

Best Practices For Capital Investments in Dentistry

DECEMBER 2020

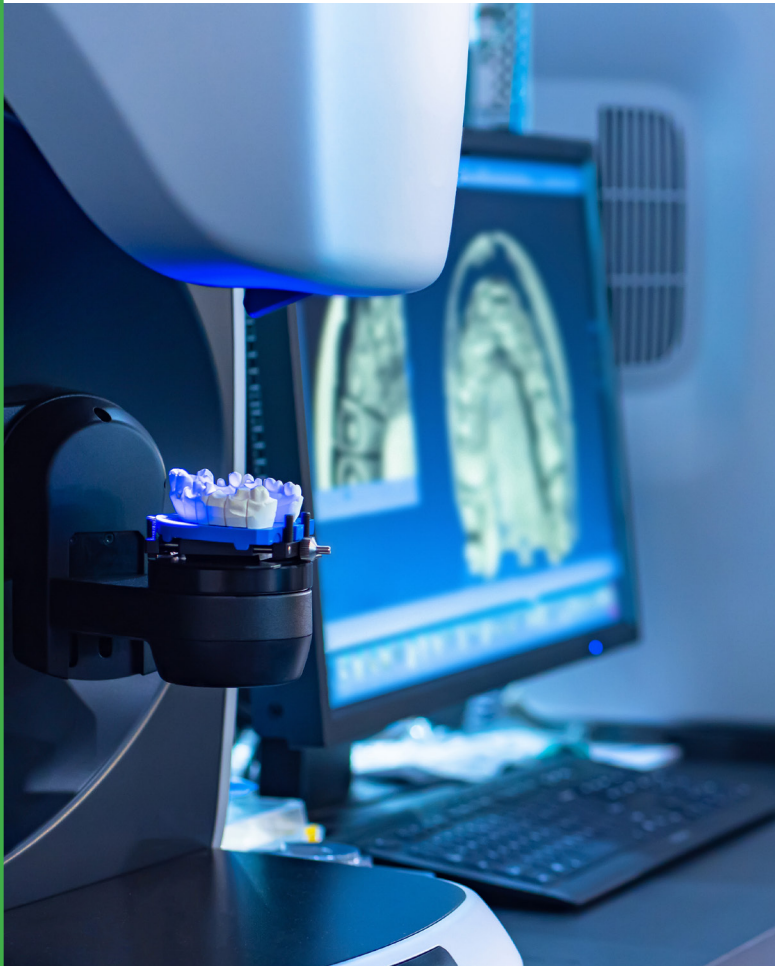


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Partnered with:



01 Abstract

MAKING SMART CAPITAL INVESTMENTS IS INTEGRAL TO RUNNING ANY THRIVING BUSINESS—EVEN MORE FOR A DENTAL PRACTICE THAT REQUIRES THE REGULAR PURCHASE OF HIGH-TICKET EQUIPMENT AND TECHNOLOGY.

According to the Corporate Finance Institute, one of the leading providers of certification programs for financial analysts, “Major capital projects involving huge amounts of money, as well as capital expenditures, can get out of control quite easily if mishandled and end up costing an organization a lot of money. However, with effective planning, the right tools, and good project management, that doesn’t have to be the case.”¹ Even though dental practices often think of themselves

as small businesses that don’t need sophisticated corporate financial planning, dentist/CEOs who fail to utilize a process risk making the serious mistake of over- or under-investing in capital equipment.

Successful businesses follow a logical protocol for investing in capital equipment. This paper examines how a dentist/CEO can apply those conventions to a dental practice in order to achieve optimal outcomes.

¹“Capital Expenditures - Definition, Overview and Examples.” Corporate Finance Institute, 22 Nov. 2019, corporatefinanceinstitute.com/resources/knowledge/accounting/capital-expenditures/.

02 STEP 1: Articulate a Practice Strategy

IN 2018, DENTISTS BOUGHT \$5.4 BILLION IN DENTAL EQUIPMENT AND SUPPLIES.²

And those purchases have grown steadily for three years at a rate of 3.1%. Successful dentist/CEOs start the decision-making process for capital equipment, or CapEx, purchases by determining a practice strategy.

