

# “Outsourcing Myths and the Current Lab Industry”

An industry insider tries to dispel the rumors

by Eric N. Gaensehals

**I**s outsourcing displacing jobs in the U.S. dental lab industry? Yes, but at a tiny fraction of the rate that the rumors suggest. The bulk of the job displacement is a product of the current economic environment. Labs think that dentists are sending work to competition overseas, when in actuality a lot of dentists just have less work to send.

How has outsourcing changed in the last five years? The biggest change is that outsourcing to overseas labs has now become directly accessible to all labs and dental practices. Previously it was concentrated in certain areas, and mostly dominated by intermediate brokers. The advances in communication, and major improvements in the scale and speed of door-to-door shipping have made it a viable option to every willing business.

## How do you answer critics of outsourcing?

The ultra-patriotic, apocalyptic types will always exist but usually they are just misinformed. Five years ago people still believed that outsourcing was a cyclical fad. We never hear that now because there is a general acceptance that the quality and turnaround has reached a level to be competitive in any market. The lab industry in the U.S. has become very polarized, whereby people on either side see things as a “zero-sum” game. Our position is that by not cooperating, a huge opportunity for both sides is lost. At minimum, domestic and overseas labs can coexist peacefully in the same markets.

## Has lab work become commoditized?

Yes, in many ways. The average dentist can tell the difference between an “A+” and “C+” crown, but what is often overlooked by labs is that the average patient cannot, especially if basic functional and esthetic elements are achieved. This is where dental labs are having to compete on price. I don’t mean talented work goes unappreciated. It’s just that more dentists are realizing less value by paying more for seemingly marginal benefits to the patient.

To adapt, many labs are becoming more “specialized” in house, concentrating more on price in elastic, high-growth services like implants while sourcing more of their routine crown and bridge. Many have found that they cannot produce these services in house as cheaply as they can outsource them, and this is clearly in line with accepted modern business strategy.

## What are the biggest misunderstandings about outsourcing?

One is that the price and quality of lab work are directly related. There are very specific reasons why outsourcing labs provide services more cheaply than domestic labs, and none of them have to do with a reduction in workmanship or a substitution of materials. Don’t get me wrong; there are labs overseas that produce sub-standard work. But these labs are disappearing as the industry becomes legitimized. Another misunderstanding is that outsourcing labs operate as “sweat-shops” which contributes to their ability to produce so cheaply. Most



credible outsourcing labs are three times as licensed and regulated as domestic ones. They must observe the labor and health laws of not only their local bureaucracy but also those of the markets they are soliciting (in the U.S. case, the FDA). I won't speak for all labs, but the most reputable ones I've encountered compensate their staff equal to or better than most domestic ones if measured by purchasing power parity.

**What are the risks involved?**

The physical distance factor involves international shipping, time and communication components that do not exist locally. The better labs have systems in place to mitigate these challenges and in many ways have leveled the playing field in terms of turnaround and communication. But there are obvious hurdles if a rush situation arises.

Another thing to contend with is foreign cultural norms (i.e. holiday observance). China has 3 holidays every year that cause minor delays in shipping due to government office closures.

**Is outsourcing making dentists more profitable?**

Paying less for lab work doesn't always translate into a stronger bottom line overall. If you were to isolate the lab fees without other variables, then outsourcing increases profits. However, not every practice is high-production and not every dentist-lab relationship has the right chemistry to make it work. Any monetary gains can be quickly forfeited if the dentist starts seeing increased remakes or seating time. Further, many solo practices don't do much crown and bridge and their total lab fees only constitute 5-8% of their total expenses. So a 30% reduction in this area isn't necessarily a large savings. That's why it's important to have reasonable expectations and decide if your practice is a good fit before moving forward. On the other hand, for high-production offices or those whose lab fees are in the 15+% range, outsourcing has created a huge opportunity to improve their earnings.

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