



9

Step Guide To Reducing Dental Supply Costs

Learn how to drive down dental expenses by building a procurement foundation that continues to deliver savings year after year



Introduction

With group dentistry growing hand over fist year after year, and as private equity continues to flood the market, competition has never been fiercer within the dental industry. The need to manage overhead expenses has never been more prevalent and is quickly becoming the differentiator between successful Dental Organizations and their lagging competition. Unfortunately, there are limited ways to shave costs on a dental office's P&L. Many of the overhead expense categories stay relatively fixed without taking drastic approaches to their reduction. Rent, utilities, doctor salaries, clinical labor, along with many other categories, typically remain constant and are difficult to manipulate in your favor. This requires groups to focus on the overhead expenditures they can manipulate: their supply and laboratory expenses.

Today, with the theme of cost reduction permeating every company-wide initiative, we are thrilled to outline nine steps that will guarantee dental organizations massive savings while simultaneously developing a procurement platform that will grow as you scale and continue to deliver you positive results.



Let's Get Started

Step 1	Organize and Formularize1	ANALYZE
Step 2	Request For Quotation (RFQ).....2	
Step 3	Start Manufacturer Negotiations.....4	
Step 4	Review All the Data.....6	
Step 5	Conduct Clinical Evaluation Trials7	SELECT
Step 6	Evaluate the Trial Results & Select the Winners8	FORMALIZE
Step 7	Finalize the Consolidation9	
Step 8	Track and Manage with CureMint..... 10	PROCURE
Step 9	Rinse and Repeat.....12	

Step
1

Organize and Formularize

Before we can start saving you money, you must first understand where you're spending your money. This first step is fairly simple; it's about analyzing your spend history to obtain a better understanding of your outbound expenses and using that information to build your foundational formulary. For those of you who may not know, a formulary is essentially your custom supply catalog from which your offices order supplies. By the end of these nine steps, you will have a Primary Formulary,

Secondary Formulary, and likely a few specialty formularies as well.

To start our process, you will need to gather the last 12 months of your supply spend from your primary distributor partner (Schein, Patterson, Darby, etc.) as well as vendors that receive direct orders (Ultradent, Brasseler, Nobel, etc.). Be specific with your supply providers about the information you need: product manufacturer, item #'s,

item descriptions, item category, item sub-category, unit of measure, quantity ordered, and price per product. Once you have all the information you've requested, you'll want to combine and organize all this data into a spreadsheet. The most important part of this data consolidation is the organization. Be sure to organize all the products by their category and sub-category; this will save you time and headaches as we progress with the process (see example below).

Manufacturers	Item #	Description	Item Category	Item Sub-Category	UOM	Quantity Ordered	Product Price
Bob's Gloves	12345	Green Nitrile Gloves	Disposables	Gloves	300	532	\$2.99
Sammies Gloves	54321	Purple Nitrile Gloves	Disposables	Gloves	250	657	\$2.99
Gloves Glamour	111111	Golden Gloves	Disposables	Gloves	200	122	\$3.45
Cotton R Us	22222	Cotton Pads	Disposables	Cotton	500	1900	\$1.50
Trays for Days	22222	Tray Covers 8.5" x 12.25"	Disposables	Tray Covers	1000	1298	\$17.49
Trays for Nights	33333	Tray Covers 8.5" x 12.25"	Disposables	Tray Covers	1000	725	\$14.17
Great Impressions	10101	Green Impressions Mat	Impression Material	Vinyl Polysiloxane	8	256	\$68.06
Better Impressions	12121	Gold Impressions Mat	Impression Material	Vinyl Polysiloxane	6	300	\$54.04
Great Impressions	51515	Bite Trays	Impression Material	Bite Trays	15	1251	\$7.99

This organized spreadsheet is your total purchase history for the last 12 months and is now your initial "pre-consolidated" formulary. This formulary will be the foundation of our entire project. In the beginning, your foundational formulary will be incredibly large and likely very cumbersome. However, as we work our way through the consolidation process, your Primary Formulary will begin to get smaller and smaller as items are trialed and reallocated to the Secondary Formulary. By the end of this project, your Primary Formulary will be smaller than your Secondary Formulary, making it easier to manage and optimize.