Many businesses, dental practices included, don't realize they already have a strategy. It may not be articulated, but it's there, even if it's locked away in the head of the dentist/CEO. The strategy can be as simple as the dentist/CEO's plans and dreams for the practice. And the things not planned for the practice.

Successful businesses articulate their strategy. They know it, review it, plan and manage to it.

And businesses or practices that don't take the time to think through their strategy often make decisions that are a poor fit, or decisions that the owner later regrets.

A practice's overall strategy must align first with the practice's clinical strategy. Elements of a clinical strategy include comprehensive vs. quadrant, high quality vs. high value, and the role of the specialist in treatment planning and delivery of care. Since dentistry is first and foremost about clinical outcomes, many dentist/CEOs think about clinical before business, so a successful practice strategy should start with a clinical strategy.

A bad strategy is bad, but it can be adjusted quickly. Worse than a bad strategy is no strategy, or strategy-by-default, which can lead dentist/CEOs to underbuy or overbuy equipment, or invest in the next "big" trend simply because it's showcased at a conference. The result: a poor return on investment (ROI), and frustration on the part of the dentist/CEO.

CASE STUDY 1

Overinvestment— The CAD/CAM System

Many dental practices invested in a chairside CAD/CAM system with the idea that they would no longer need to utilize their dental laboratory. But they found that the system's clinical outcomes didn't achieve patient expectations, or that restorations took too long to produce.

As a result, the practice had the continued expense of dental lab fees plus the monthly payment on the CAD/CAM unit, making it more difficult to achieve a positive return on investment.

Determining a clear practice strategy, starting with a clinical strategy, before making the CAD/CAM purchase might have steered the dentist/CEO to invest in another area of the practice.

²"United States Dental Equipment & Supplies Manufacturing Market 2019," May 14, 2019, Business Wire.

03 STEP 2: Calculate Your CapEx Budget

A PRACTICE IS LIKE A HOME OR A GARDEN: THE INITIAL INVESTMENT ISN'T ENOUGH TO SUSTAIN THE OPERATION THROUGHOUT ITS USEFUL LIFE, SO DENTIST/CEOS MUST NOURISH THE PRACTICE WITH ON-GOING INVESTMENT.

After determining strategy, best practice is to calculate an annual investment budget.

Dental capital expenditure (CapEx) investment is forecasted to grow around the world. The global dental equipment market size was valued at \$7.66 billion in 2018 and is projected to expand at a Compound Annual Growth Rate (CAGR) 4.5%. This growth can be attributed to key factors such as rising demand for dental procedures, prevalence of dental disorders, an aging population that requires more dental care, and surging demand in preventive, restorative, and surgical services.³

Making the best CapEx investments for a dental practice requires the dentist/CEO to calculate their budget using a formula based on the number of operatories and other key factors in the practice.

This formula, which was developed by Benco in partnership with the CPAs and advisors at Cain Watters & Associates, a national financial firm serving dentists, is intended as a starting point for dentist/CEOs to use with their accountant and financial advisor.

Calculate your CapEx Budget:

CALCULATION	AMOUNT	
(# of Operatories + 1) x \$30,000...		
Add \$100,000 if CAD/CAM...		
Add \$100,000 if 3D/CBCT...		
Add \$40,000 if 2D Panoramic Unit...		
<i>Sub-total</i>		
<i>Sub-total divided by 7</i>		ANNUAL BUDGET

³"Dental Equipment Market Size, Share & Trends Analysis Report By Product And Segment Forecasts, 2019-2025," Grandview Research, April, 2019.

04 CapEx Budget - Chart Examples

Example 1: 5 Ops + CAD/CAM + PAN

CALCULATION	AMOUNT	
(# of Operatories + 1) x \$30,000...	\$180,000	
Add \$100,000 if CAD/CAM...	\$100,000	
Add \$100,000 if 3D/CBCT...	\$0	
Add \$40,000 if 2D Panoramic Unit...	\$40,000	
<i>Sub-total</i>	\$320,000	
<i>Sub-total divided by 7</i>	\$45,000/year	ANNUAL BUDGET

