

## **Ep #225: Grant Schuette - The 7 Key Elements of a Valuable Business**



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**Dr. David Phelps**

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## **Ep #225: Grant Schuette - The 7 Key Elements of a Valuable Business**

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David Phelps: Good day everyone. This is Dr. David Phelps of the Freedom Founders Mastermind Community and the Dentist Freedom Blueprint Podcast. Today, going to be really a fun and interesting interview, a conversation with a gentleman that I was fortunate enough to meet at a conference just a couple months ago in Dallas, and it's through also another company, an affiliate of a group I'm a part of which is the No B.S. Dan Kennedy Adam Witty Advantage Forbes Group, and this is the Oxford Strategic Group that's now part of that whole family, and my guest today is Grant Schuette. Grant, how are you doing sir?

Grant Schuette: Doing very well. Thank you for having me today David.

David Phelps: Yeah. This is a great topic. And I'll give your background in a second, but I want to set the stage for people that are just jumping onto to the podcast today. And what we're going to talk about is the perspective that Grant brings to the conversation about what are the elements that make up a valuable business, valuable from the standpoint of a buyer and a seller because we're in a marketplace today, and I'm speaking probably most specifically to professional practice owners who have their own business, their own practice, but this goes for any business because at Oxford, and what Grant Schuette

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and his colleagues do is they are in the business of helping buyers and sellers connect, and they understand this space very well.

What I'll say, Grant, and again, I'm going to give your background, but what I'll say on a forefront is that in professional practice, in the healthcare industry, up until recent years, it's been mom-and-pop. It's been very disjointed, I guess, is the word I would use, Grant, in terms of the marketplace, and it was pretty much a private seller sold to a private buyer, and there were some very simplistic elements of evaluation that were done, and banks would lend the money and there you go. It's different today, and so we're going to jump into that, talk about those differences, and then bring some of these elements of a valuable business into play.

So before we do that, I've got to tell people who you are Grant. So as I said, I got to meet Grant in person, got to hear him speak and present with some of his colleagues at Oxford. Grant is the director at the Oxford Strategic Group at Advantage, leading the mergers and acquisitions and exit consulting practices, from valuation and analysis and deal execution to due diligence preparation and sourcing the right buyer, Grant guides entrepreneurs through the exit process and offers strategic counsel to make sure they are moving in a direction that is right for them and their business. Oh my gosh, that's loaded there. So much we could say about that, right? So important, right, in today's world.

Grant has a passion for helping entrepreneurs achieve their goals and finding a balance between business success and personal well-being. Entrepreneurship can

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be a roller coaster, and Grant understands the value a trusted advisor that prioritizes your best interest. He'll tell it to you straight and has the acumen you want on your side of the negotiating table.

Prior to joining the Advantage Group, Grant worked on Wall Street at Piper Jaffray and company, starting middle market financial institutions as an investment banker. However, he missed his roots working with entrepreneurs, a community he consulted as an analyst with Cliff Oxford in Atlanta, and he yearned to reconnect with the passionate people who poured their lives into their business, like the people we're talking to today, so Grant left Wall Street, packed his bags, and now he's set up in Charleston with the Oxford Group there.

So again, Grant, thanks for being here. Welcome to the podcast, and let's dive into it. Let's talk about what you know, obviously from your background now being in the middle market financial sector of businesses. What has changed? And you and I talked also about what's changed also in the same regard in the dental, professional practice arena, healthcare, with a lot of corporate Wall Street money that's now in the game, so let's take it from there.

Grant Schuette: Yeah, absolutely. I think it's a great time to be a seller in the game. I think that there's a large premium going out right now to private practices. The public money has really been flying around over the last few years, and now it's kind of starting to turn into more private businesses. And specifically when you speak about private practice healthcare and dentistry, you're seeing a large amount of roll-up, but there's still so much fragmented business out

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there, and private practice is really only about 8% of the dentist industry is private equity-owned, so I think that there's still a lot of room to get that premium pricing out of your business.

But I think that having these sort of... These elements of value, and understanding these elements of value from a buyer's perspective really allows you to stand out in the marketplace in a way, and allows you to stand out to a buyer, and allows you to ultimately get the most out of your business. I think that a lot of these DSOs, and these private equity groups are continuing to roll-up and finding a lot of synergies by doing so. Their costs are much lower. They're able to run the administrative part of the business from a more rolled-up standpoint. I think that they're finding that very useful.