- Step 1
- Step 2
- Step 3
- Step 4
- Step 5
- Step 6
- Step 7
- Step 8
- Step 9

Step

2

Request For Quotation (RFQ)

If you're a hardball negotiator at heart, this next step should bring you some real enjoyment. On the other hand, if you are not a negotiator by trade, don't worry; this step can still be simple and painless. Now that you have a baseline of what your organization orders on a yearly basis, it's time to start driving some quick tangible savings. When approached properly, you'd be surprised by the pricing concessions available to groups when distributors are aggressively pursuing market share.

Start by sending your foundational formulary out to bid with every major dental supply distributor in the industry, as well as smaller local distributors. It's suggested that you start with a Request for Quotation (RFQ), which ensures the distributors know you want an apples-to-apples price comparison. Otherwise they will try to substitute cheaper products; this comes in the form of a Request for Proposal [RFP] covered later in the process. This step can be as simple as forwarding your formulary spreadsheet with pricing requests, although putting a bit more formality behind your RFQ can lead to better results. This is a great time to learn about your potential distributors and negotiate avenues not traditionally explored. For example, questions around distribution



Tip

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Larger groups may be able to negotiate what's called a "Cost Plus Transparent Pricing Model." For those of you not familiar with a Cost Plus contract, it essentially requires that the margins applied to products by the distributor are flat-lined across all products, with transparency to the manufacturer's cost. Surprisingly enough, this isn't common practice in dental as it is in medical. Whether they will admit it or not, your distributor partner may be manipulating margins based on volume demand and their profitability budgets.

Step
1Step
2Step
3Step
4Step
5Step
6Step
7Step
8Step
9

center locations, corporate support sites, newly onboarded DSO contracts, DSO references, lost accounts in the last 12 months, standard shipping transit times, available training, etc. More importantly, this is the best time to negotiate non-traditional variables such as a signing bonus, continuing education allowances, corporate meeting sponsorships,

early pay discounts, rebates, fuel surcharges, small order fees, marketing material, volume discount ladder (tiered pricing), order count reduction incentive, etc.

Once all the RFQs are returned, it's time to insert that data into your formulary spreadsheet. It's unrealistic to believe that one distributor

is going to be cheaper on every product. So, you need to compare your previous 12 months' total spend to their new quoted price points multiplied by your previous quantity orders (see example below).

Manufacturers	Item #	Description	Item Category	Item Sub-Category	UOM	Quantity Ordered	Product Price	Current Spend	Distributor 1 RFQ Price	Distributor 1 Total Spread	Distributor 2 RFQ Price	Distributor 2 Total Spread
Bob's Gloves	12345	Green Nitrile Gloves	Disposables	Gloves	300	532	\$2.99	\$1590.68	\$2.75	\$1,463.00	\$2.50	\$1,330.00
Sammies Gloves	54321	Purple Nitrile Gloves	Disposables	Gloves	250	657	\$2.99	\$1,964.43	\$3.25	\$2,135.25	\$2.50	\$1,542.50
Gloves Glamour	11111	Golden Gloves	Disposables	Gloves	200	122	\$3.45	\$420.90	\$3.50	\$427.00	\$6.59	\$808.98
Cotton R Us	22222	Cotton Pads	Disposables	Cotton	500	1900	\$1.50	\$2,850.00	\$0.99	\$1,881.00	\$1.75	\$3,325.00
Trays for Days	22222	Tray Covers 8.5" x 12.25"	Disposables	Tray Covers	1000	1298	\$17.49	\$22,702.02	\$14.49	\$18,808.02	\$14.20	\$18,431.60
Trays for Nights	33333	Tray Covers 8.5" x 12.25"	Disposables	Tray Covers	1000	725	\$14.17	\$10,273.25	\$14.17	\$20,273.25	\$13.75	\$9,968.75
Great Impressions	10101	Green Impressions Mat	Impression Material	Vinyl Polysiloxane	8	256	\$68.06	\$17,423.36	\$99.06	\$17,679.36	\$57.59	\$14,743.04
Better Impressions	12121	Gold Impressions Mat	Impression Material	Vinyl Polysiloxane	6	300	\$54.04	\$16,212.00	\$54.00	\$16,200.00	\$52.99	\$15,997.00
Great Impressions	51515	Bite Trays	Impression Material	Bite Trays	15	1251	\$7.99	\$9,995.49	\$10.99	\$13,748.49	\$8.99	\$11,246.49
Total Spend: \$83,432.13												
										\$82,615.37		\$77,388.36

