Sporting and business strategy lessons for dentists

By Graham Middleton, BA, MBA

"The best name for dental practices involve using the suburb in which the practice is located or a prominent road..."

The Australian Rugby Union's (ARU) handling of the Rebels and Western Force is the outcome of inept management over many years. They were also dumb choices if Australia is to be reduced to four teams in the revised competition.

The West Australian representative on the ARU Board, Geoffrey Stooke, spoke out publicly about the threat to the Western Force. Then it emerged that when the ARU had purchased the Western Force licence back in August 2016, they had signed an agreement which guaranteed that there would be a Super Rugby presence in Perth until 2020! SANZAAR sources reportedly expressed shock to find out that there was an agreement in place that made the club untouchable until after the 2020 season!

Meanwhile, the private owners of the Melbourne Rebels were letting it be known via the media that action to drop their club would lead to a significant legal fight. Legal battles of that nature tend to be expensive and protracted.

Nor should ARU Chief Operating Officer, Rob Clarke, have been part of the process of selecting which team is to be culled because he was a former CEO of both The Brumbies and of The Rebels and it is inevitable that Western Force fans would feel dismayed by his involvement. What a shambles!

Any marketing executive will immediately point out that to enjoy significant sponsorship and TV revenue long term, it is necessary for a sport to:

1. Have teams in the two largest Australian cities, i.e. Melbourne and Sydney;
2. To serve the traditional rugby union strong holds of Sydney and Brisbane, so that makes up the core of three teams; and
3. The fourth spot is then a contest between Perth and Canberra. Perth should win because it has a much bigger population than Canberra and, despite the temporary mining downturn, a much bigger economy and hence greater long term television and advertising revenue.

If the ARU could not bring itself to exercise its veto in the SANZAAR forum, then the long-term strategy, including advertising/TV revenue in future deals, indicate that The Brumbies should be the team cut.

It is possible that by the time this article is published that the matter will have been resolved at enormous cost and fracturing of relationships.

The lesson

When restructuring a business/practice, gather all of the facts and have a very clear idea as to the best outcome before opening negotiations.

Other sporting stuff ups

Axing of South Sydney

The ARU's inept handling of the four teams fiasco does not quite rank with the decision of the National Rugby League (NRL) to dump South Sydney from the competition some years back. Although suffering at the bottom of the ladder, South's (aka The Rabbitohs) were the Collingwood of rugby league and had won more premierships than any other club. Vast numbers of South's supporters took to the streets and the club took to the courts. South were eventually reinstated and have since won a premiership.

The lesson

Don't do something which offends a huge amount of your patient base.

Two rugby league competitions

Kerry Parker revolutionised the television sport starting with World Series Cricket. Bit by bit, his clever use of multiple cameras and related change swept through sport globally. While Packer's Channel 9 Network was big in Australia, he also influenced TV coverage of Wimbledon, from which he bought Australian TV rights off a British broadcaster and demanded that it increase its camera coverage and presentation from the right angles. His innovative use of cameras in televising sport spread globally.

Packer's lessons were not lost on Rupert Murdoch who set out to dominate television coverage of major international sport, including NFL in the USA and the Premier League in the UK.

For television, sport is the key. For example, pubs show Fox Sport but not the National Geographic Channel.

Murdoch saw the potential in rugby league and owned the rugby league newspapers in New South Wales and Queensland i.e. Sydney's Daily Telegraph and Brisbane's Courier Mail. He wanted to capture rugby league for his Fox Sport television arm and set out to secretly capture the game by setting up clubs and contracting key players. Inevitably, nothing is secret in the rugby league world for more than an instant. Packer called the Sydney Rugby League world together and, in true Kerry Packer style, threatened to sue anyone who broke ranks with him.

The situation quickly developed into a contest with Lachlan Murdoch and James Packer throwing money at players to sign on with their respective competitions. Some players within one more injury from retirement received huge sums to sign up. By 1997, there were two competitions of 10 and 12 teams respectively and vast quantities of red ink. News Corporation probably lost about $600 million. This was far more than it had budgeted.

The losses forced everyone to rethink. It was evident that a combined competition with fewer teams had to be formed. Packer got TV rights for his Channel 9. Packer and Murdoch, through joint ownership of Fox Sport, shared in paid TV rights in Australia. Murdoch got the rights to televise NRL internationally and having bought the rights to the UK Super League, showcased rugby league elsewhere.

The National Rugby League was formed and initially managed by a combination of Murdoch and Packer executives. A number of the newer teams were disbanded but Melbourne Storm was added to build TV coverage. The new competition shrank to 14 teams but then expanded back to 16 with the forced re-entry of South Sydney and the re-raising of the Gold Coast. Murdoch eventually got what he wanted, but at far greater cost than anticipated.

The lesson

Calculate the costs realistically and anticipate your opposition's reaction.