Example 2: 7 Ops + 3D/CBCT

CALCULATION	AMOUNT	
(# of Operatories + 1) x \$30,000...	\$240,000	
Add \$100,000 if CAD/CAM...	\$0	
Add \$100,000 if 3D/CBCT...	\$100,000	
Add \$40,000 if 2D Panoramic Unit...	\$0	
<i>Sub-total</i>	\$340,000	
<i>Sub-total divided by 7</i>	\$48,500/year	ANNUAL BUDGET

Note that the amount listed above as “Annual Budget” is used to estimate the *amount of cash* the practice should spend each year on capital investments. When an item can be financed over time, only the amount of the annual payment toward the lease should be counted toward the budget. For example: if a \$50,000 purchase can be financed over five years with a monthly payment of \$1,000, the practice should count the annual cash outlay (in this case, \$12,000) toward the annual CapEx budget each year for five years.



Successful dental practices invest in their capital equipment regularly, with a plan, rather than all at once, starting with an annual CapEx budget. The formula above will provide dentist/CEOs the tool to determine that budget.

05 STEP 3: Build a Wish List

TOGETHER WITH TEAM MEMBERS, THE DENTIST/CEO SHOULD CREATE A LIST OF POTENTIAL PRACTICE INVESTMENTS, ASSIGNING EACH ITEM TO ONE OR MORE OF THE FOUR MAIN CATEGORIES:

- COSMETIC
- PRODUCTIVITY
- BACK OFFICE
- CLINICAL

For most practices, cosmetic-related investments will deliver the biggest return on investment. Some potential investments, such as electric handpieces, might fall into multiple categories. On the other hand, larger one-time investment options, like real estate or an additional office, might be left off this list.

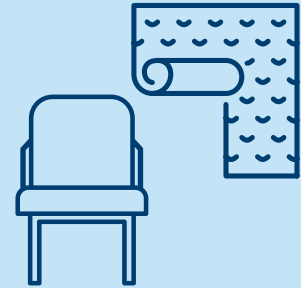
It is common, and preferred, for a wish list to exceed the budget. Building a healthy wish list allows for full evaluation, consideration, and prioritization of opportunities.

COSMETIC

Freshens the look of the office.

EXAMPLE:

Wallpaper or Seating in the Reception Space

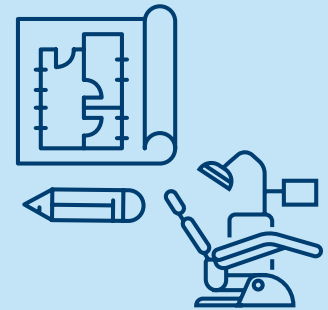


PRODUCTIVITY

Increases practice throughput and capacity.

EXAMPLE:

An Additional Operatory

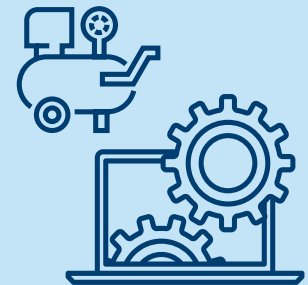


BACK OFFICE

Updates critical infrastructure.

EXAMPLE:

Computer Server or Dental Air Compressor

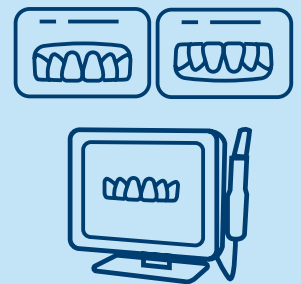


CLINICAL

Improves patient outcomes.

EXAMPLE:

Digital Impression System or X-ray



06 STEP 4: Evaluate Options in Light of Budget

SMART BUSINESS OWNERS EVALUATE INVESTMENTS AGAINST THEIR OWN GROWTH PLAN AND BUDGET.

The CapEx budget is just one part of the practice's budget.

A smart business owner understands their net profit after direct and administrative expenses needs to net approximately 40% before doctor expenses, debt and CapEx. If the net profit of the practice is low it will affect the dentist/CEO's decisions to invest appropriately in capital expenditures.

Once the dentist/CEO has calculated the annual CapEx budget, and compiled and ranked the wish list, the next step is a deep-dive into the capability and potential return from each option.