As you can see from the example above, Distributor 2 is able to deliver a ~\$6,000 savings on the exact same products you are currently purchasing. You can now rest assured knowing that you are getting the absolute best, pre-negotiated price points for your products. Which now moves us into the negotiation phase.

- Step 1
- Step 2
- Step 3
- Step 4
- Step 5
- Step 6
- Step 7
- Step 8
- Step 9

Step 3

Start Manufacturer Negotiations

This step is undoubtedly the most impactful 'savings lever' your organization can pull. When approached properly, this step will ultimately save your organization more money than any other application. These manufacturer negotiations are using economies of scale and your own purchasing power to drastically reduce your current supply expenses.

Tip 2

Focus on one category at a time, such as Disposables or Infection Control. As you may soon find out, it's at this point that your procurement team is likely getting weighed down or "dataloged" with all the information you've collected. Unfortunately, we are only going to add more data to the equation, which is why it's best to focus on small pieces of your formulary at a time. For this step we are going to use the Disposables category from the above examples. The first step in this phase is to break out the individual 'eaches' you've ordered and break out the 'each' cost for every product line. The reason behind this is different products come in different units of measure (UOM) and you want to make sure that the costs accurately reflect the products' unit of measure. Additionally, when you negotiate with vendors, it isn't enough to say you purchased 1,311 boxes of gloves, because each brand of gloves may come in different quantities. So instead of saying you purchased 1,311 boxes of gloves with varying quantities counts, you'd say that you purchased 348,250 individual gloves. Manufacturers will be able to take that number and divide it by the UOM their products come in to calculate the total boxes purchased (see example below).

Manufacturers	Item #	Description	Item Category	Item Sub-Category	UOM	Quantity Ordered	Current Product Price	Glove Eaches Ordered	Cost Per Glove
Bob's Gloves	12345	Green Nitrile Gloves	Disposables	Gloves	300	532	\$2.99	159,600	\$0.010
Sammies Gloves	54321	Purple Nitrile Gloves	Disposables	Gloves	250	657	\$2.99	164,250	\$0.012
Gloves Glamour	111111	Golden Gloves	Disposables	Gloves	200	122	\$3.45	24,400	\$0.017

348,250

From the above example, you may have originally thought that Bob's Manufactured Gloves and Sammies Manufactured Gloves were the same price. However, now you notice that you're getting more gloves per box with Bob's Manufactured Gloves, which represents a cheaper price per glove.

Once you've calculated the individual eaches and the price per each, it's time to send out "mini RFPs" to each one of the manufactures represented in that category. You can also give manufacturers that you don't currently procure from a chance to bid your business as well, especially those manufacturers that

- Step 1
- Step 2
- Step 3
- Step 4
- Step 5
- Step 6
- Step 7
- Step 8
- Step 9

sell direct. Reach out to each manufacturer and say,

"Hey Bob's Manufactured Gloves, We are looking to consolidate all of our glove purchases to one manufacturer with the hopes of getting a volume-based discount. We currently order approximately 532 boxes a year from you, which represent

about 46% of our total glove purchases. I'd like to give you a chance to win the other 54%, or 188,650 individual gloves, but I need you to get as aggressive as you can on pricing."

