EP 128 Conversations at the Coalface: Why how you deal with staff can make or break a deal transcript

<b>Joanna:</b>

Hi, it's Joanna Oakey here and welcome back to The Deal Room Podcast. A podcast proudly brought to you by our commercial legal practice Aspect Legal. Now today we have a really interesting different approach to what we usually take. We're actually having another conversations at the coalface. Conversations at the coalface is where we have on a guest who has been on the inside of one or multiple acquisitions or exits so they can tell us what it feels like from a different perspective to the usual perspective we are talking about from the owner or the buyer or the advisor perspective. So today's conversation at the coalface is with Katherine Frazer who was a practice manager of a dental practice at the point that it was sold after her being there for many years and the owner owning it for more than 40 years. And she talks about her experience and the experience of the other staff in being in the middle of the sale and some of the issues that she saw that had occurred and some ideas that she has for buyers about how to avoid some of these issues in the transition phase when a buyer acquires a business or a dental practice, like this example, we also drill into the missed opportunity for the vendor or in this instance. And I think it's a really insightful discussion for anyone who is looking to sell the business either now or into the future and also to buyers who are interested in looking at buying a business into the future. So buckle in, and here we go with Katherine.

<b>Joanna:</b>

Katherine, hello. Thank you so much for joining me on the podcast today.

<b>Katherine:</b>

No problem.

<b>Joanna:</b>

Look, I'm really excited about this discussion today because I'm always excited when we can get into talking to people at the coalface because I, I guess sitting here in the position of advisors, we have one perspective, but it's always great to hear the perspective of people who are in the inside of a deal and feeling how they feel about it all. Now, one of the things that we particularly talk about today is I guess the potential missed opportunities. And, your example here, we were going to dig into the missed opportunities here, for the vendor in this deal. But the second component of where I'd love to go with you if we can, is a little bit into how it feels to be in the middle of a deal and, and what see as things that you know, perhaps went wrong that could could have gone better or you know, I guess tips that you might have for some of our listeners now that you've had the opportunity to be on the inside and see what it looks like to have gone through this process with a really unique insight because, you're coming I guess from a far less emotional perspective than what the vendors or the buyers are coming from.

So everyone has their own position and their own and their own insight based on their own situation as to how they are looking. But I think this is a really important one. How the staff feel and, and what happens in the environment that can make or break a deal from your perspective in relation to what you had experienced in these deals. So let's step back just to give some background. Can you give us a bit of a quick background about you and then, and then what this business sale related to?

<h2>A quick background on Katherine Frazer</h2>

<b>Katherine:</b>

Yeah, sure. So I've been in the dental industry for 22 years now. Started out as a dental nurse and got all my qualifications and really loved it and found that was a job, you know, it wasn't something that I thought that I'd enjoy, but it was something that I really did enjoy. And later on I went on to do some more study for my practice management qualifications as well and moved out of the surgery and into the administrative side of things. That was probably about 16 years after I started. So I've got quite a broad overview of how a surgery is run and just all the cons and pros. So it's been an interesting journey working with different dentists, different practices. The practice that I was working in quite a few years ago now was a single dentist practice. He was a bit older and often joking about retirement.

And so for all of the staff, because it was only a one dentist operation, there was just a small team of four people, but we all knew that at some point he'd come to us and say, you know, I'm either going to sell or I'm just going to retire and close or, you know, we didn't know exactly which way he was going to go. We just knew that, you know, he was coming to the end of his career and it was a practice that had been there for a long time. He'd actually worked in it for over 40 years.

<b>Joanna:</b>

Wow.

<b>Katherine:</b>

Yeah. And he'd bought it from another dentist back in the day. So it had a great number of patients. A great reputation. We didn't do any advertising at all. We didn't even have a sign on the door. Just people found us, people knew about us.

It was just a great little practice. Wow. But even knowing that he was going like thinking about a retirement and joking about that to us, we were still a little shocked when he came to us one afternoon and just said, I'm just letting you know that I've sold the practice and the new on is we'll be here next week to meet the team and see how we do things and and we'll give you a bit more information then. It was just kind of like I'm, I'm waiting for that conversation. But then when it came I still was like, Oh wow. Like he just said, He has done the deal.

