

BUSINESS MANAGEMENT BY CHUCK YENKNER



INSTANT GROWTH through mergers & acquisitions



Chuck Yenker

The dental lab industry

presents numerous ways to grow your business. Most often lab owners/managers think in terms of acquiring new clients to boost the bottom line or of offering a new product or service to increase sales to existing clients thus hike profits.

Successful companies in other industries also use these techniques, but they also look to mergers or acquisitions as a strategy to help achieve strategic objectives that cannot be achieved any other way. Afterall, the “Donald” (Trump) has not done too badly pursuing this route! In our own industry National Dentex, DSG, and Americus all exist in their present form due in large part to mergers and acquisitions.

A merger (joining two or more labs together) or acquisition (purchasing a lab business) may be a strategy to consider to address one or more of the following issues:

- Increasing sales
- Finding technicians
- Adding technical expertise
- Market diversification
- An exit plan strategy for the owner/manager

I’d venture to guess many of you are dealing with one or more of these issues! (See “5 Benefits” sidebar, right, for more details on the benefits you can achieve through a merger or acquisition).

3 EASY M&A STEPS

“Ok Chuck, I’m interested. So how do I go about this” is a question I frequently get asked. It really is simple.

STEP 1: Start with spending some time thinking about what you want to achieve. Are you dealing with one of the aforementioned issues or do you have another goal in mind? What is your desired outcome?

STEP 2: Next, perform a valuation on your business. If you are considering selling or merging also perform one on the business you are considering acquiring.

5 BENEFITS

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INCREASED SALES

Mergers and acquisitions can instantly boost sales. The trick here is retaining revenues of the merged or acquired lab through the transition period. Good planning and customer communication helps achieve this objective. If you do a good job, 80%+ of the clients should stay. Retaining key employees, providing comparable quality level work, and maintaining price stability are all important.

ADDING TECHNICAL EXPERTISE

Do you feel your business is compromised because you offer only dentures? Mergers and acquisitions

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are a way for a removable lab to become a full service business. More technical expertise and a broader product base may allow you to cross-sell to existing clients.

Two labs combined also may save on administrative and delivery costs thus strengthening the bottom line.

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EXIT STRATEGY

Are you are nearing the end of your working career? Do you have an “Exit Strategy” from your business? For many owners this could involve selling the business. Merger with another lab or acquisition by other family members, or new owners/investors is frequently a way to see the business continue and provide for long-time loyal employees.

FINDING TECHNICIANS

Rather than finding or training techs one at a time to handle your growth, mergers and acquisitions

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provide you with a group of trained techs in one shot. They also come with existing work so you don’t need to subsidize them through a learning curve. Integrating new employees into your existing operation and vice versa can be challenging so before you complete the deal, consider the group as a whole and try get a feel for compatibility. Also consider differences in pay rates, benefits, bonus plans, and how the two groups will be integrated.

MARKET DIVERSIFICATION

How about the geographic coverage of your lab? Would satellite or branch offices in another city

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allow you to increase market share? Do you offer new technology or products not currently being marketed in that town? Buying a lab in a target location

gives you instant business and presence, which could help growth.

There are many methods of valuing a business, but in my opinion, the best way is to base it on generated cash flow. If the merger or acquisition will be folded into your operation, have a proforma profit and loss prepared for the combined business to get a clear picture of what the combined financials will look like.

STEP 3: Searching for labs to buy can be done a number of ways. Letting vendor reps and competitors know you would consider an acquisition can work well in local areas. If you are selling, however, you probably will want to keep it confidential in order to avoid raising concerns among clients and employees. In that case you may want to engage an advisor or broker to confidentially spread the word. An

advisor /broker can also help with the negotiating process. I also recommend checking out classified section of publications such as the one in Dental Lab Products. Online boards such as the one at Dental Career Service www.dentalcareerservices.com can also be helpful; they list both buyers and sellers.

In my career, I’ve been through numerous merger and acquisition transactions on both sides. In my experience, the key to a successful merger or acquisition lies in the people. If the people involved can work well together, they can solve the inevitable problems such a complicated deal involves. If they can’t, it does not matter how well all the other factors line up.

