

ALL YOU NEED TO KNOW ABOUT BUSINESS BEFORE BUYING A PRACTICE

Written by Ross Martin



Here is the detailed guide to the finances of a dental practice

Many dentists buy their first practice because they want 'clinical freedom' or 'financial security'. These are unusual motives to start a high-risk venture. Here are some more motives.

- Time (for example less clinical hours or more family time)
- Profit (get paid more for less work)
- Wealth (for example building assets, passive income or a retirement plan)
- Gratification (professional satisfaction).

Which motive or motives are driving your decision? What are you willing to compromise on? Beware, there's a lot of vendor power around; vendors hold the cards because there's a lot of buyers. So the prices push upwards, meanwhile the sales broker usually has an affiliated finance arm, so the process gets smoothed over. But there is a cost, and guess who pays it.

DOES GETTING FINANCE PROVE IT'S A GOOD IDEA?

No. Campari is a mnemonic used by the banks to check your legs as a debtor. As a hard-working associate it's easy to feel like you've served your time and now it is right for you to own, but to expect and feel entitled to a loan to get your dream practice is missing the point a bit. Most practices make between 3% and 5% profit (i.e. not very much) and simply create a nice place to work as an associate. So why go to all the bother of running a business? Campari helps you begin a sober assessment of how you will pay the money back, because getting finance approved doesn't necessarily mean it's a good idea.

Character: banks are effectively placing a bet on you, so give them every reason to



have confidence. Present yourself like a professional, make sure you spell everything correctly, and don't be late. Come across as a likeable person and show you are a capable business leader with the ability to provide quality services to customers while making a profit. Show attention to detail.

Ability: bluntly, the bank wants to see how they are getting their money back. Yes, a forecast is important, but it has to be a cogent document, based on reality and substance. Anything more than a modest increase to turnover will not be accepted. Also, don't forget a tax provision.

Means: you've got to have a business plan and a financial plan. An associate buying their first practice usually ends up subsidising their business to make it add up. Sometimes associates have access to family money so they don't end up personally subsidising the business, but the family money does instead because it's effectively a pseudo loan — there's no outflow for that payment, it's like a fake investment. If there's no expectation of you having to make a return on the investment, you're creating a shield from the commercial world. Don't settle for this, it's a

waste.

Purpose: the reason you're borrowing money is really important. Banks don't want to lend for your inability to run a business in a sustainable way, so the money can't be to cover shortfalls and pay the staff. Can you see the difference in the risk perspective? Show why you need the money and how you're going to use it to generate a return. You should be really clear on this — you want to be paid well for all the hard work you are about to do.

Amount: show in detail what the money will be spent on — how did you arrive at the figure? Be precise. Admittedly in many cases this will simply be the asking price, but it may not if, for example, additional amounts are required for investment post-purchase.

Repayment: show profit margins and cashflow forecasts to demonstrate you're good for the loan. Don't exaggerate, because you're the one who is going to have to pay. You don't want to live like an indentured labourer.

Insurance: this is about financial maturity. Banks need protection in case something unexpected happens. Let's be honest, you need protection in case something happens. If you've got a mortgage on your home, what happens if you break your arm and can't work? You can't pay the mortgage and if you don't have a backup plan it's catastrophic. We have ways to make these policies tax deductible for the company, so there are efficient ways to do this.

NHS OR PRIVATE?

We consider NHS dentistry to be a completely different business to a wholly private practice.

There is a fundamentally different service provided, with a different customer profile. While it can be done, and we have seen some successful examples, it's hard to grow



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DEFINITIVE GUIDE TO BUYING A PRACTICE: PART 2

Written by Dan Fine



Don't kid yourself, the investment is more than cash, says Dan Fine

With practice prices as they are there's a good chance you're going to be investing £1m, maybe more, to acquire a practice. Now you're through the door you may need to spend a bit of cash to make the place look presentable and kit it out clinically, let's say £100k.

There is no point buying a practice if you are not going to grow it, and it will be effective marketing that drives this growth. With that in mind there may be a marketing systems investment of let's say £35k and then your monthly budget to think about. Your monthly budget should be 5% of the revenue you want to have in 12 months.

