Laboratory Dollars and Sense

An Interview with Leon Hermanides, CDT

Leon Hermanides, CDT, is the owner of Protea Dental Studio in Redmond, Washington. A clinical instructor at the Kois Center, he has served as president of the Board of Directors of the Washington State Dental Laboratory Association, published in both clinical and technical journals, and lectured throughout the U.S. and internationally on implant restorations, esthetics, and restorative failures. Mr. Hermanides will be presenting at AACD 2019 San Diego, on Friday, April 26. He will discuss strategies to manage laboratory profitability and share tips to boost finances. In this first part of a two-part interview, Mr. Hermanides answers questions from members of the jCD Editorial Board. Register today at www.aacd.com/sandiego

Introduction

As highly skilled dental technicians who have spent many years educating ourselves and honing our skills it often is difficult to understand how to effectively lead our companies and realize the lifestyle and financial rewards for which we have worked so hard. Our role requires us to brand our company, build a loyal customer base, deliver a consistent product, grow and inspire a team to support the strategy and ultimately, ensure our company's financial viability. For some of us these are not skills that come naturally or easily, but they are crucial for survival.

Our business skills require the same attention as the art of restorative dentistry; while often not the part of our job we enjoy the most, it can enrich our employees' and customers' experience when delivering life-changing treatments to patients every day.

Q: How do you attract new people in an era when skilled technicians are at a premium?

A: As with many small businesses it is easy to forget that team members are our customers, requiring the same dedication to marketing, retention, and goodwill as any client. The choice of places to work is endless for the right people and so I take my obligation to maintain the right environment for employees very seriously. I want them to be able to recommend our company as a good place to work. This does not mean I pay everyone beyond market rate, but we try our best to acknowledge everyone's contributions and develop their skills as much as possible. The "soft" skills have never been easy for me—I have given others free reign to contribute as much as possible—but it is still important for me to engage my team on a daily basis. We are most comfortable finding people that are the right fit for our team and developing them into great technicians.

However, even when you do everything right, employees' life circumstances may change and team members move on. Unfortunately, I believe our industry leadership has neglected to think long term and we are not training people in sufficient numbers or to an appropriate level to provide U.S. dental laboratories the means to thrive. I expect this problem to get worse long before it gets better and therefore I do as much as I can to contribute to the education of new dental technicians. To this end, our company funds a scholarship with the local dental laboratory program.

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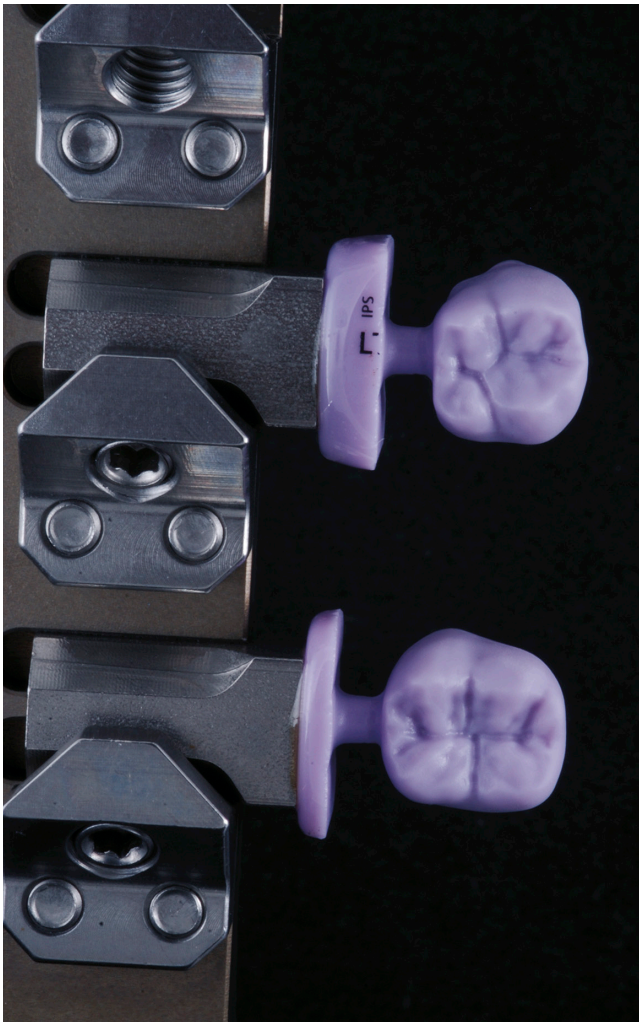
Full-contour CAD/CAM restorations.

Q: Do you train, or hire digital technicians?

A: I remember, probably 10 or 12 years ago, hearing from manufacturers and salespeople that technology would solve our employee issues because 1) it would allow us to employ unskilled people as the software would provide the knowledge and substitute the necessary skills and 2) it would never take a sick day or need a vacation. But we have realized the most important aspect of digital dentistry is having well-trained people operating the equipment. Our two newest CAD/CAM technicians both completed a two-year Associate's Degree program in dental technology; I believe this foundational education will drive their ability to fabricate highly individualized esthetic dentistry for many years to come. Preparing classically trained technicians to become digital technicians has given us more versatility and better results than hiring people who have been trained only in digital procedures.

Q: What is the correct labor percentage compared to sales?