And now you have a lot of dentists, young dentists, coming into the industry. Enrollments are at the highest point in the last decade for graduate schools. You're seeing a lot of new dentists coming in, and they're looking more towards joining a DSO or a practice management company because they don't have to have the private capital up-front, so these DDSs are really, I think, more and more so hunting for good privately-owned practices to roll into theirs, and I think the timing has never been more perfect for a private seller, honestly.

David Phelps: Grant you just mentioned younger graduates coming out of school today. There's magnitudes of them, more schools than ever, and they're coming out with a lot of debt. Do you think the premium on practice evaluations from a lot of public money that you mentioned, do you think that's going to make it harder for younger doctors

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who would like to own their own practice versus being part of a DSO?

Grant Schuette: It's absolutely more difficult. Just having the debt on their back that they already did, coming out of school, finding any sort of financing to really start up a practice. It typically only comes from having a great deal of either family wealth or banking connections that a lot of these young recent graduates don't necessarily have, and I think that the DSO and these other practice management teams give them a way to focus pretty much specifically on the reason they went to school in the first place which was going to serving their clients and not having to worry about the business side sometimes, and it allows them to save up capital as well for if they want to start their own practice going forward, but I'd have to generally, overall, really agree with that probably is it never more difficult to start your own practice.

David Phelps: Yeah. That's what I'm seeing as well. So now going back to from a seller standpoint, taking advantage of the premium that's in the marketplace. What are the key elements that the buyers are looking at today in which they'll be willing to pay a premium. What are the keys?

Grant Schuette: Definitely having a wide customer base, having a good customer base, I think is very key. For a lot of these buyers, having a diverse customer base whether that be geographically or ethnically helps a great deal. Ones that have been coming back into your practice for a long period of time. This sort of consistency is something that they look for, and they really strive for when they do the due diligence.

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David Phelps: So like dental practices, one thing that I think that our industry has going for us is that we have a standard which people, patients that want to maintain their oral health know that they need to come in for the semiannual check-ups. That's kind of been standard for decades, right? So that creates some continuity of patients. From your standpoint, what's the value in that? Is that a pretty strong point that other businesses may or may not have?

Grant Schuette: Oh, it's absolutely a strong point. That sense of recurring revenue that the industry as a whole has really banked on. I mean it's one thing that you absolutely need. I'm not saying that it's a necessary thing to have those check-ups, but that is one where the industry has really overall gotten to reap the rewards of.

I think that when a buyer comes in though, what they're going to want to see is a lack of drop-off in clients. I think that's the one where it's going to be more of a red flag for them. If they see a lot of clients that aren't returning, that's one where you might get a flag on. One that if you don't have much drop-off will say something is definitely happening right in this practice. There's obviously some sort of service that's been given. There's some management practice that they're doing that's just going right, and I think that always adds a value to the seller.

David Phelps: Yeah. That makes sense. What about the marketplace, a value proposition or unique selling proposition? Give us a little bit, especially from your viewpoint, what that might look like in our industry, in dentistry? What might that be that would stand out as that kind of proposition?

Grant Schuette: So that proposition, "I think that differentiating in your location would probably," I'd say, be a selling point. I'm

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sure that the geographic positioning of your actual dentist practice is probably crucial to the growth in your business. Also, having that relationship differentiation, always being considered that one that people want to continue to go back to.

“This doctors always been one that has had the highest level of service. Who's had the highest level of integrity.” I think that's the thing that they look for as well, and that really flows as well into the image differentiation. Image differentiation, whether that be through your marketing channels or your digital presence. Having those things established and already going, I think that adds a ton of value in an acquisition for these buyers.

David Phelps: So like we talked a lot with Adam Witty about authority, right, creating credibility. Authority, like being an author of a book or just reputation in the community. How do you stand out? Are you involved in the community? Is your name brought up a lot as not just your professional dictates, but also are you a leader, those kinds of things, right?

Grant Schuette: Yeah, absolutely. And I think that's one where occasionally any business owner, but specifically one that owns a private practice. They'll think of the authority sometimes almost as being a negative when they're selling. I think because I'm putting so much emphasis into my own personal authority in this space, that if someone comes in and buys it, they're going to think that they're not going to generate at the same level because I might be stopping away from it, the name might change, however it may go.



