the easiest policy, and increasing advertising.

Case Decision:
You decide to:
1. Aggressively cut costs to maintain profitability. Cut advertising and staff pay to 20% below average. Use strict credit policy (1) and high fees (5) to increase collections. Set fewer hours (1) to cut costs. Use an offshore lab to save 25% on lab costs.
2. Cut costs to maintain profitability. Set staff pay and advertising at 10% below average for the area. Set strict credit policy (1) and high fees (4) to help with collections. Keep fewer hours (2) to control costs.
3. Do nothing. Hope your practice weatheres the storm. Make everything average: fees (3), advertising (3), staff pay (3), credit policy (2), and hours (3).
4. Expand the practice and seek new patients. Set low fees (2), increase advertising (4), set a moderate credit policy (2), and keep evening hours (4) to help bring in new patients.
5. Aggressively seek new patients. Set very low fees (1), increase in advertising (5), adopt the easiest credit policy (3), and increase office hours (4) to bring in more patients.

Your decisions on this Case will replace your normal decisions in the affected areas for this quarter.

Guided Learning Questions:
1. How do supply and demand relate to a dental practice?
2. What effect does the economy have on your dental practice?
3. What is the relationship between the national economy and your local economy?
4. What effect does the business cycle have on patient visits in your dental practice?
5. What effect does the economy have on staff in your dental practice?
6. How should you respond to changes in the economy?