So a practice growing from £1m to £1.3m (ambitious but reasonable 30% growth) will require an annual budget of £65k, or £5.4k per month. So all in you could be £1.2m in the hole...

The capital investment is the easy bit in a sense, it is tangible and specific but just because you spend it doesn't mean it is going to work. Ultimately what decides whether the investment and risk pays off is...you. This should be a terrifying and exhilarating insight — you are responsible for your own destiny but you will have to own it.

We can make a few assumptions about what will happen when you take over your business in the first 12 months:

- You will work harder than ever before
- Nothing in your experience has prepared you to be a business owner

- At times you will be exhausted
 - Sometimes you will want to give up.
- These assumptions point to where the less tangible but often more expensive investments will have to be made. To take them in order:



You will work harder than ever before — this does not mean clinically (although it often



does too), it means you will have to invest a significant amount of time running the business. Quickly you will understand time is one of your most valuable commodities and how it is created and invested will be critical in the success of your business.

Nothing in your experience has prepared you to be a business owner — even though you are more educated than 98% of the population (estimates vary) nothing in that educating has direct application to the chaotic collective of people, processes and projects that is a business. You will have to learn rapidly and continually, formally and tacitly. Your investment in becoming an effective and diverse learner will best allow you to interpret and capitalise on the chaos.

At times you will be exhausted — with more hours worked and continually learning new things you will need to invest energy to drive this. This is not something to be taken lightly, it will take everything you have to keep

the business running. But simply maintaining is not enough, you have to grow and this will require you to dig deep and invest energy that you did not know you had.

Sometimes you will want to give up — running a business is lonely and thankless. Your patients will think you charge them too much, your staff will think you will pay them too little, and your partner will not care.

The emotional investment is often the one people are least prepared for and the one that will often make or break your success as a business leader.

So before buying a practice make sure you have thought through the true cost and consider if it is something you are happy to pay.

YOUR GROWTH PLAN

Few businesses and very few dental businesses are good at assessing their capabilities and identifying skill gaps. Here are five ideas to try out in your new practice, says Luc Wade, Management Consultant at Hive Business.

1. Know your numbers (...again)

It's just silly that many practices couldn't tell you their new patient enquiry rate, treatment conversion rate or average patient value. It's a fact that knowing them at the start of a growth programme will make a difference. You won't know if you're making the right decision otherwise.

For example, if you miscalculate your average patient value you'll favour unproductive marketing campaigns and stop ones that were actually making a profit. If your competitors calculate this value accurately they'll have more budget to outbid you and steal market share. Despite the heavy time resource, knowing your numbers is your most worthy marketing investment.

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When buying a practice...

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2. Be open about the direction of the business.

Tell the team.

Simplify your goals down to six metrics. Share

these KPIs so the whole team can see how they're doing. Making this highly visible will help with morale. If you don't have these systems in place you risk slowing down growth and looking at marketing as a series of one-off events.

3. Avoid one-off events

They negatively impact growth. They are essentially any marketing effort that lasts for a limited period and feel gimmicky. They display a lack of confidence. Practices that focus entirely on this type of marketing hurt growth because they force their teams to scramble around getting campaigns ready, launched and promoted, only to earn a return on that investment for a limited period.

This type of marketing investment, for instance on monthly promotional deals, isn't scalable over time and you're only as good as your last offer. To grow faster, focus more of your time on a blend of brand building and sales activation campaigns that are unaffected by time and won't expire.

4. Love the bottom of the funnel

This is about loyalty and advocacy, including efforts to retain patients and generate more word of mouth referrals and increased patient value. Don't hesitate to ask for testimonials and online reviews across all the digital channels available to you.

By spending more time on the bottom of the marketing funnel you'll generate additional revenue from every new customer without extra advertising costs. This will allow you to spend more at the top of your funnel too, building market share and growing your business faster.

Don't move slowly

This holds back so many practices. How quickly you make business decisions, get new initiatives live and test them is of critical importance to your commercial success. Slowness seems ingrained in many dental practices and it can be hard to change.