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When the acquisition actually goes through, they think that because I built that authority, it's not going to transfer over to a higher price, and we typically disagree with that fully. I think that having that authority only builds the reputation of your business, and the reputation of your overall services that you provide even higher to the acquisition. I found that to be kind of an interesting argument, but I definitely think having the authority helps when you're a seller. Absolutely.

David Phelps: Are there things that the buyer can request to help to transition some of that authority as soon as they see that as the positive? Can they put some things into the transition documents that allow for that transfer of authority?

Grant Schuette: Oh, absolutely. There's a lot of ways that they can continue to get the benefit of your authority after you leave. They can still use your brand that you might have left. They can use the books and say, "They taught this person that we brought in to replace." And typically when they do that acquisition, they plan to keep that person as an authority on for an extended period of time, and that's one way as a seller you can really double-dip on the acquisition.

You can take that cash up-front for the business, and a royalty stream out the back end too that they will always be willing to pay for because of that authority. And to double off that, they can say, "When we acquired it, we had him teach every single person that we now have running the practice, and they've been taught by this person to have all this authority." It only grants more

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credibility to that person that was going to be there in the end anyway.

David Phelps: Right.

Grant Schuette: And that always adds a lot of value.

David Phelps: Okay. You talked about having reliable upstream and downstream partners. Could you kind of define what that means for our audience?

Grant Schuette: Yeah, absolutely. So the upstream partners being your suppliers of your product, typically that's more involved with, though, the manufacturing firm or firms of that nature, but still having that sort of consistent supply chain for any of your products is always important, and the downstream is the customer relationships.

When you're in a private practice, that is one that's always scary for the buyer. If we buy this guy out, how are customers going to perceive this acquisition? Are they going to see it as, "It's not like it used to be," or are they going to see it as an added benefit on top to what we've already been going to, and that is really important, and it really relies on how it's positioned. How that acquisition is positioned in time, and that's one where you if you have a good advisor, you can really have that be framed for you when you're going into a selling process if that makes sense.

David Phelps: Yeah. It does. You guys at Oxford, and Cliff, talk often about the story behind the business. Well, this is what a good advisor does. It helps craft the real, not imagined, but the real story. It's just, the owner in the business oftentimes doesn't really understand all the intangibles

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that really makeup the goodwill on the basis of value, and that story's so important.

Grant Schuette: Oh, absolutely. I mean we always tell any of our clients, if there is a time to be humble, this is not one. It just takes a lot of effort to start up any practice, any business, and if there's one time in your life where you want to sell that to the max, tell the story that you have created, and tell the future of what you are about to do, the selling process is the absolute perfect time to do so.

David Phelps: Got it. In terms of facilities, equipment, and other intangibles, comments about that as far as evaluation.

Grant Schuette: That one is really simple. It's do you have the most up-to-date equipment and Facilities. Is everything well taken care of and managed? Is it clean? Do you have some state-of-the-art equipment in there? It goes back to when a buyers looking at your business, and they take an assessment of where your office is, and the equipment that you have, and all the different things, they want to look at it as what do we need to buy when we take over this. Are we going to have to replace things? Are we going to have to do some major remodeling or restructuring of anything?

They'll hit you really hard on your price if they look at something and say, "Well, this just isn't going to do it. We're going to have to replace this, this, and this." They'll eventually, essentially, make you pay for it with the ending purchase price.

David Phelps: Yeah, yeah. Totally makes sense. Your current employees, your management team, your culture which obviously if a buyer's looking at a valuable ongoing

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business with a reputation and value proposition in the marketplace, a big part of that is the retention, at least the bulk of the existing staff and culture, so give me a few more insights into that because I know that plays a big part.

Grant Schuette: Oh, a huge part. And private practices are really going to want to see that strong administrative team that you have, that front desk team. I think that a lot of times you can read the culture, the value of these businesses, especially private practice. It's just the way your first five minutes are in the door, and the way you're greeted, the way that your treatment is in the first five minutes says a lot about that culture that you've built, a lot about that staff that you built over time and having that as strong as possible is really vital.

