Practice ownership: buyers' guide

Ross Martin, **Dan Fine** and **Luc Wade** break down what you need to know when buying your first practice, including how to make it worth it

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 other motives:

- Time (eg, less clinical hours or more family time)
- Profit (get paid more for less work)
- Wealth (eg, 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?

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Does getting finance prove it's a good idea?

No. 'Campari' is a mnemonic banks use to check your legs as a debtor. It stands for:

- Character
- Ability
- Means
- Purpose
- Amount
- Repayment
- Insurance.

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 (ie, 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 an 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. 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, banks want 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 revenue in an NHS practice, not least because it confuses consumers. It would be difficult to turn a fast food outlet into fine dining restaurant, wouldn't it?

Decide what you want beforehand to maximise the speed of financial returns.

What you need to make it worth it

On the assumption that this isn't going to be a charitable venture, the simple objective is to make sure you are better off. Why else would you be taking on the risk? The burden of 15 years of loan repayments should demand it.

Making a financial forecast is relatively straightforward, but don't deceive yourself because of emotional bias.

Also make sure you pay yourself a market rate. Getting the finance is not the 'victory' in owning a practice, it is simply putting your trainers on at the starting line.

Don't think that the little 'drawings' line in the forecast that will pay you €3.5k per month will magically change once you're at the helm – it won't.

If done properly, the first version of the forecast will say you are worse off, and if you think about it logically this is correct: a practice that has operated the same way for the past 10 years, suffering underinvestment, is not going to be as successful as it could be.

This is where your first lesson in practice ownership can start as you reflect and revise the business model.

You should be aiming for a minimum of 12% profit for the risk you are taking and the time and money you are investing.

We would recommend that you prepare a well thought-out business plan, not because the bank makes you, but because it's the right thing to do for the business.

Know your numbers

To be able to measure profitability and return on investment you need to know your business – really know your business.

IT WOULD BE DIFFICULT TO TURN A FAST FOOD OUTLET INTO FINE DINING RESTAURANT

The average profitability of a practice is around 5%, and most campaigns we work on increase profitability by 5% to 8% over a 12-month period.

The emphasis is on knowing your numbers, not just having numbers but knowing the numbers.

You should have cloud-based bookkeeping in place, not just look at the balance on your bank statement, and obtain outside advice to analyse the data (the reason large companies have a board of directors is for the diversity of expertise and opinion, making it impossible to hide from the truth).

Sadly, we see even the most experienced practice owners (including many mini-corporates) woefully deficient in this area.

As is popular in accountancy and finance, there are a number of technical terms used, with a certain level of arrogance if you are not in the know, but there are two main ones to the discerning associate looking to buy.

EBITDA, which stands for earnings (ie, profit) before interest, tax, depreciation and amortisation. In large companies, EBITDA enables a standardised approach so profits can be benchmarked.

The trouble is that dental practices aren't corporate behemoths but nearly always are a vehicle personal to the practice owner, with costs bespoke to that particular owner.

For a meaningful EBITDA assessment, these elements need to be controlled, for instance, to benchmark the profit appropriately the principal needs to be paid a market rate.

Future maintainable profit is therefore a better term, used by the reputable sale agents, although the trouble is it has no statutory definition. Its principles are widely accepted by mature corporate consolidators and lenders though. It aims to adjust the actual profitability for superfluous costs and expenses, allowing a market rate for the principal(s) and other bespoke items.

Over and above profit markers, we have our favoured six key performance indicators (KPIs) (view them at www.hivebusiness.co.uk/insights/hive-kpis-6-steps-to-success), which we believe work better for private dentistry in running your business. They won't do the job for you, but they will help get the job done more effectively.

Your marketplace analysis

This is an essential phase to find out what your audience needs and what your competitors are doing (and what opportunities or threats they present to your business).

The most important parts of a marketplace analysis include:

- Customer analysis – it pays to start with the customer when planning your marketing strategy because then you can understand their needs and deliver the right services using the most appropriate marketing channels. Buying behaviour has become more complex and new elements such as search engines and social networks have been added to traditional ones like print media advertising, outdoor media, radio and direct mail. Understanding buyer behaviour will help you develop your brand and proposition and make your marketing more effective
- Competitor analysis – find out where you are and where you can do better. It's not that you should be directed by what you learn about your competitors, it's that knowing how you compare will help you compete, be distinctive and find quick wins and define your longer-term strategy, giving you more control and direction. Most of the research here will be digital, for example:
  - Select five to 10 competitors
  - Look at their rankings on Google for key treatments and nearby locations, are they running sponsored ads?
  - Look at their social media accounts and level of engagement and the type of content they are posting, are they using social media advertising?
  - Review their websites. What are their key customer journeys, audience segments and treatment hierarchies? What about the quality of their content? Are they using video testimonials and downloads? How do they convert new patients? Do they have a treatment coordinator? Do they run open days, presentations and free consultations?

Use the information gathered to identify and prioritise actions and then review whether your actions are working through your practice KPIs.

In the next edition of *Irish Dentistry*, we will look at investment considerations, your growth plan, as well as becoming an effective business leader and creating order from chaos.