



Before you seal that deal...

Whether it's small consumable supplies or massive capital investments, when it comes to making a purchase, having a plan can quite literally pay off.

By Noah Levine, Senior Editor

Successfully running a dental laboratory requires more than just the technical capabilities and artistic skills that can win cases from dentist clients. And while producing high-quality restorations should be the ultimate goal, it's important to pay attention to the nuts-and-bolts business details along the way.

Making sure the laboratory has the day-to-day supplies on hand and examining the industry landscape for new innovations and systems to invest in are key aspects to running the lab as a business entity. While thinking about supplies and investments shouldn't be your main focus, devoting time to planning how your lab will spend

its money on items both big and small is unquestionably an essential component of success. Unfortunately, it's also one that is overlooked at many labs.

"Generally it's done pretty poorly. The reason for that is that most labs aren't big enough to have a full-time purchasing agent, let alone a professional purchasing

PHOTO: JUPITER IMAGES/GETTY IMAGES

person, so it tends to be somebody's part-time job and it doesn't always get the attention it deserves," said Chuck Yenknner, President of Business Development Associates.

HAVE A PLAN

This can be especially true when it comes to the consumable and material supplies that, while critical for the daily operations of a lab, can easily become afterthoughts or habitual purchases regardless of changing internal and external circumstances. Yenknner said he often finds labs making the mistake of getting into a purchasing rut that prevents them from making the best deals for their businesses.

"A lot of laboratories do business with somebody out of habit. It's because they've been with them, and they just keep buying and doing the same thing. They rarely check the prices against competitors. They rarely rate their vendors in terms of performance," he said. "As a result, it eats into their efficiencies, not to mention their costs."

Conversely, Yenknner said other labs focus too much attention on trying to always find the best deal and jump from supplier to supplier with each order. While this can lead to savings, the time spent finding the deals might be better used in other ways. Additionally, the hidden costs of changing suppliers or materials in terms of product quality and service can come to bear when switching with every purchase.

Putting together an annual purchasing plan as part of the lab's annual business plan is one way to avoid either of those pitfalls. Mark Murphy, DDS, FAGD, Owner of Funktional Consulting and Lead Faculty for Mercer Advisor, said an annual financial plan is a necessity, and the section on planned purchasing should ideally be based on 3 to 5 years of data tracking the lab's spending patterns. The plan for the upcoming year should be fairly similar to the one for the previous year with adjustments made for any planned changes and expected growth.

"You can make decisions based on your consumption patterns and based on what you use it for and based on how often you're going to use it. That's a much more sensible way," Dr. Murphy said.

Consultant and lecturer Gary Maxon, CDT, also stressed the importance of planning, and added that he believes the principles of Lean Manufacturing can be applied to help labs of any size plan purchasing decisions. Understanding the lab's product mix and areas of growth are important, but it's also good to keep track of the prices of consumable goods to take advantage of the best possible deals.

"It's not only saving money on purchasing, it's buying at the right time, buying in discount because most of the manufacturers are pretty competitive on that," Maxon said.

DRAWERS ARE NOT BANKS

Still, that doesn't mean stocking up on massive quantities of goods any time you can get a deal. That can lead to wasted expenses due to products not being used before their shelf life expires, or just taking up space and gathering dust. Both Maxon and Dr. Murphy said they can find wasted money in the bench drawers of just about every lab with which they consult due to technicians squirreling away supplies or preferring to use parallel material choices.

Other than gold, which is currently gaining in value, every other purchase a lab makes loses value the longer it sits around. Dr. Murphy said labs need to realize the importance of having liquid assets on hand, and thus be aware that materials and supplies are money that has been turned from liquid to solid. Having a plan for ordering should eliminate those expensive last minute rush orders as well as the glut of items that just take up space and replace them with a steady flow of just what is being used.

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Small number with big plans

4.3%

of lab owners plan to spend more than \$100,000 on equipment in 2011.

Source: November 2010 DLP Purchasing Survey.

Better, faster, stronger

95.5%

of lab owners said increasing productivity is important or very important considerations when weighing new purchase options.

Source: November 2010 DLP Purchasing Survey.

Get smart

Putting some thought into purchasing plans is important, and as many business students learn, it's the smart thing to do. In fact, Mark Murphy, DDS, said many business courses begin with an acronym for the word "smart" that can help outline the goals for any major purchases being considered.

- S**pecific
- M**easurable
- A**chievable
- R**ealistic
- T**imely

These goals can be taken one step further to become "Smarter" goals by the addition of "Ethical" and "Rewarding" for what Dr. Murphy described as, "a 21st century application of SMART goals," for lab owners who want to bring a bigger sense of responsibility and meaning to how they run their labs.

boxes of porcelain sitting around and gathering dust when that could be money that could be invested in something else," Dr. Murphy said. "That's money in the drawer. That's money I can't use to pay a bonus, money I can't use to invest in education, it's money I can't use for capital expenses, it's money I can't take home myself from my own lab."

