

PRACTICE TRANSITION PLANNING: WHAT ARE YOU WAITING FOR?

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So you think you're going to practice forever?

If the answer to that question is yes, stop reading this now!

However, if you are realistic, you realize you are going to want to either "gear down" then retire or retire outright. Here are some questions you'll need to ask yourself:

What is my timeframe for "gearing down" and retirement?

It is often difficult to face this issue and then answer this question. Some see it as an admission that one's days of professional viability are numbered. The fact is that your days of professional viability are numbered the day you begin to practice. It may vary, but everyone has a finite amount of time to practice. The successful professional not only faces this reality, but plans for it. The first step begins by recognizing and acknowledging a time frame that is either driven by the desire or the need to "gear down" and /or retire.

Do I have a transition plan? If not, when am I going to make one?

You've heard the expression "failing to plan is planning to fail". The successful professional wants the transition to be as seamless as possible and wants to maximize the value he/she receives when the practice is transitioned. The chances of achieving both is greatly enhanced by having a plan in place that includes actions to be taken based upon the method of transition and a reasonable timetable for those steps. Remember the timeframe to do this is while the practice is productive, healthy and most viable as a business in order to realize maximum value. Too many times we've been asked to help transition a practice long after its peak value has declined.

Is there more than one way to transition my practice? Which approach is best for me?

As a professional, a transition is typically done in one of two ways. One way is an "internal" process where the practice is transitioned to someone already working in the practice. This is usually a younger associate who was hired into the practice with the intention for transitioning (selling) the ownership. This transition method usually includes a plan with a longer timeline to complete transition than the alternative method of "external" transition. A typical scenario is that a young physician is hired and introduced to the practice as an associate for a period of two to five years (depending on experience). Once certain timelines and production criteria are met, the associate would begin to "buy-in" to a portion of the equity of the practice. At some point after that the balance of the equity would be transitioned (sold) and the older physician would either retire or work as an employee of the practice on some basis. This is a typical scenario, but it can have many variations in both the manner of the "buy-in" and the timeline of the complete transition of ownership interest. The internal method allows for a more gradual transition and eliminates much of the uncertainty regarding the process, therefore making it easier to plan for by the transitioning physician.

"External" transitions are basically sales to entities or individuals not working in the practice. A typical scenario would be the purchase of the practice by another professional, group of professionals, other practice related organizations (hospitals, etc) or a healthcare consolidation entity. Planning for this type of transition is normally more difficult because of the uncertainty of the "market" within the time frame of the desired transition. In my experience, transition (sale) of a practice using the "external" method should be planned for at least 18-24 months before the selling physician wants to retire. For the practice to be taken to market, a number of action items need to be taken.

- A practice profile needs to be created - including certain demographic and financial information to be given to an earnest buyer after signing a confidentiality agreement.
- The practice needs to be "taken to market" and held out for sale, concentrating in the areas where it is most likely to find a buyer. Usually an earnest buyer will then have his/her advisors perform a certain amount of due diligence requesting and reviewing additional documentation and financial information.
- At the conclusion of the due diligence, hopefully an offer will be made, negotiations regarding the price will be conducted and then, assuming a price and mode of payment is agreed upon, contracts will be drafted.
- Those contracts will be reviewed by advisors for both buyer and seller, usually then they will be redrafted (at least once) and when finally agreed upon they will be drafted for settlement, which will occur further yet in the future.

In my experience, most transitions of this nature involve a period time where the buyer and the seller are working in the practice simultaneously to effect a smoother transition. This period could be as short as a few months or could extend for a year or so depending on the type of practice and the source of referrals to be transitioned.

What makes my practice valuable to someone else?

The value of the hard assets (furniture and equipment) is driven by age, condition and utility. Assessing value to the hard assets is fairly straight forward and can usually be done by most experienced furniture and equipment sales representatives. Regardless of the value of a practice's hard assets, they are not the most valuable assets

What makes any practice really valuable is its ability to generate a long term income stream to a buyer. Income is generated by the patients. Patients are generated by referral sources - sometimes other patients, and sometimes (in the case of most specialty practices) other physicians.

Therefore the most valuable assets of a practice are its relationships with its referral base. In the case of internal medicine, general family, obstetrical, pediatric and other type practices where the referrals are usually patient referred; the most valuable asset of the practice is the patient base.

This is in sharp contrast to the specialty practice in which case the patients are usually physician referred, therefore the most valuable assets are the relationships of the physician with his referring physicians.

In both cases another very valuable asset is the long term staff member that would remain in place to accommodate the transition. Good long term staff members usually have established relationships with the patient base or the referring physicians and their staff. The projected ability to sustain those relationships after transition is the most important factor in what makes one's practice valuable to someone else and are what drives the "goodwill" portion of the purchase price.

There may be other factors:

- Geographic (additional location), etc. however none is as important from a buyer's perspective as the ability to retain the referral relationships.
- The hard assets are much easier to quantify, however are only really important if the income stream is present.
- Because specialty practices are sustained primarily by physician referral, transition is usually accomplished most effectively with the "internal" method of transition. Physician relationships require more time to transition and, frankly, some won't. This is why it is usually more difficult to sell a specialty practice using the external method.

What are some of the other issues to consider in creating a plan for transition?

- Which approach to transition is best for me?
- How can I find out the market value of my practice in the market place?
- What is involved in negotiating the sale, striking the "deal", and structuring the agreements?
- What are the issues in the "sale" agreement beside price and payment terms?
- If I am staying past the sale for transition should I have an employment or independent contractor agreement?
- What are the tax consequences of the transition to me and what drives them?
- When I get the money what would be the best thing to do with it?
- How do I coordinate both my plan for transition/sale and the value I receive with my other retirement plans and funds?

As you can see, transitioning a practice is a process - one that requires thought and planning. A team of advisors and advocates should include an accountant, an attorney and perhaps a transition consultant and/or a practice broker.

Your practice is an asset that taken you a career to build - why not get the maximum value for your efforts? Start planning now.

Ron specializes in transitional planning for healthcare practices. He is also well-versed in the management of the professional practice as a business, with specific expertise in meeting facilitation, business management for attorneys and other professionals. Ron consults on such issues as organizational structure, financial management, long term planning, partner compensation, practice growth, retirement and practice succession planning. He is a frequent speaker on topics relating to the financial management of professional practices, practice administrative issues, business succession planning, and planning strategies relating to the business of law firms and healthcare practices.