<b>Joanna:</b>

And you thought that there would be some, some sort of discussion and do you know what, this is such an interesting point because so many vendors that I talk about are really concerned about talking to staff at all about their thoughts and ideas.

<b>Katherine:</b>

Yes, you run your risk of losing employees as well because they don't understand the process. Then they get scared and they think, well, you know, I could potentially be out of a job so maybe I should start looking now. So I have my employment security. So there is a risk in, in putting that on the table and being open about it. But I think you have to assess the team that you have, how long they've worked for you, even how old they are because someone that's going to be a bit older is going to have a little bit more maturity and be able to have a conversation like that.

<b>Joanna:</b>

And look like, I guess you're saying the reality is he didn't have that conversation with you, but you all knew what was coming anyway, even though we hadn't been open about discussing it. The fact that he hadn't been open about discussing it meant A that you know, even though it seemed obvious to you all, it was a surprise at the time, which is a great thing.

You know, that that can create instability. But I guess B as we're going to hear about it potentially led to this missed opportunity as well.

<h2>It was a missed opportunity of sale</h2>

<b>Katherine:</b>

Yeah. So the missed opportunity for me was that a couple of weeks later, I was just going through a dental journal magazine and they often have classifieds in the back of that, you know, selling dental equipment or positions vacant or practices for sale. And sure enough there was the ad that he'd placed. And you know, the contact details all matched up. So we knew that that was the ad and it had the price right there in front of my face and I was astonished at how cheap he sold it for and I just straight away said to one of the other girls, I would have bought that in a heartbeat.

<b>Joanna:</b>

Isn't that amazing? So tell me then what happened with the practice?

So now we've got the practice having been sold to someone who has no connection, who has had no connection in the past to the practice. So what did that look like?

<h2>Selling to someone who had no connection at all to the practice</h2>

<b>Katherine:</b>

So the fact that we were based in a regional area also added another layer to that because the people that bought it came from, from Sydney. They had no intention of moving to that area. And you know, being connected with the community and the patients that had been coming there for all those years. I mean, we were seeing three, sometimes four generations of patients within a family because they'd all just come to that practice that had been there forever, you know, so it's different to the way the city operates. Yeah. So, they really took something that was a family and community based practice and turned it into a money making machine.

It sounds horrible. But when that's your focus in business then you know, things are bound to go wrong. The staff, you have issues with losing clients.

<h2>Examples of the approach of buyers which led to a down turn</h2>

<b>Joanna:</b>

Yeah. It's like, can you step that out for us a little bit more because this is, you know, certainly not all acquisitions go the way that a buyer or even a seller has planned. Yeah. Post transition and you know, I think it's really useful if we can hear from you, what are some examples of the approach of the buyers perhaps that, that, you know, led to some of these, you know, what the downturn was in the business and what the approach was that you feel was a contributing factor to that.

<b>Katherine:</b>

Into how it changed things or ..

<b>Joanna:</b>

Yeah, how it changed things. So firstly is let's, let's step back and just look at what actually happens. So we had a practice that was going quite well. New buyers come in, new buyers focused on perhaps running the practice in a different way to the, the previous owner. And that led to lots of clients, lots of staff. Is that right?

<b>Katherine:</b>

Yes. Therefore one by one, all the staff left,

<b>Joanna:</b>

All the staff.

<b>Katherine:</b>

I was the last to leave.

<b>Joanna:</b>

Wow.

<h2>Taking away that element of relationship with your clients</h2>

<b>Katherine:</b>

So that was over a two year period. Yeah, some of them left him really unreasonable and in horrible ways. `The staff that we had, well we don't as a team, we'd been working together for quite some time. So, you know, it was a really good team, but we had built relationships with the patients that were in that practice as well. And so when you take away that element of relationship with the patient and it just becomes, well they will be just a number, now you know your number in my waiting room and I'm, I want to see you as quickly as possible treat you and get you out of the room. It completely changes, you know, the trust and the whole experience really for them to like no one likes going to the dentist anyway that's given so we have to create a space where they feel comfortable and that they're in good hands. And so when you treat people like they're a number, you're not giving them assurance and that level of comfort for them to feel like they can just relax and get what they have to get done even though it's not, you know, a dental treatment.