Ordering the right supplies can be as useful as ordering supplies at the right time, Maxon said, noting the importance of labs tracking the quantities of consumable supplies each technician uses to help plan order and distribution schedules. Additionally, getting all the technicians on the same page with the materials they use is important. This not only reduces the number of items being ordered while increasing the quantities of each item, but it can save time and money later on by eliminating variables from quality control efforts.

It's also important to consider a product's useful life when looking at a bulk purchase for something that does not have a shelf life. Even if a lab is presented with a great bulk deal on something like plastic articulators that could last forever, Yenknner said it is important to consider that a change in technique or materials could make those items as obsolete as something long past its expiration date.

"While there are some items that you can stock up on and buy in bulk, for the most part, I tend to vote for a more consistent flow of the product," he said.

DEALS THAT MAKE SENSE

Avoiding overpurchasing doesn't mean labs must always miss out on the advantages of bulk savings. Yenknner said good pricing is available by working closely with suppliers and explaining the total quantity of something you plan to purchase throughout the year. Many times it will be possible to set up a monthly shipment along with monthly payments to keep inventory low while achieving

cost savings due to the total volume being purchased.

Of course, being in position to know what you'll need over the course of the year requires a solid purchasing plan. Yenknner said this should be generated each year as a component of the lab's overall business plan. Depending on the type of lab and the volume of work being done, consumables purchases should fall somewhere in the range of 14-20 percent of revenues. With all of this known ahead of time, a lab is in the best position to strike beneficial deals and optimize the value of purchasing decisions.

"It can significantly impact on the bottom line," Yenknner said.

SIZING UP A SYSTEM

Planning is just as important when considering a major investment in capital equipment, but many more factors come into play when these decisions are being made. Knowing how such a purchase will fit in your annual budget is just one piece of pulling the trigger on a capital investment such as a scanner, mill or complete CAD/CAM system with a price tag reaching into the six-digit range.

"That's a significant investment for a small lab. It's a significant investment for everyone," Yenknner said. "There's only two benefits to investing in the capital equipment and new products along this line: One, it's going to bring you new business; or two, it's going to lower your costs. If it doesn't do one of those two things, you really need to think hard at it."

Investments such as these can lead to new product offerings from a lab, but Maxon said before even beginning to evaluate the systems that are currently available a lab should evaluate its existing customer base. If you survey your clients and discover they are not interested in what the new system will allow you to produce, it might not be a good fit for your lab. When moving into digital production, it's also important



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to know if the system you plan to invest in will be compatible with chairside digital technology currently being used by your current customer base, Maxon added.

"If the account doesn't want it, it doesn't matter which way you go," he said.

There are numerous factors to consider when contemplating a major capital equipment purchase, and Yenknner said these investments are really different than anything else a lab purchases. Labs need to be sure to cover all the details so dangle fees, maintenance contracts or upgrade costs do not become unpleasant surprises.

Another often overlooked factor is company support of the product in the

form of marketing, but Yenknner said the biggest question that needs to be asked when evaluating an investment in these types of systems is the expected lifespan of the technology. If the terms of a lease or a loan are longer than the useful life of the system, the investment will not pay off, and that can be a difficult assessment to make.

"Right now, a crucial thing that's happening in the industry is the life cycles of products is really shrinking," Yenknner said.

You yourself can become another obstacle to properly evaluating a new system. Dr. Murphy said that for some people, it's difficult to ignore the appeal

of high technology, but sound business decisions need to be based on a need for the new capabilities and not just a desire to have the latest gadgets in the lab. He advises avoiding becoming attached to the idea of adding a system to your lab until you can adequately plan out how that investment will bring positive returns to the business.

"You may want a milling system, you may want a scanner, you may want some expensive piece of equipment that you may not really need, but if you become emotionally attached and you picture yourself using it, you're going to have a hard time not buying it," he said.

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COMPUTING THE PAYBACK

Figuring out just how to calculate the potential return on investment for a purchase of this scale can be as complex and involve as many factors as evaluating the systems being considered for purchase. When sitting down to figure out how all the potential expenses and profits will shake out, it is important to get a grip on all of the variables involved.

Maxon said this should start with an accurate calculation of the cost to produce a unit with the new system, as well as the cost per unit for any processes the new system will be replacing. This formula is basically the sum of materials costs, labor costs and overhead costs related to the production, and Maxon advises keeping those costs at or below 60 percent of the selling price.

“If you don’t know how much it costs to make it, how do you know how much to charge for it?” he said.

While most manufacturers will provide their own calculations that show how much use a system will need before it can turn a profit for a lab, both Maxon and Yenknor stress the importance of doing your own calculations. Yenknor said this is not because the manufacturers are out to mislead potential customers, but because they create their projections based on an average lab, and no lab will match up to that profile in every area.