Cronulla v Essendon

Sports Scientist, Stephen Dank, put an experimental supplements program into the Essendon Bombers involving most of its senior players. Dank also introduced his supplement program into the Cronulla Sharks, but not to all players.

When the scandal broke, the reactions of the respective coaches and teams were wide apart. Cronulla, an impoverished team, was forced by the NRL to admit its wrong doing. Shane Flanagan, its coach, accepted a one-year suspension without pay and a number of players admitted to taking supplements and received relatively short suspensions. Shane Flanagan has since coached Cronulla to the 2016 NRL Premiership.

Essendon's reaction was to fight it out. Essendon was a far wealthier club than Cronulla. In Essendon's eyes its coach, James Hird, was approaching canonisation. A wealthy businessman took over the chairmanship and the club went through a period of denial. Its coach was suspended for a year but was paid $1 million and went off to Europe to study.

Essendon blamed the AFL, assumingly absolving its head coach. It defied common sense that a supplements program of intensity of that which occurred at Essendon would not have been known by the head coach. After all, the teams' doctor had raised concerns in writing and the apparent attempt to blame the doctor failed because he threatened legal action to protect his medical registration.

In the end, Essendon's handling of the matter backfired badly. Cronulla's coach Shane Flanagan has since won a premiership; James Hird may not coach again.

The lesson

When faced with a serious situation, the organisation which deals with it quickly is better off in the long term.

The Mayne Health fiasco

Peter Smedley briefly attended The Royal Military College, Duntroon but did not finish the course. He then worked for Shell for 30 years rising to a senior position before becoming CEO of Colonial, a financial services business, where he engineered a series of takeovers, eventually selling the group to the Commonwealth Bank at a huge profit to shareholders. Thus far, it was a brilliant corporate career.

With his reputation glowing, Peter Smedley was appointed Chief Executive Officer of Mayne Health which ran a private hospital network.

Back in his days at Shell, he would've observed that the company exerted huge dominance over its large network of service station operators who were little more than bowser attendants in the view of head office. Indeed today, they have been reduced to console operators. The petrol companies had exercised all the power.

Smedley's fatal mistake

In his new job at Mayne Health, he set out on a new CEO routine of reviewing costs. He found that surgeons were provided with coffee and sandwiches between operations and he ordered that this cease. The action had far reaching consequences.

Previously, a surgeon would complete a procedure, leave the operating theatre, take off the gloves, eat a sandwich and enjoy a coffee, then scrub hands, put on fresh gloves and proceed with the next operation in 15 minutes. Whereas now, they left the hospital to enjoy a light meal elsewhere and by the time they came back, washed hands, gowned and put new gloves on, the operating theatre and nurses had been idle for an hour.

Smedley had made a fatal mistake. He had not taken the trouble to find out where the patients in Mayne Health hospitals came from, nor how operating theatre's functioned. It was the surgeons, many of whom had multiple appointments in both Mayne Health and non Mayne Health hospitals, who booked patients in for surgery. The medical chain was that a patient first of all consulted a general practitioner who then referred them to a surgeon.

The surgeon then diagnosed the treatment required and initiated the administrative arrangements. Smedley's petty treatment of them, regarding them more akin to Shell's bowser attendants rather than a vital source of patients, caused the surgeons to book their patients into non Mayne hospitals wherever possible.

One day in 2002, Smedley was provided with the previous month's figures and received a huge shock. Theatre occupancy and hospital bed occupancy had plummeted across the group. With fixed costs running on, the group was now operating deeply in the red.

Smedley sent his next most senior executive off to communicate with the surgeons and a meeting was called at a Mayne Health hospital. The executive began badly by speaking at the surgeons from a lectern. A surgeon stood up in the audience and the Mayne Health executive asked him what he wanted? The surgeon asked him:

"Where do you think Mayne Health's patients come from?"

The executive replied:

"From health funds."

The audience of surgeons broke into laughter and walked out. Shortly afterwards Smedley ceased to be CEO of Mayne Health. The organisation suffered a huge set back to its profitability but staggered onwards and eventually changed its name.

The lesson

Be acutely aware of where your patients come from.

Smedley's second mistake

The introduction of the red dot as Mayne Health's logo at a time when many patients were World War II veterans, including former Japanese prisoners of war, was really dumb because a red dot was the identifying symbol of Japanese aircraft.

Comment: The best name for individual dental practices involve using the suburb in which the practice is located, e.g. for example Kew Dental, or a prominent road for example Doncaster Road Dental.

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Fairfax's strategic errors

Fairfax (John Fairfax Holdings Limited) owned The Melbourne Age (The Age), The Sydney Morning Herald (SMH) and the Australian Financial Review. The Age and the SMH had produced "rivers of gold" for generations. On Wednesdays and Saturdays, they contained huge advertising supplements which were dominated by vehicle sales, jobs and real estate advertising. The advertising revenue sustained high quality newspapers and provided handsome profit. This also produced managerial arrogance.