That's second to any of the other dentists or assistants that you have on staff, knowing that they're going to stay in place once you're gone is really important. And that's probably one of the biggest risks for a buyer is once you buy this place are we just going to piss the staff all off, and they're going to jump ship or are they ones that are tied down and are ready to go for the long haul because they're probably going to bring in a lot of changes, and they're going to want to make sure that staff team is ready to take on those changes and meet those challenges.

David Phelps: Well, that could be a subject of a whole podcast or a whole seminar in itself because it's so critical-

Grant Schuette: Oh, absolutely.

David Phelps: Yeah, right? How do you as the buyer enter in and begin to assimilate yourself into the culture before you're even

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the owner, right? And understanding where the rest of the team and the staff is. Are they onboard? Or, as you said, “Are they ready just to pickup and take their last paycheck and call it a career.” Right? Lots of things you have to consider in that regard.

Grant Schuette: Oh, absolutely. I mean that's one where you hate to have a guessing game when you're purchasing a business, but there's a part that's closest to that, it's when you're considering the management team. For a lot of larger acquisitions, they've actually started having... actually a buyer will bring in psychologists, and they'll come at it from a really deep... Yeah, for the employees, they go through intense interviewing.

They might bring them in with people that are more focused on psychology to understand exactly who they are, where their strengths are, where their weaknesses are, and really end of the day, they want to know those things down to the T, but at a point, there's only so much you can learn. No one can actually ever understand truly what's going on there without being surrounded by that culture for such an extended period of time, and that's really the biggest risk for a buyer.

David Phelps: Grant, systems and structure being in alignment. Explain that for us.

Grant Schuette: Having those backend systems, the accounting systems, the scheduling systems, pretty much any CRM that you have, or ERP, having those maximized and really making the reporting as effortless as possible, I think is key especially in a private practice, and it's one that's somewhat underlooked by any business, any entrepreneur. In the day-to-day, they're meeting with...

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They're face-to-face with their clients. They're putting out fires on a regular basis, and a lot of them do not have the time or interest in setting up software systems that just run perfectly.

So from a buyer's perspective, this is something that they absolutely love because they will know to the T exactly what your business looks like by just analyzing the data, and if this is a point where within six to 12 months, you can maximize your value to most, I'd say aligning your systems and your structure probably number one on that list.

David Phelps: Perfect, perfect. All right. So you just also mentioned right there a little bit about data, so one of your valuable assets to have with your business would be a stockpile of meaningful data. Give ask a little more depth onto that.

Grant Schuette: Absolutely. We worked actually with a client who was probably the best entrepreneurs that I personally have ever met in the private practice world, and he had his data locked down. Anytime you wanted to ask him about, you know, give me a breakdown of all your appointments for the last three years by revenue of appointment, he could pull those numbers and have them to me by the end of the day or end of the week.

And that is such an asset when you're dealing with buyers that they can lose interest. They can kind of get cold feet. A lot of times when it takes a long time to get this data, they start to wonder, "Why is it taking so long? Are things just disorganized over on their side?" They start to have doubts, just like anyone else would.

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And having these things put together and ready, by the time you go to market and by the time you're looking at buyers, it just shows the confidence of the seller. It shows how prepared they are, and how well-managed their organization is, and I think it gives that best first impression that you can make is by having all that data ready and good to go.

David Phelps: This is really where I think an advisor really comes into play because, again, I'm not saying all, but I think you just talked about maybe an outlier, a professional practice owner really had the data dialed in. Most small businesses, and that includes our group we're talking to, don't have the data that well-refined, and getting it up to speed, getting it ready, knowing what data the buyer or buyers are going to look for, as you said, makes you look like you're running a credible operation versus spinning your wheels and just can't quite get it together. The buyers going to think, well there's bigger holes in this business than we anticipated.

Grant Schuette: Oh, yeah, absolutely. A huge focus on our process when we're going with a client is while we're putting together all your marketing data, all your marketing information, things we're going to send to the buyer for positioning our story, we're going through that whole side. The part where they really don't like, but it's so important that we do on the back end is that we set up a data room ahead of time, and we say, "Here's exactly what we're going to need because this is what the buyers going to ask for anyway, and you're going to have to generate it anyway, and better do that now while we got a lot of energy and we're ahead of the game, and go ahead and drop that in there."

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So when the buyer comes and says, "I'm really interested in your practice and would like to learn more." You give them access to that data room, and boom, right then, they have all the... They, might have a few more documents to ask for, but overall they see a very professional, organized process, and that ultimately just gives them a ton of confidence.