Bob will likely be excited for the opportunity and start to sharpen his pencil. Don't forget to be absolutely transparent and honest with each manufacturer; one of them will be your future

partner, after all. Be sure to let Bob know he is currently the cheapest glove option, but you know other manufacturers are going to try and beat his price. Furthermore, let Sammie's Manufactured Gloves know that they aren't the cheapest and are currently on the chopping block, and to have a chance at winning the business, they'll need to come in below \$0.010 per glove. *If you're worried about actually being able to consolidate your purchases to one vendor, hold that thought; we will address driving office compliance later in the process.*



- Step 1
- Step 2
- Step 3
- Step 4
- Step 5
- Step 6
- Step 7
- Step 8
- Step 9



Step 4 Review All the Data

As you begin receiving these “mini RFPs” back from the manufacturers, start logging this information into your spreadsheet. Once again, break down the prices per product into each so that we have an apples-to-apples price comparison. You should quickly be able to see which manufacturers were the hungriest for your business based on the delivered pricing. Use these new pricing schedules to map out the potential saving of consolidating to that specific brand. This will be the foundation for your next step, Clinical Evaluation Trials (see example below).

Manufacturers	Item Category	UOM	Quantity Ordered	Current Product Price	Glove Eaches Ordered	Cost Per Glove	Current Total Spend	Bob's Price Per Glove	Total Spend w/ Bob	Sammies Price Per Glove	Total Spend w/ Sammies
Bob's Gloves	Disposables	300	532	\$2.99	159,600	\$0.010	\$1590.68	\$0.0095	\$1,516.20	\$0.0092	\$1,458.32
Sammies Gloves	Disposables	250	657	\$2.99	164,250	\$0.012	\$1,964.43	\$0.0095	\$1,5601.36	\$0.0092	\$1,511.10
Gloves Glamour	Disposables	200	122	\$3.45	24,400	\$0.017	\$420.90	\$0.0095	\$291.80	\$0.0092	\$224.48
					348,250				\$3,308.38		\$3,203.90
								Savings \$5667.64		Savings \$772.11	

You now know which products will deliver the greatest savings to your organization. Next, you must put each product category through a Clinical Evaluation Trial to ensure the quality of the potential product selection. This will help silence the impending negative statements from employees and doctors alike.

- Step 1
- Step 2
- Step 3
- Step 4
- Step 5
- Step 6
- Step 7
- Step 8
- Step 9

Step

5

Conduct Clinical Evaluation Trials

If Step 3 represents the most impactful savings process, Step 5 represents the most impactful influence in doctor satisfaction and compliance. If this step is skipped, which it can be, you'll likely see very little clinical compliance to the formulary and a potential increase in clinical turnover. This step gives the doctors the power to build a formulary that will ensure patient care standards are met while simultaneously driving value and savings for your organization.

You'll want to start by establishing your Clinical Evaluation Team (CET). This team of doctors (and potentially hygienists) will look wildly different from group to group. Over the years, we have seen some DSOs with as many as 30 doctors on their CET, all the way to one doctor acting as the sole CET. Carefully selecting the number of doctors on your CET is critical to a productive progression. Too many doctors and they will likely have a difficult time reaching a decision, whereas too few doctors will likely result in poor formulary compliance and doctor acceptance. Regardless of how many doctors make up your CET, you'll want to select individuals with progressive business mindsets (financially savvy) and influence among other doctors. The doctors that make up your CET will be the driving force behind your formulary

consolidation. It works best when a DSO assigns their Chief Dental Officer or Chief Clinical Officer to head up the CET. While the other supporting CET members are leaders within the company, such as regional clinical directors or owning partners.

