For most dentists, the main objective of attaining a dental degree is so they can apply their trade and help patients enjoy the benefits of good dental health. We tend to enjoy dentistry, getting to work with a wide variety of people, setting our own schedules, being our own boss and, from time to time, creating much out of not so much.

It’s always a good feeling to sit down with a patient who has a dental problem and be able to solve that issue because of our skill set and knowledge base, and have the patient thank us on the spot for helping him.

When we applied to dental school, we knew it was not going to be cheap to attend (plus passing on four years of income in some other field), but felt that it would be a good investment in the long haul.

When we become the owner (Chief Financial Officer) of our dental practice, often times we are asked to make decisions about spending money, so knowing how best to evaluate the difference between cost or investment is critical.

Dental practice owners really need to have an effective method of keeping track of what is going on in their practices and have the tools they need at their fingertips so they can take advantage of opportunities as they present themselves. As the old saying goes, “It is better to be prepared and not have an opportunity, than to have an opportunity and not be prepared.”

For more than 20 years, I have worked with dentists around the country, coaching to help them achieve their practice goals, preparing them to be ready for opportunities, then helping evaluate those opportunities to make intelligent and informed decisions.

Unfortunately, most of us dentists don’t have simple, easy to implement systems that can expedite the business management processes, so most dentists are at risk when it come to making well-informed decisions and running highly effective practices.

In this article we are going to focus on one aspect of business management, and that is operating overhead, how best to categorize it and how to get real “apples to apples” comparisons. We are going to look at what happens when you go from all lab work “sent out” to the real effects of having an in-office CAD/CAM machine and how to structure a monthly practice operating overhead worksheet so you will know what’s going on in your practice at a moment’s notice.

If I spoke with you today to discuss your practice operations and you could not give me up-to-the minute information as shown in Figures 1 and 2, you have work to do. If you don’t believe me, think for a second about how long it takes well-run corporate practices to take their pulse.

I can tell you that corporations running multiple practices are getting real time production, collection, accounts receivable, overhead numbers, etc., so they know at any given point in time where they are.

Calculating costs

We’re moving into an era where we have an increasing number of dentists who have in-office CAD/CAM computerized milling machines and, therefore, are not utilizing traditional dental labs as before. If you have one of those machines, my suggestion is that anything you pay, including the monthly payment for the machine, what you pay for the supplies, etc., goes under a sub-category in lab fees.

If you were providing laboratory restorations and you weren’t using that machine, you would be paying a lab fee. This now allows you to more easily and accurately (1) compare apples to apples, (2) determine what your real expenses are and (3) evaluate and compare costs per unit for each type of laboratory service.

As we move forward in dentistry, this will be a very important factor. In the past, most have put CAD/CAM monthly payments under equipment and
CAD/CAM supplies under dental supplies when in actuality they are neither, because the truth of it is: That particular piece of equipment has a specific use and it’s really a laboratory-use function.

For the purpose of really knowing your costs and determining profitability (and pricing) on your comprehensive profit and loss statement, you will probably want to subdivide the laboratory expense category into:

- Fixed prosthetics
- Removable prosthetics
- Implant prosthetics
- CAD/CAM prosthetics
- Appliances
- Ortho

You could further break down CAD/CAM prosthetics into:

- Lease payment
- Supplies
- Repairs and maintenance

Doing it this way will allow you to see each part of the equation and how you are doing at a glance. Your accountant can handle the expenses from a tax standpoint in a manner the two of you decide, but if you plan to be a successful dental practice owner, you need up-to-the minute data on a real cash in and cash out basis. Having an operating budget and tracking operating expenses will provide you what you need, when you need it.

Cost example

I am reminded of a client I worked with to put together a long-term plan on positioning her practice to lessen the effects of dental insurance; to make sure she had the best team on board; to raise the level of position and services in the practice; and to be well positioned for the changes happening in dentistry.

One of the practice operating expenses was laboratory expenses, which at the time were running about $9,400 a month for outside lab services, mostly fixed prosthetics and crown and bridge work.

The dentist was discussing the “cost” of a CAD/CAM system, which was more than $100,000 at the time, and this big number had her concerned.

We discussed cost versus return on investment (ROI), and once the comparison was calculated, the decision was made to move ahead. The month following the introduction of the practice's CAD/CAM machine was a revelation.

Outside lab dropped to just under $1,500, a $7,900 decrease. CAD/CAM related costs were about $3,600, giving a net gain of $4,300. The dentist was elated, but soon found that was only part of the story. The marketing value from having the equipment was useful in attracting some additional patients.
‘CAD/CAM is a no brainer if you provide restorative and crown and bridge services’

The dentist did more onlays and an occasional inlay, and she did more quadrant treatment on patients due to convenience for the patient.

Fast forward 12 months, and net gain for the practice compared with the previous 12 months (when only outside lab services were being used) was more than $63,000. I’m not sure where else in your practice you can do the same procedure and increase the revenue to that extent.

The most significant impact CAD/CAM has had has been financially. The expense of a CAD/CAM machine, in most practices, can replace 75 percent or more of a practice’s lab costs. This should be a significant increase in net profit without having to increase production. It’s a real no-brainer if you provide restorative and crown and bridge services in your practice.

In addition, when you invest in chairside CAD/CAM, patients will see that your office is not only high-tech and up to date on the latest procedures, but also seeks to save them time and money. This leads to more referrals and the ability to do restorations in one visit and more quadrant dentistry.

The laboratory expense is but one of eight major categories that all dentists should have laid out in their operating statements.

“What to look for in your operating overhead statement

Reviewing an operating statement is important in evaluating what is going on financially in a practice and seeing if there are areas that are getting off track and need to be redirected.

If you really want to know where the operating expenses fall, you need to properly categorize the expenses so you can determine at a glance the direction of the practice. You need to be able to see this at a moment’s notice, not in a report that you get 30 days or more after the end of the quarter. No real business would operate without up-to-the-minute facts, so why would you?

- **Staff salaries/taxes (20–23 percent for general practices, including hygiene comp.):** This includes the staff compensation plus any taxes you pay on behalf of the staff.
- **Team, other (up to 3 percent):** Generally includes team benefits such as insurance, pension contribution, staff C.E. costs, gifts for staff, etc.
- **Lab fees (9–15 percent):** This includes all outside lab costs, any CAD/CAM materials/supplies and the cost of the CAD/CAM machine.
- **Dental supplies (6–7 percent for total supplies):** This would include normal disposable dental supplies used daily, restorative supplies, impression materials and patient products.
- **Facility expense (3–5 percent):** This includes rent or mortgage payment, utilities, facility maintenance and property taxes.
- **Equipment (3–5 percent):** This includes equipment leases or purchases, repair and maintenance for equipment, and annual taxes assessed and paid on the equipment you have.
- **Office supplies (1–2 percent):** This includes administrative items and supplies, postage and printing, computer services and any other administrative costs.
- **Miscellaneous expenses (7–10 percent):** This includes marketing costs, bank charges, books/subscriptions, consulting fees, dues, licenses, interest expense, legal and accounting expenses, travel/entertainment, telephone costs and other expenses.

You will have some expenses that are one-time expenses, such as paying a year’s insurance in advance, which will throw your percentages off, but will even out over time.

The important thing is to understand why it is. If you are not sure, those items will bear further investigation. Note that this will be only a few items each year, so the time spent investigating these will be minimal.

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**About the Author**

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