David Phelps: And then number seven on your list of the elements of a valuable business is a strong and steady financial performance, and I guess the correlator would be a business or practice that had a lot of ups and downs financially. Is that kind of what you're looking at here where things continue to climb on some kind of a regular basis?

Grant Schuette: Yeah. It's very difficult to sell the story when your business has been shrinking over the last two or three years. Not to say, "It's impossible," but it's definitely impossible to get the most out of your business as you could. I mean I'd love to see that upside swing, and the best time to sell your business is obviously not after you started shrinking, but right when you're in your upswing, right when you're hopefully at your peak. That's when you want to go for it.

And that's really what they love to see is, one, revenue growth, and they want to see healthy margins. Having margins that are above your competitors is obviously going to give you the most premium pricing, but they want to see that consistent, healthy profit margin over time as well.

David Phelps: This is great. So these are the 7 Elements of a Valuable Business which Grant has just given us a really nice

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overview, and I'm going to ask you one more question, so I'm not cutting this off right here, but I just want people to know where they can get more information. So number one you can go to, Oxford Center. That's [oxfordcenter.com](http://oxfordcenter.com), and you also have mentioned to me earlier, Grant, that you have like an assessment, an overview of where our business stands. How attractive is your business to the market?

Grant Schuette: Yeah, absolutely.

David Phelps: We'll put a link to this in our show notes. Can you verbally tell people where to go to access that?

Grant Schuette: Yeah, absolutely. You can go to [oxfordcenter.com/7e](http://oxfordcenter.com/7e), and that brings you to a 15 question assessment that really encapsulates these 7 Elements of a Valuable Business and gives you a really high level, good idea of how a buyer would look at your business. We think it's a very, very good tool for having a quick and dirty good idea of where your business stands in the marketplace.

David Phelps: Yeah. Great checklist. So that's [oxfordcenter.com/7e](http://oxfordcenter.com/7e) for that assessment. Again, we'll put that in the show notes. So let me conclude with this kind of 30,000 foot elevation question which I don't expect you to be a prognosticator, or have a magic crystal ball, Grant, but we're talking about the premium in the marketplace today. Well, we've got premium for a lot of assets right. A lot of capital assets are at premium right now if someone wants to sell.

Does the window stay open for, in this case professional practices, and what might be the variables outside of another downturn, recession which credit shrinks, but outside of that, what are the factors? Eventually, does an

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industry, a marketplace get saturated? Does private equity finally just take all the low hanging fruit, and then kind of back off and go somewhere else? You've got this big vantage point, what are the big trends here?

Grant Schuette: So I think the big trend is this window's going to stay open for awhile. I think that there's about 190,000 dentist offices as of 2018 in the U.S., and only 8% are private equity-owned, and I think that they're still seeing a lot of benefits from these roll-ups. They're seeing lower cost. They're seeing lower cost of having that administrative back end. They can attract that talent that's coming straight out of college with the kind of debt, and they're able to pay them well due to the cost savings on the things I mentioned before.

I think this window is very much still open. I remember seeing a roll-up like this. I think it was about three years ago in the plastic surgery industry, and there's been roll-ups in a lot of different parts of healthcare that haven't worked as well as dentistry, but I think that they stopped seeing the benefits in those industries and those kind of fell apart, but this has been sort of an outlier in the dentistry industry where you're still seeing those benefits continue to come up with these DSOs and these practice management companies. They're still seeing a lot of synergies, and I think this window will stay open for quite some time.

David Phelps: Great. Thanks for that overview. So again, this has been Grant Schuette, and I should have spelled your last name, but I'll give it to people right now, S-C-H-U-E-T-T-E, Grant Schuette with the Oxford Center for Entrepreneurs, [oxfordcenter.com](http://oxfordcenter.com). The assessment at

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oxfordcenter.com/7e. Grant, it's been a true pleasure. Thanks for bringing us your experience, your vantage point on the marketplace, especially as buyers and sellers are in the market, always looking to transact business, and what's changed in the market in terms of those valuations.

Grant Schuette: David, it's been an absolute pleasure and thank you for having me on.

David Phelps: We'll talk to you again soon. Thanks Grant.

Grant Schuette: Sounds great. Thank you David.

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