Once you have your CET established with a common goal in mind, it's time to start trialing products. I would suggest not rushing through this process. You'll want to make sure the doctors are allocated appropriate amounts of time to use the products in every circumstance or scenario.

Step
1Step
2Step
3Step
4Step
5Step
6Step
7Step
8Step
9

The last thing you want to do is rush through a trial, make an unforeseen mistake, and reverse existing progress. Not only do you lose time and money, but you'll also lose respect among your staff. On top of that, these are practicing dentists, and the more you try to rush these trials, the less efficient they tend to become. We don't want this trial process to become a burden on the offices, doctors, or staff.

Obtain the trial-specific products directly from the manufacturer. Manufacturers are typically OK with sending you free trials, especially if they know they're the top contender for the category consolidation. You'll send the participating CET members the product you are wishing to consolidate to, in this case, Sammies Manufactured Gloves (the product that represents the best savings). Along with the sample product, you will also include a product evaluation form for the clinicians to complete after the product has been viably trialed. The evaluation form will list the product the doctor currently uses, as well as a ranking system between 1-5 for the product being trialed. The ranking system that has worked the best for us is as follows:

- 1** Worst product I have ever used
- 2** The trial product is not equivalent to the product I currently use
- 3** The trial product is equivalent to the product I currently use
- 4** The trial product is better than the product I currently use
- 5** The trial product is the best product I have ever used

- Step 1
- Step 2
- Step 3
- Step 4
- Step 5
- Step 6
- Step 7
- Step 8
- Step 9

Step 6 Evaluate the Trial Results & Select the Winners

Once the trial is complete, collect the evaluation forms from each of the doctors and begin reviewing the data. Log all the doctors' scores onto a spreadsheet. Next, add all the scores of each evaluating doctor and divide it by the number of doctors involved in the trial, i.e. calculating the average product score. If the overall trial was a 3 or higher, you can now move onto Step 7 of the process. However, if the product scores a 2 or below, you'll need to continue with another round of product trials. When scoring a 2 or below, move down the list to the next best savings product (in this example, Bob's Manufactured Gloves). You will repeat the actions from Step 5 to rerun the trial with the new product, continually doing this with each product line until you receive a score of 3 or higher.

There is an unfortunate chance you could consolidate to an item that doesn't actually save your organization money. This is a fluke event and will rarely ever happen; however, here is how to catch it and avoid the issue altogether. First, start by finding your average cost per product across all brands; for this example, we'll need to find the average cost per glove. Referencing our previous example, you would take the total current spend of \$3,976.01 and divide that by the total individual gloves ordered (348,250) to get the average cost per glove you're currently paying. You end up coming up with \$0.0114 per glove. What this means is that any glove that you consolidate to that costs more than \$0.0114 would end up costing your organization more money. Let's say that Gloves Galore returned the RFP at \$0.014 per glove, which is \$0.003 cheaper per glove than their original cost. If both Sammies Manufactured Gloves and Bob's Manufactured Gloves score below a 3 on their trials, your next choice would be to consolidate to Gloves Galore. However, consolidating to Gloves Galore would cost your organization an additional \$899.49 annually. Again, this very rarely happens within an organization. However, if it does, in this specific case it would be financially beneficial to not trial Gloves Galore and instead leave all 3 gloves on the formulary and choose to not consolidate this category.

Step 1

Step 2

Step 3

Step 4

Step 5

Step 6

Step 7

Step 8

Step 9

Step 7 Finalize the Consolidation

Once your CET has approved a product and scored it a 3 or higher, it's time to remove all the other competing products and place them on the Secondary Formulary. As we mentioned above, this is where your Secondary Formulary begins to grow, and your Primary Formulary starts to shrink. In a similar fashion to your Primary Formulary, you'll want to format your Secondary Formulary spreadsheet the same way.