They were approached by bright youngsters with ideas of starting up internet advertising portals but spurned the opportunity. Smart younger investors in James Packer and Lachlan Murdoch spotting the opportunities and became investors. Carsales.com.au, seek.com.au and realestate.com.au were born and the rivers of gold at Fairfax evaporated. Fairfax had various opportunities to buy into these internet-based services and cross advertise between newspapers and the internet. It spurned those opportunities under various CEO's. More recently it began to recapture a sliver of what was lost in real estate, but it will never recover its former glory. Along the way, Fairfax changed chief executives a few times. One of them was management guru, former McKinsey consultant and former school of management professor Fred Hilmer. On becoming CEO, Hilmer contacted the late Kerry Packer, who was at that stage still in control of the Channel 9 Network, and he suggested a lunch to which Packer agreed.

Later that afternoon Packer's inner circle of business advisors asked him *"how did your lunch with Fred Hilmer go Kerry?"*

Packer replied:

"He is the most intelligent f...wit I've met!"

The lesson

Lots of academic qualifications are not substitute for lots of hard business experience. The hugely qualified Hilmer was never going to be a match for the high school dropout Packer, who had won the bruising World Series Cricket battle over cricket's establishment. Packer then came out a huge winner selling his TV network to Alan Bond at top price and then buying it back for about a third. He had so dominated the television encounter with an all-party parliamentary committee that talk back radio was dominated by calls to make him Prime Minister. Packer, who had worked in the print room of The Daily Telegraph as a youngster, understood Hilmer's business better than Hilmer.

The lesson for dentists

Dentists need to be acutely aware of how their patients get to their practice and how to ensure that they remain with their practice. They also need to recognise the skills necessary to be an employed dentist. The dentist with a brilliant academic record and post-graduate qualifications may lack the interpersonal skills and patient awareness to build a following. A lesser qualified dentist may have the natural skills necessary to draw patients to the practice and create in them the desire to refer their friends.

Slater & Gordon

The Slater & Gordon partnership built a reputation as industrial lawyers and actively advertised for workers comp. and unfair dismissal work. They took a percentage of the winnings. It was a long-term success story and its employed lawyers worked their way up the ladder towards partnership. One day, its existing partners decided to sell their equity into a stock exchange listed company. This would not have been legal in its early days. They reaped huge rewards but destroyed the career aspirations of potential partners. Its board then decided to expand into the UK and bought Quindell, a British plaintiff law firm. They failed to do sufficient rigorous due diligence and funded their purchase with a huge borrowed sum. In actual fact, Quindell had huge problems and apparently had already been hawked to the British investment banker circuit and received the universal thumbs down. Shortly after the purchase, Quindell produced huge losses and these had to be revealed by Slater & Gordon to the share market. Its share price plummeted. Its bankers effectively took control and set out to cut all possible costs, but this did not sufficiently stem the losses and the share price continued to sink. The bankers then sold the debts to a group of hedge funds at a heavy discount to face value. Slater & Gordon now found itself mortgaged to a group of merciless hedge funds who demanded a massive exchange of equity for debt and wound up owning about 95% of Slater & Gordon. Many lawyers lost their jobs during the period of massive cost cutting that followed the announcement of its losses. Much new business was also lost as plaintiffs took their cases elsewhere, fearing that Slater & Gordon might not survive long enough to finalise them. Shareholders saw $2.8 billion wiped off the company's value.

The lesson for dentists

When buying a dental practice, there is no substitute for proper due diligence conducted by experienced persons. The local accountant with no other dental clients is not up to the task and inevitably does not understand the vital details of dental practice businesses. The figures passed to potential buyers by practice brokers cannot be trusted as they have often been sanitised. Do not risk over paying for a lemon. GET GOOD ADVICE!

About the author

Graham Middleton personally has been advising dentists on strategic, practice management, valuation and conflict resolution processes for 30 years, the last 23 as a founding partner and director of Synstrat Management Pty Ltd and Synstrat Accounting Pty Ltd. He was once a regular army officer, and later Director Human Resources Manager, Attorney General's Department of Victoria. He is considered an expert on dental practice valuation and practice performance benchmarking. He has spent many years advising dentists in respect of their business and financial strategy and measuring their practice and financial performance. He is the author of Synstrat Dental Stories, the Synstrat Guide to Practice Management, 50 Rules for Success as a Dentist and Buying & Selling General & Specialist Dental Practices. He is a long-term contributor to the Australasian Dental Practice magazine. The Synstrat Group is an independent data-based organisation providing management, benchmarking, valuation, financial and accounting services to the dental profession. Synstrat Management Pty Ltd is a Licensed financial services company. Both Synstrat companies are owned by the same directors who work within the Synstrat Group. For more information, call (03) 9843-7777 Fax: (03) 9843-7799 Email: dental@synstrat.com.au or visit www.synstrat.com.au.

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