BECOMING AN EFFECTIVE BUSINESS LEADER

People tend to have innate leadership qualities, for instance you might be a great communicator, charismatic or decisive. However, unless you are engaging in your own development you probably won't be a well-rounded leader.

With four books on leadership published a

day it's an incredibly deep subject with a lot of chaff, so here are two simple principles to start that development.

Detach. We all have jobs that we get paid for, that we spend most of our time doing, that we aim to become exceptional at, and this expertise blinds us from becoming an effective leader. As a clinician you have rigorous training that allows you to interpret information in a certain way, always with the wellbeing of the patient in mind. As a business leader this information is relevant but not gospel and it can actually impede your thinking unless you are able to detach from it.

When thinking through a problem or a situation, assume you have your clinician's hat on. To detach you need to drop your professional expertise and consider other points of view. What would the shareholder say? What would my enemy think? Would this improve my team?

Be humble. As a dentist you are more educated than the vast majority of society so unquestionably you will be intelligent. But knowledge of this may block you from gaining insights that allow you to become an effective leader. You have to take yourself off the pedestal and assume that people you interact with have something interesting to tell you.

What got you to the party in the first place is not going to make you an effective leader — understanding this is the first step to getting there.

CREATING ORDER FROM CHAOS

When someone acquires a new practice a common fallacy occurs. It usually sounds something like: "I'm just going to run it as is for a year or so, get my knees under the desk..." For a number of reasons this is an unacceptable strategy to take when acquiring a business.

Commercially speaking there is no reason to acquire a dental practice unless you are looking at growing it and in the dental marketplace growth looks like 30% per annum. Because the growth opportunities are so wide it essentially means you will need to be creating a new business each year.

Your role as a business leader is to create order out of the potential of the future. This means you will have to have a clear vision, be comfortable with uncertainty, and embrace and understand risk. To grow a business means stepping out of a binary world of right and wrong and creating your own context by which to interpret emergent events.

The context will be the strategy of the business and your own leadership values — without these as an anchor you will never know the opportunity you have missed out on. The stoic philosopher Seneca the Younger said, "A good person dyes events with his own colour and turns whatever happens to his own

benefit." To lead a growing business you need to understand and internalise this concept and create new order from chaos.

CAN WE HELP YOU WITH YOUR PRACTICE PURCHASE?

The earlier you are in the process the more we can help. If you do buy a practice it should be part of a strategy that delivers on your objectives. We'll identify the options that serve your objectives and examine whether the property you've found is a viable investment for you. We can help you shortlist properties that match your requirements best.

SUMMARY

If you want to get ahead you need to work more than conventional hours, and I don't know anyone who is successful in business who hasn't understood this, at least in the period when they were building their company.

If you're running a business you're moving in a high paced environment and you have to accept that things will go wrong, but despite that you're choosing to move forward.

In business, if you haven't set your intentions clearly you won't be able to interpret the complex information that emerges around you consistently. On the other hand, if you're clear on your purpose, everything that emerges around you becomes a potential opportunity. ●

FURTHER READING

- <https://hivebusiness.co.uk>
- Volumes I and II of the Hive Business Review contain more concepts that we think you should know about before buying a dental practice. Download them from <https://hivebusiness.co.uk/hive-business-review>. Subscribe to the weekly blog here (scroll down to the bottom of the page) <https://hivebusiness.co.uk/insights>.
- <https://hivebusiness.co.uk/insights/your-opportunity-for-opportunity>
- <https://hivebusiness.co.uk/insights/bottom-line-what-is-the-point-of-building-your-brand>
- <https://hivebusiness.co.uk/insights/leaders-love-big-question-marks>
- <https://hivebusiness.co.uk/insights/find-your-colour-and-nail-it-to-the-mast>

Hive Business is expert in the business of dentistry. Its aim is to provide the kind of blue chip services to independent dental practices owners that multi-nationals would expect. Our team of professionals collaborate to provide consulting, financial and tax advice, accountancy, marketing, leadership coaching and business education services. This multi-disciplinary approach has been developed in-house and is proven to help business owners make lasting improvements to their financial performance and achieve their goals.

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