Workshop

SELLING PREPARATIONS

***OT* poses a monthly scenario from a practitioner. This month we focus on the preparations that are required ahead of selling a practice in order to secure the best possible price**

The scenario

Robert, AOP member

I am an optometrist and practice owner based in the Midlands, and I am looking ahead to retirement in three to five years time. Can you advise me on simple and effective ways to maximise the selling price of my practice when the time comes?

The advice

Mark Ridout, director of R A Valuation Services

Although it can be something as mundane as the availability of adequate car parking that determines whether a patient chooses one practice over another, there are a number of effective steps that practice owners can undertake to increase the potential value of their business.

The good news for practice owners in the Midlands is that it is a popular area for optical professionals, and consequently there are a higher-than-national average proportion of prospective buyers. Practices in this region therefore typically achieve a respectable selling price.

Importantly, you have allowed yourself a sensible timeframe to work towards being able to maximise the practice's selling price.

First things first

When it comes to selling, firstly the physical appearance of a practice should be up to scratch. As with selling a house, so-called 'curb appeal' is vitally important. Initial impressions count and can be the difference between a successful sale and a lost opportunity.

However, it is financial performance – and growing trading profit in particular – that validates whether a practice is performing well to prospective buyers. A business must be run effectively, with budgeting and cash flow managed consistently.

To illustrate how basic trading improvements can significantly increase a practice's value over a three-year period, the example used in Table 1 demonstrates how just three simple improvements can show an inspired upward trend. In addition, trading profit can be more than doubled in three years by improvements of 7% in the three areas that are all under the owner's control – namely sales, gross profit margin and reduction in cost ratio (overhead costs as a percentage of sales) – without the need to reduce operational costs.

Table 1: Increasing trading profit by 120% in three years with improvements of 7% in three areas

	Year 0	Year 1	Year 2	Year 3
Turnover (sales)	£400,000	£428,000	£457,960	£490,017
Cost of sales	£160,000	£153,224	£143,300	£129,758
Gross profit	£240,000	£274,776	£314,660	£360,259
Overheads	£140,000	£140,000	£140,000	£140,000
Trading profit	£100,000	£134,776	£174,660	£220,259
Sales growth		7%	7%	7%
Gross profit margin (GP/sales) %	60%	64%	69%	74%
Increase in GP margin		7%	7%	7%
Cost ratio (overheads/sales) %	35%	33%	31%	29%
Reduction in cost ratio		7%	7%	7%
Annual profit growth		35%	30%	26%
Profit growth compared with year 0		35%	75%	120%

"Profits can be significantly improved without having to slash costs to the extent of damaging the business"

In this example, although the cost ratio has been reduced by 7% year-on-year, actual operating costs (overheads) have not been adjusted, demonstrating that profits can be significantly improved without having to slash costs to the extent of damaging the business.

Three simple steps

In the day-to-day running of a typical practice, trading improvements equate in simple terms to a combination of:

Increasing sales
A business should regularly review its pricing structure. It can promote services that both attract new patients to the practice and bond existing clients with the business. An increase in spend per visit should also be pursued – the captive in-store audience can be targeted with offers advertised in key locations within the practice, including point of sale, and entry and exit points

Reducing purchasing costs
Negotiate beneficial terms when buying products – primarily lenses and frames. Practice owners should review and compare supplier prices and the reliability of service. Building up worthless or obsolete stock should also be avoided

Managing overheads
By keeping a close eye on all overheads by using and reviewing management information on a frequent and regular basis, and highlighting any expenses that are becoming disproportionately high in relation to the level of business income, a practice owner can maintain the business' overhead costs, even during sales growth.

Practice owners thinking of selling should concentrate on all of these points. When faced with a prospective buyer, they should be prepared with clear, up-to-date accounts showing an attractive and well-documented track record of profitable growth. And, like the homeowner I mentioned, a fresh coat of paint will help a practice's High Street appeal. However, ultimately, it all comes down to profit. If you get the above right, the figures will speak for themselves.

"A business should regularly review its pricing structure. It can promote services that both attract new patients and bond existing clients to the business"

More information

For more information on R A Valuation Services, visit www.ravaluationservices.com Alternatively, email info@ravaluationservices.com or telephone 0142 5402 402.

About the author

Mark Ridout is a business valuation specialist who has published numerous articles and consulted with business owners on maximising the value of a business pre-sale. He is a director of R A Valuation Services Limited.

OT

Have your say
If you have a career insight or business experience to share, contact *OT* **newsdesk@optometry.co.uk**

Shutterstock