Now you'll want to notify the offices and clinicians of the upcoming changes to the formularies, so apply the "third time's a charm" rule. Notify the offices on three separate occasions before making changes to the formulary. When notifying an office once or even twice of the upcoming formulary changes, the odds of them forgetting or missing the information are exceedingly high. There will undoubtedly be animosity towards the departmental changes and their lack of communication in the event an office fails to acknowledge the formulary modifications. Therefore, we emphasize over-communication. We suggest the first notification be informative, explaining the trial outcome along with scores, product information, where to order the products, and which products will be moved to the Secondary Formulary. The second notification should just be a friendly reminder that the change

is coming on a specific future date (typically a week before), While the last notification will come the day before the changes are made, once more reminding the offices of the changes that will go into effect the following day. Once the day of

consolidation has arrived, you will remove all the other product brands from the Primary Formulary and place them on the Secondary Formulary, leaving the one CET trial-approved product on the Primary Formulary.



- Step 1
- Step 2
- Step 3
- Step 4
- Step 5
- Step 6
- Step 7
- Step 8
- Step 9

Step 8

Track and Manage with CureMint

Tracking and managing office compliance to the formulary and consolidations is just as important as every other step, if not more so. This is why there is an entirely separate guide just dedicated to this phase, but for now, we will just hit some basic points. To appropriately realize the savings driven from these negotiations and consolidations, you must ensure offices are following your organizational formulary guidelines and ordering the CET-approved products. As you begin this process with your first few consolidations, compliance will likely be low. Do not get discouraged if compliance is low; all impactful change throughout history has been met with some sort of opposition. Offices may not be used to following procurement guidelines, so be prepared for potentially challenging



Tip 3

In reference to the "carrot and stick" analogy, your organization needs to find out what your carrots and sticks are in order to drive clinical compliance among the offices. For a "carrot" example, organizations could reward doctors with monthly bonuses equal to 50% of the difference between their budgeted supply expenses and actual expenses. For example, Office ABC has a \$10,000 monthly supply budget, and at the end of the month their actual supply spend was \$8,000, so the doctor would receive a bonus of \$1,000 (\$2,000 X 50%). On the other hand, the same organization implements a "stick" in which doctors are financially responsible for any off-formulary purchases over 5%, and 50% of any secondary formulary purchases over 10%. Regardless of your organization's formulary rules, you'll need to come up with your own "carrot and stick" model that best fits your company's culture and staff.

- Step 1
- Step 2
- Step 3
- Step 4
- Step 5
- Step 6
- Step 7
- Step 8**
- Step 9

Tip 4

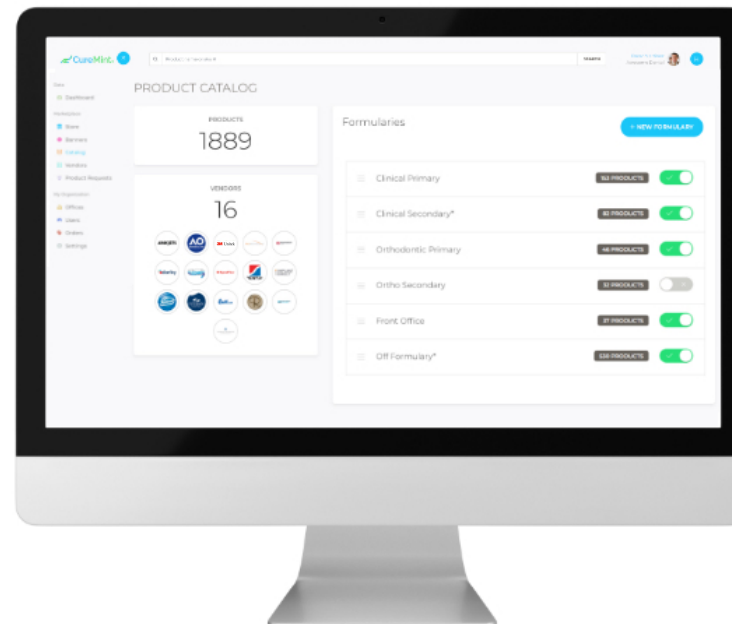
How to track your Primary, Secondary, and off-formulary monthly spend. There are a