It is important to base your return on investment calculations on real numbers from your lab and realistic projections of the business the investment might bring in. An often overlooked aspect to these calculations that Yenknor pointed out is the way a new technology might shift the internal caseload at a lab. If the new business being brought in through the technology investment is actually reducing other areas of existing business, the lab may be gaining income in one area but losing most or all of those gains elsewhere.

Another area often overlooked is the impact of the investment on a lab’s employees, Maxon said. Communicating with your team about potential purchases up front can help bring them on board with the changes. It’s important to know if the new technology will require fewer employees, new hires or additional training for the existing staff, so expenses related to that can be factored in.

“Do you have the right people on the bus currently? Is there somebody there you can cross-train into CAD/CAM?” Maxon said.



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For Dr. Murphy, the decision of whether to purchase with on-hand cash or to finance a purchase is less of a quandary. Extolling the virtues of keeping cash on hand, Dr. Murphy said leasing or paying for capital investments over time is almost always the best way to go. With most customers paying 30 to 90 days after work is completed, dental labs making these type of purchases need to avoid situations where they find themselves, “cash poor and equipment rich.”

“I should leverage my cash over time, and not pay cash for it, even if I can afford it

Yenknor advises labs to work with their accountant or financial advisor when doing these calculations. These advisors also can help with the crucial decision that often follows a positive return on investment projection: how to pay for the purchase. While he thinks each lab needs to work with an accountant to determine whether paying cash, financing or leasing capital equipment makes the most sense, the pace of change in dental lab technology makes it difficult for him to advise payment plans that stretch beyond two years.

because I lose the strength in my cash flow by not having that money available to do other things. People underestimate how important cash flow is,” Dr. Murphy said.

All these factors weigh even more heavily on small labs looking to make large-scale investments, Maxon said. While large labs are usually better positioned to actively market a menu of services to potential clients, smaller labs generally must focus more on delivering high-quality service to existing accounts. Because of this, Maxon said smaller labs have more to risk when

looking at adding in-house CAD/CAM and other expensive investments.

“Smaller labs need to do better due diligence on getting involved with it,” he said.

OUTSOURCE EVALUATIONS

Of course with numerous milling centers and outsource labs operating today, small labs have more options than just purchasing an expensive CAD/CAM system. In many cases finding good outsource partners makes more financial sense for smaller labs, Maxon said. With no capital investment, they put a range of options into play for just about any lab.

That factor there is the biggest value of looking to outsource rather than purchase, Yenknor said. It allows smaller labs to “hedge their bets” when it comes to choosing which technology will be around for the long haul and test out new product offerings for current customers.

“In most cases, the beauty of outsourcing is the investing is minimal. You pay what you pay for the product, if you can sell it at a price that’s a profit, it’s a fairly simple decision,” he said.

But working with a milling center or other outsource partner is still an expense for the lab, and basically amounts to purchasing parts from another supplier. Yenknor said it is important to document all the details of working with outsource partners to find the best resource for your lab.

“This is where it gets similar to buying consumable supplies. You need to have a process in place where you can evaluate vendor performance, and not just anecdotally,” he said.

Dr. Murphy also thinks outsourcing is a great option for many labs, but to determine if it makes more sense to outsource or keep work in house by purchasing a CAD/CAM system, a lab can run competing calculations of the return on investment from each option.

Just like with evaluating the hidden expenses of capital investments, Dr. Murphy said it is important to look at similar

factors with outsource options. If parts require finishing after they come back to the lab, the time and costs associated with that work must be factored into the cost of outsourcing that work. Still, he said it’s often the most viable option for smaller labs.

“If I were a small laboratory, I would like to find appropriate channel partners who can provide me outsourced material processes that work for me and would help me be successful,” Dr. Murphy said. “I would buy as little equipment as possible.”

GETTING IT RIGHT

The key to all of this is being smart about purchasing decisions to avoid mistakes that are truly costly to the lab. While Yenknor said this is why more research and planning needs to be done before the big purchases than smaller items, the industry is changing, and labs of all sizes need to figure out how they plan to operate in the ever more digital industry.

“That’s something different for this industry,” he said. “This industry didn’t change very fast for a long time, so nobody had to make these decisions.”

Now, it’s ever more important for labs to have solid planning for how their money will be spent. Ongoing purchases shouldn’t come as surprises, and big ticket items should be researched and weighed against competing options with a sound path to earning back the money invested. Without that focus on the business aspects of running a lab, the purchasing mistakes can quickly add up.

“That’s what I’m afraid of when somebody runs around willy-nilly buying things but not knowing why and having a virtual museum of laboratory equipment that was purchased and not used over the last 20 years. That’s opportunity cost and money that changed forms that you can never get back again,” Dr. Murphy said. **lab**

Surfing for deals

70.8%

of lab owners do research on the internet when making major equipment purchasing decisions.

Source: November 2010 DLP Purchasing Survey.

Not much fun

37.5%

of lab owners enjoy the research, selection and purchasing process when making major equipment purchasing decisions.

Source: November 2010 DLP Purchasing Survey.