

Stay on top of your finances

Stuart Burn offers advice to help your practice come through these tough times unscathed



What a few months we've all been through! The start of what looks like a global recession – and the knowledge that some tough times lie ahead. The UK economy going into a downturn is nothing new, yet this time it is the speed of the decline that has been startling.

In previous recessions, the banking world has seen a general market decline on a par with most industries, yet 2008 has seen the banks dramatically compound the predicament and possibly even lead us into this recession.

A bank is at the very heart of a business and, if it falters, every industry, every business, and every individual will feel the reverberations.

Historically, banks have enjoyed a strong relationship with dental practices as they are considered low risk. In turn, dentists have generally stuck to one bank and it has been rare for a practitioner to feel the need to seek alternative funding lines. However, with banks generally less willing to lend, it is essential for all businesses to ensure they do not have all their eggs in one basket.

Cash is king

When investing in a practice with surgery equipment, digital

imaging, and refurbishments, the easy option has been to use the overdraft or fund from surplus cash resources.

This magnifies the importance of understanding the difference between profitability and cash flow. A business rarely goes bust through its losses, but uncontrolled cash flow will result in serious trouble.

Now, as we enter a recession, the old adage 'cash is king' should come to the fore. This does not mean spend your cash! In fact it signifies the opposite, protect your cash and use funding wherever possible and prudent.

Cash is the very lifeblood of your business. As 2009 unfolds those that manage their cash flow best will be better placed to survive unscathed when the green shoots of recovery appear. Raising finance is therefore key to those that want to flourish rather than just survive.

Recommendations

My recommendation would be to 'spread the load'. Try to use a combination of lenders to help with larger projects, use finance companies where possible and do not be 100% reliant on your bank.

Banks are great for long-term loans (10-25 years) for practice purchases and mortgages. They are also good

for most working capital requirements such as overdrafts. However, funding assets may be better with a finance house. This allows the load to be spread and takes the pressure off one source of funds (the bank), particularly if they hold a first or second charge at a time when property values are falling.

Even within asset finance, a single lender may have trouble in securing the funds you require. A finance broker with many funding lines is often better positioned to obtain the level of credit you need – and at competitive rates.

There is also a responsibility for lenders to become more innovative to allow entrepreneurs to grow. Performance Finance has been approaching the banks to help where it can. An example is with practice purchases, currently goodwill values remain strong and some banks have been finding it more and more difficult to fund 100% of the practice value. The company has assisted by providing 'top-up' facilities in conjunction with the bank, and this union has helped to realise the purchase where otherwise it might have failed.

Cultivating new opportunities in these times is therefore a sensible approach both for lenders and dental practices.

It's said that 'money makes the world go round' – in 2009, make sure your world keeps turning. ■



Stuart Burn is the managing director of Performance Finance Ltd and co-founder of Performance Insurance Services LLP. For further information, ring 01536 529696 or visit www.performancefinance.co.uk and www.performanceinsurance.com.

Prize draw

For a chance to win one free seminar place with Independent Seminars, please fill out the form below and answer the three questions relating to this article. The seminars you can choose from include top speakers Chris Barrow, John Cranham (lecture only), Larry Rosenthal (lecture only), Linda Greenwall (lecture only) and Lorenzo Vanini (lecture only).

Simply answer these questions to be entered into the prize draw:

Q1: Why have banks historically had a strong relationship with dental practices?

Q2: What does the phrase 'cash is king' mean?

Q3: Why have some banks found it difficult to fund 100% of the practice value for purchases?

From the list above, which speaker's seminar would you prefer to attend?

Name.....

Address.....

Postcode.....

GDC number.....

Email address.....

Telephone number.....

Email your answers to heather.podbury@fmc.co.uk or post back to Heather Podbury, Dentistry magazine, 1 Hertford House, Farm Close, Shenley, Herts, WD7 9AB.

Please include a contact telephone number and email address with your answer.

Deadline 27 February 2009. One seminar place per practice. No refunds against current bookings.

All correct entries will be entered into a draw. The prize will be awarded to the first complete entry drawn from the hat. The winner will be notified by telephone. The judge's decision is final and no correspondence will be entered into.