handful of ways to track/manage these spends, but the absolute easiest way is by utilizing a procurement system software like CureMint, which is specifically built for dental organizations. You can certainly, yet very difficultly, track your formulary compliance and spend through a spreadsheet; however, with the current costs of procurement systems, and the splitting headaches you'll avoid, the ROI quickly pencils out in your favor. CureMint allows you to digitize all of your suppliers, products, and pricing and conveniently segment them into an unlimited number of formularies. This provides you the ability to track key data points, such as what percentage an office is ordering from which formulary, as well as build custom approval workflows to proactively bring to your attention any offices straying the formulary plan. CureMint makes it quite easy to change and consolidate the products on specific formularies, so when offices go to order supplies in the tool, the formularies appropriately match the trials and consolidations performed thus far. This will help remove the "I didn't know" response you are likely to hear as you roll out your new procurement plan.

conversations with staff. If doctors and clinicians aren't financially responsible for the invoices at the end of the month, they must follow a reasonable set of organizational guidelines.

Simply telling clinicians that a product is now on the Secondary Formulary will likely have little effect on their ordering habits. Instead, you need a way to evaluate an office's ordering habits and educate them when formularies aren't being complied with. However, you must also allow your doctors to have the autonomy to order products they are clinically sensitive to or provide them with unusual products required

for unusual or one-off procedures. Therefore, we establish formulary adherence rules. These rules are fluid for each organization and can even be fluid among general dentists and specialists. The most common rule is the "85-10-5" rule, which means that 85% of an offices supply expenses should be allocated to the Primary Formulary, while 10% may be allocated to the Secondary Formulary, and 5% may be allocated to off-formulary purchases when the need arises. Some organizations choose to leave off the 5% off-formulary, whereas some organizations like to give their doctors more than 15% supply autonomy.



Step 1

Step 2

Step 3

Step 4

Step 5

Step 6

Step 7

Step 8

Step 9

Step 9 Rinse and Repeat

This step is easy enough: Just continue the steps above for every category and sub-category within your formulary. Depending on your number of locations, size of your formulary, and participating CET members, this consolidation should take you anywhere from 6-18 months to complete. However, once you complete the initial formulary consolidation, that doesn't mean the work is done. This process is meant to be repeated year after year by your Supply Chain/ Procurement Department. Products, distributors, and manufacturers change every year, if not every month. This requires your organization to continually stay on top of the changing dental supply chain market. Whether it's new products entering the market or old manufacturers looking for better market share, by following the steps above, you'll always be able to deliver the absolute highest value from your supply expenses.



- Step 1
- Step 2
- Step 3
- Step 4
- Step 5
- Step 6
- Step 7
- Step 8
- Step 9

About CureMint

CureMint is the industry's leading dental procurement software helping dental organizations scale responsibly across North America. By providing unparalleled visibility into your procurement process, a hyper-intuitive ordering experience, and real-time visibility into spend, dental offices can drive down costs, improve supplier partnerships, and increase formulary compliance like never before.



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About the Author

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Spending just shy of a decade in the dental industry, Brad Freeman has dedicated his career to helping dental offices drive the absolute most value from their supply and laboratory spends. More notably, he negotiated one of the industry's first distributor "Cost Plus Transparent Pricing Agreements" and has developed custom supply chain procurement programs of all sizes, for large 200+ office DSO's to smaller five-office private practice groups, and everything in between. Beginning his career working for a small privately-owned Orthodontic DSO and later a large national DSO, Brad has spent thousands of hours learning the ebbs and flows of dental procurement and where to drive savings.