A: I don't believe there is a correct labor percentage for every dental laboratory as this is so closely tied to a company's product and overall business strategy. We separate direct labor costs, those involved in making restorations from administrative labor, those involved in supporting our customers and business strategy. If your business is fabricating restorations for a highly demanding clientele, your team would have to spend more time on each restoration to achieve your expected quality. For the moment ignore all the other variables. I would therefore expect your labor cost to be higher than someone doing business in an environment where they produce more restorations for a less discriminating market. There may even be a difference in your business between various product lines. In our company, for example, there is a difference based on anterior versus posterior restorations. When we now consider other variables such as what you can charge for a restoration, your remake rate, how much an excellent technician earns in your area, and how much unused capacity your production team has, I believe it is better to track a range that is unique to your company. I am constantly evaluating our current numbers against historic numbers to ensure that we maintain our direct labor costs in line with our expectations and when I see any significant anomalies I know why. Our company's



Milled CAD/CAM ceramic.

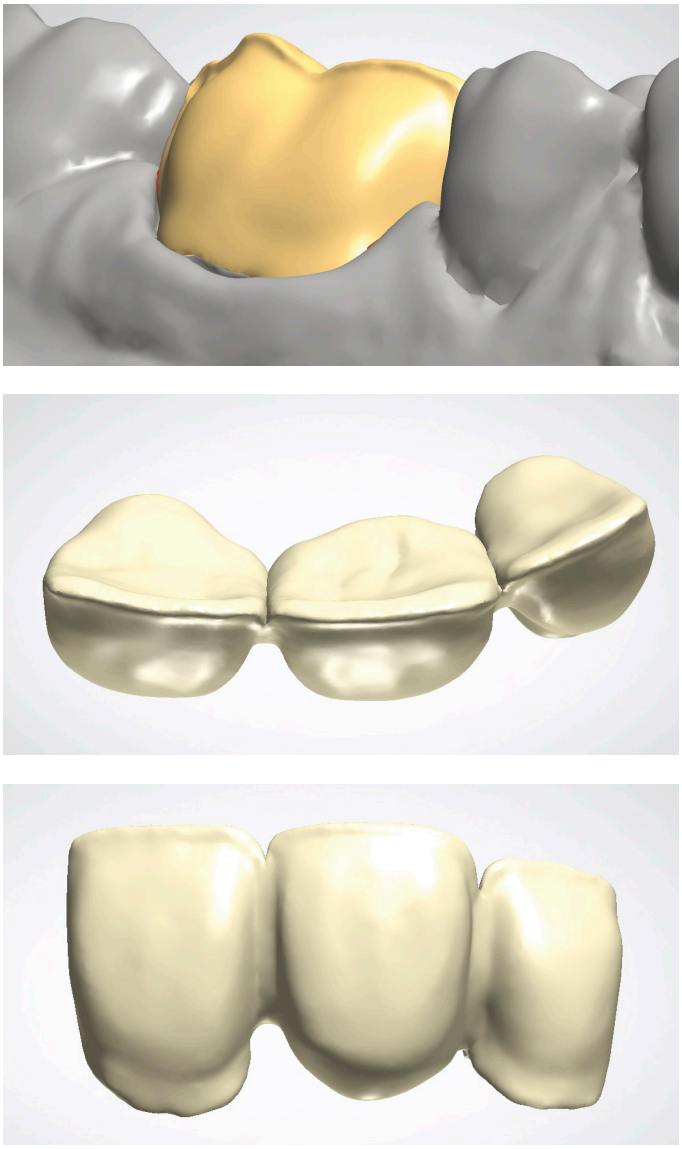
"Our company's direct labor costs range from 32% to 36%."

direct labor costs range from 32% to 36%. When our direct labor cost stays inside this window our company maintains a profit margin that allows us to meet all our current obligations, invest in new equipment/opportunities, and retain savings for future opportunities.

Q: With the advent of digital workflow, is there truly a savings in labor? Is there an increase in material expenses in the digital arena?

A: Yes, there is a labor cost savings, and within limits the material costs can be slightly higher; however, I feel that is not the whole story. First, without understanding the implications of funding large capital purchases many laboratory owners have struggled to meet the return on investment they expected investing in technology. I strongly suggest to never use a five-year option when making an investment in technology—by the fifth year most of it may be redundant, but you will still be paying! If the math doesn't work on a two- or three-year option don't buy it. In addition, I believe many people buy machinery beyond their scope of business. If you are processing 1-2 units a day and your machine has the capacity to do 48, there are 46 units on your expense tab that you have not billed out. Be realistic about your ability to grow a product line to fit your capacity when considering new equipment purchases. In our company, we research the costs associated with processing a given material, including capital funding, materials, maintenance, downtime, and consumables at a given volume of production. Until we can anticipate achieving an internal cost that is lower than (or within our acceptable cost differential) outsourced options we don't buy the equipment. We have consistently adapted the technology to fit our needs to a point where the labor savings has provided other opportunities for our team to develop.

In the second part of this interview Mr. Hermanides will discuss financial issues including pricing, expenses, and budget allocation. The Journal of Cosmetic Dentistry *thanks Mr. Hermanides for sharing his thoughts here and at AACD's Annual Scientific Session.*



Images of digital workflow.

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