<b>Joanna:</b>

And so all the staff left in the end, a large client attrition. Do you have any idea of the level, like we're talking about half the clients left or was there a very large act or..

<b>Katherine:</b>

In the time that I remained there, it'd be hard to say. He had quite a large patient database, but I still work in the same town at another practice and we've gained many of their patients. I can only imagine that the numbers are declining and not going so well. A huge number of people. I mean, again, people don't like change either. So when they've been seeing a particular dentist for a certain amount of time and they have that level of trust and relationship from that health professional, then once that's gone, then you've got to rebuild that with the person that's replacing that. That's a hard thing to do. If you go about it the wrong way, then you potentially lose that patient, you lose that client.

<h2>What went wrong with the buyer’s approach</h2>

<b>Joanna:</b>

Yeah. So let's dig into that a bit more. What you think went wrong in the buyer's approach and obviously you've already touched on probably what is one of the most relevant elements, which is the way that they dealt with the client database, the patient database obviously in this industry. But maybe if you can, if you can step back and just look at it, you know, from what you could see from the inside, what were things that you felt they did wrong that, you know, business buyers should be aware of when they're buying the type of business that we're describing here?

<h2>Make a good impression with your staff</h2>

<b>Katherine:</b>

Yeah, I think they firstly need to make a good impression with the staff. These are the people that are gonna serve you and they are the ones that are ultimately going to make you money. You treat your staff well, you treat your patients well, then the money just comes. That's the by-product of creating a good team and a good relationship with the patients that we already had. So that was probably the hardest thing for me. Just saying the way the staff were treated and the why they were dismissed or almost forced to leave because of the way they ran the business and the lack of relationship that they didn't have with the staff.

<b>Joanna:</b>

And that has a massive impact, you know, as soon as someone leaves as well, that has a massive impact.

<b>Katherine:</b>

It does, it affects the whole team, but also the patients that have been coming on a regular basis and know that place, know that team, they straight away recognize that something's not right. They do not trust these new health professionals because now the team are walking away, there's something not aligned here. It sends a message to the patients as well. When staff start to leave, if you have a high turnover of staff as well, you know, they, they think, who are these people that they were working for that they go through so many staff that all send a message. So I think even if in the process of the sale and that waiting periods before everything was finalized for them to come and try and work alongside us in the current practice and, and make that work and build some kind of relationship that would have made a big difference and maybe be more communication.

<b>Joanna:</b>

And you know, it's such a good point because I think at something, some buyers, particularly more sophisticated buyers, I think have a handle on the massive importance of team in making this transition work. But I think for many buyers who aren't used to the concept of acquiring a business, they perhaps are really focused on, I guess focus on so many things. It's a busy time when you're buying a business, but not focused on some of these that really can make a massive difference at the end of the day in terms of retaining, capitalizing on the value of a business. Because I guess it's an opportunity, isn't it? So in your instance, it was this team that had been with someone who'd been there for 40 years so maybe was getting a little bit tired of the business and perhaps didn't have a big vision for the future. And here's the opportunity for a buyer to come in with a vision that they sell to the staff and you know, reinvigorate things. Or in the case that happened in your case, you know, fail to uh, create strong relationships, fail to provide a vision and ultimately end up losing all of the staff and the knowledge.

<b>Katherine:</b>

That was around. Well, the interesting thing on that too, just, I'm still talking about losing staff is that they, the dentist that sold the practice I believe he still wanted to work part time and phase himself out without, you know, selling the business that releases him to not have to take on the responsibility or, or the costs of running the business. He doesn't have to carry that weight anymore. But I think he was still really keen to continue working even if it was only two days a week. So having said that, you know, I was going to say that, you know, another issue in, in terms of staff is, is the rate of change. So implementing new systems and new procedures and, and all these you know, we've got so many different types of software, dental software and things now and in different types of equipment.