Now is the time to:

- Visit Showrooms (Live or Virtually)
- Talk with Sales Representatives
- Demo Products
- Network with Peers

Ask these questions:

- What are the capabilities of each option?
- Which purchases fit best into the practice's growth strategy?
- What is the impact of tax credits in helping pay for an investment?

Smart business owners avoid getting oversold (for example, investing in technology only for the sake of technology) or undersold (such as failing to see the impact a low interest rate or tax credits might have on the final net purchase price).

CASE STUDY 2

Underinvestment—Needing It All At Once

Some dentist/CEOs overinvest, and others invest poorly. More common, though, is the dentist/CEO who underinvests because not having a plan often leads to not investing.

To put this situation in dental terms, a dentist/CEO who fails to invest regularly in the business is like a patient who fails to make regular hygiene appointments. Like the patient, the dentist/CEO can get away without investing for a while... but with the risk that everything fails at once, which is expensive, time-consuming, and painful.

Dentist/CEOs who don't invest regularly fall behind in technology, missing the opportunity for a key technology to improve the practice's clinical outcomes. Worst of all is when equipment of a similar age breaks down all at once, an outcome that negatively impacts the value of the practice, because buyers don't want to start their ownership journey with a major capital expense.

07 STEP 5: Make the Investment

AT THIS POINT, THE DENTIST/CEO SHOULD HAVE A PRACTICE STRATEGY, AN ANNUAL CAPEX BUDGET AMOUNT, AND A PRIORITIZED LIST OF INVESTMENT OPTIONS. IT'S TIME TO PULL THE TRIGGER.

A discussion with the tax advisor to the dentist/CEO is important to help finalize the decision to pay with cash or debt. The decision can have a dramatic impact on the dentist/CEO's tax implications of expensing the equipment or depreciating the equipment over time.

Once the investment decision is made, the practice should then invest the appropriate time and money in training. Successful managers know that training is key to the success of any business, especially when implementing new technologies or systems: overall, businesses in the United States spent \$83 billion on training in 2019, an average of \$1,286 per learner.⁴

Implementing change is difficult, and always involves a learning curve. The right training plan, together with a commitment to work through a trial period, will ensure success.

Because the most expensive investment is the one that isn't used to its full potential. Or isn't used at all.

CASE STUDY 3

Underinvestment—The Shabby Reception Area

Reception spaces reflect the values and styles of a dental practice and are the best chance to make a first impression on patients. After all, the reception area is the one place that every patient sees on every visit.

Yet too many offices don't invest regularly in updating the reception area; as a result, they have sagging chairs, outdated wallpaper, and faded carpeting. Often the lack of investment is because the dentist/CEO enters the office through the staff entrance, and rarely, if ever, sees the reception space.

Updating the reception room is relatively inexpensive, has a high return on investment, and is even more important in light of the global COVID-19 pandemic. A regular refresh should be included in every dentist/CEO's long-term capital expenditure plan.

Be sure to read Benco's White Paper "What Dentists Need to Know About Reception Spaces Post Covid-19" to learn about how to live up to your patient's expectations in the 'new normal.'

⁴Freifeld, Lorri. "2019 Training Industry Report," November 6, 2019, [Training.trainingmag.com/trgmag-article/2019-training-industry-report/](https://training.trainingmag.com/trgmag-article/2019-training-industry-report/)

08 Conclusion

DETERMINING THE RIGHT CAPITAL INVESTMENTS FOR A BUSINESS CAN BE OVERWHELMING FOR EVEN THE MOST EXPERIENCED MANAGER.

Without a strategy for determining an annual budget for capital expenses or evaluating options, dentist/CEOs are reduced to guessing, and in danger of over- or under-investing in their businesses.

A proper framework and protocol, such as the one outlined here, can make such decisions straightforward and less stressful. Because saying 'yes,' with confidence, to the right capital investments is key to every business's long-term health, especially a dental practice.

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For more information, visit us at benco.com.

ABOUT CAIN WATTERS & ASSOCIATES:

WITH MORE THAN 2,300 CLIENTS IN 50 STATES, the CWA team remains dedicated to their original mission of educating and guiding the dental community in financial principles and wealth accumulation. Today, CWA has 11 partners and more than 130 employees.

For more information, visit cainwatters.com.

This white paper is one in a series of information on best practices.



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