Um you know, implementing that too quickly as well creates an issue for the staff. But one of the people that also left was the actual dentist that sold the practice. So he couldn't cope with the rate of change in terms of, especially someone that's been doing something a certain way for so many years. He's now got someone that he has to answer to. He's not his own boss. He has to learn new software and new ways of doing things based on what the new owners want. So I think going back to how you can make it easier in the buying process or the change over process that you really make the staff participate in the change process. Don't try and change it overnight and do 50 different things. Implement something one by one and let them get the hang of it instead of bombarding them with a whole bunch of stuff and leaving them feeling overwhelmed and incapable and leaving them saying, I'm out, I can't do this.

<b>Joanna:</b>

Mm. It's a really important insight. This is brilliant stuff. I absolutely love it. And do you know if the seller had any sort of retention or anything riding on the business retaining clients for a particular period of time post sale?

<b>Katherine:</b>

Yeah, there was, I'm not sure what the details were, but I do know based on some of the associates that they hired after that they all had a hundred kilometer radius not being able to work in that 100 kilometers.

<b>Joanna:</b>

And part of the issue here is when vendors, you know, it's important for vendors to be interested as well in this steps that buyers are going to take in I guess dealing with the transition of the business after completion. You know, firstly, I, I think quite often people who are selling a business that they've owned for a long period of time and very emotionally connected to it and to the staff and to the, to the clients or the patients in, in this instance. So, you know, that's one thing, but you, you know, the second thing is that in many instances there are financial consequences to them of the buyers losing clients into the future because, you know, they might have earn-outs or or, or something that that, you know, can be a financial consequence to them of the buyer losing clients or patients soon after completion or for a period of time after completion. So there's lots of reasons that it should be of interest, not just to the buyers, but also to the sellers, how the staff piece is being dealt with. And I just feel that's one element that quite often isn't dealt with brilliantly. And I think it's because both parties are scared of communicating, you know, they don't know how to. Okay. And then, we talked about the staffing element. Are there other elements that you saw that you know, you would recommend based on what you saw other buyers maybe do differently?

<b>Katherine:</b>

Yeah, look, I just think coming back to, to relationship with, with the patients I think is the most important thing. It's, it's more important than the treatment required or anything else that's going on or how much you charge. I mean, you can, you can charge whatever you like when you have that rapport with your patients. To me it is the most important thing and, and everything else flows out of that. So yeah, that has to be a focus. Otherwise you're going to run into problems one way or another, whether it's finances or staff or, you know, even a bad reputation because people go out and they talk like yeah I went to this wonderful dentist today or I went and saw this terrible dentist today. That's, that's going to happen, especially in a regional area. So that has to be the most important thing to really build on that relationship with the patient.

<b>Joanna:</b>

And I don't think it's just in a regional area and, and you know, certainly your experience is that it's true for a regional area, but you know, any relationship is business, I think that's it's, you know, wherever it's based, you're 100% correct. Oh look, these are really interesting insights. I just want to thank you so much for all of the information that you've been able to share with us, Katherine, I think as I said when we first started talking, it's such an important viewpoint that often we don't hear about the staff perspective in relation to how the whole processes has gone and how it could have been a lot better.

It's really useful insights. I guess, do you have any sort of key things that you want to leave our audience that you have not been able to share with them so far? I mean, the first thing I can definitely identify out of what you're talking about is being really mindful when you think about selling, about where the opportunities might be for a sale. Because obviously in your instance it's interesting that you felt that the price was really cheap as well because it might be that it was really poorly priced.

<h2>Key tips to take away</h2>

<b>Katherine:</b>

There's a great tip as well. So if you're going to sell a practice, get an appraisal, there's dental companies out there that will do an appraisal of the practice. They'll assess how many patients do you have, what kind of equipment you have, how old it is, you know, all your systems. The staff that you have, they will actually do an appraisal and, and put together a price for you. I think based on the number of years that he's been there and how many patients he actually had, he really undervalued what, what he had and, and sold that for next to nothing. And, and even that price I think attracts then a certain kind of fire. So it's someone that's out to make money. Here's something really cheap, let's turn it into something else and then let's just sell it off. You know, it takes the personal side of things out of it. The relationships side of things as I've spoken about. But yeah, definitely get an appraisal of what the practice is actually worth because yeah, if you don't want to undersell.

<b>Joanna:</b>

And so it sounds like he didn't use an agent or a broker, you know, in selling. Is that right?

<b>Katherine:</b>

Again, I don't know the details cause he didn't communicate anything to us.

<b>Joanna:</b>

Yeah, yeah, yeah. Although if he was advertising himself, although you don't know. But uh…

<b>Katherine:</b>

Yeah, I think it was just maybe a bit of an old school. Let's put an ad in a magazine. And when I saw the price, you know, I was already struggling a little bit with the changeover, but yeah, I was like, Oh wow. You know, I would've, I would've bought it in a heartbeat. He could've stayed on and he could have had his own terms. I wouldn't have minded. He was such a wonderful person to work for. And then I probably would've just taken on an associate that would slowly increase as he decreased and transition that way, which also would have made the right of change and appropriate rate of change for the staff as well. So that, I mean, hindsight's a great thing. But yeah, a bit of insight from someone that's been in that situation.

<b>Joanna:</b>

Yeah. What a missed opportunity here. But it's a really interesting tale and hopefully something that gives our listeners a bit of insight into if they, if they're looking at gearing up for a sale of their business. Just some things to think about, some really good points to make sure they don't miss the same type of opportunity that your your ex boss missed. Well, look, I just want to say a massive thank you, Katherine. You've been fabulous. This has been really useful. I've loved it. I hope you have too.

<b>Katherine:</b>

Thank you for having me.

<b>Joanna:</b>

My pleasure.

That's it for this episode where we had another conversation at the coalface talking with Katherine Frazer all about her experiences from the inside when she was part of a dental practice that was sold. And things didn't go exactly to plan. There are a few key items that I'd really like to highlight from my discussion with Katherine because I thought it was extremely insightful hearing her perspective. Her first tip is to think early about communication with staff. So obviously there's this question for many sellers of businesses as to whether or not they should communicate their potential plans to, to the staff. Katherine makes an interesting point that the staff in this instance had already been well aware that this would be on the cards at some point. And so in this instance, the seller's decision not to have some sort of communication with the staff over time about his plans for the practice meant that he missed a golden opportunity for making a sale to a potentially perfect buyer in a staff member.

But of course it's not just about communication prior to the sale. And many sellers have very good reason for not wanting to communicate their ideas of a sale to the staff due to perhaps perceived instability that that may cause. But Katherine also pointed to the benefit that is there for communicating to the staff as soon as possible after exchange has occurred. So to ensure that that transition is something that the staff are already foreign geared up for. A not perhaps surprised by when it, it comes about. Katherine also pointed to the importance in slowing down in implementing wholesale new systems. Of course when buyers go into a business, they're often extremely excited about the opportunities within the business and have all sorts of ideas about how it could be run much better. But it's a really good point from Katherine about the instability, that constant rapid change in systems and processes and approaches can have on the staff.

So if you're looking at it from a staff perspective, then it's really important that you really slow down and think about pacing out the change process for new systems. And Katherine had a great idea about making staff or inviting staff to participate in the change process themselves so that they feel some sense of ownership and connection to the process that's going on. Well this has been a great episode. I hope you found it interesting. If you would like to see further information about what we talked about today, then just pop over to our website at thedealroompodcast.com there we will also have links to our legal Eagles that Aspect Legal, if you're gearing up for a sale or an acquisition and you want to talk to lawyers who've been around the block more than a few times, who can give you some of these insights into the sorts of things that we see that contribute to a great deal. And that can be risks in creating to problems in deals. We work with clients both big and small and I have different types of services depending on size and complexity. So don't hesitate to book an appointment if you'd like to find out how we can assist. Well that's it for today. I hope you enjoyed our episode today. Thanks again for listening in. You've been listening to Joanna Oakey and The Deal Room Podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal, see you next time.