

Consequences flow from practice transition choices

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Joining a practice as an associate and moving to consummate a partnership or buy-out is not for the timid. Today's practice owners must be prepared, organized, and ready to outline the practice opportunity for a prospect. Now it has become a much more evolved process with significant consequences to both parties.

Several key aspects have driven the evolution of this process. For the younger professional, there is the matter of increased personal and school debt, which can be staggering. Given the debt load, it is important for new practitioners to move past an associate employee and into an equity ownership position. Consequently today, younger professionals are interested in being an associate for a shorter period of time.

A compelling case can be made in many instances for younger periodontists to not stay as an associate for longer than 4 to 12 months. In my experience it is only by locking in the equity position that a younger professional can begin to take control of personal and school debt. In the process of gaining the equity position, the buyer of an equity ownership interest takes on more

debt. The debt must be demonstrated to be paid for through the compensation distribution formula of the practice, and also allow sufficient funds for the younger professional's life (personal and school debt and lifestyle, rent, car etc.). If properly constructed the practice equity purchase should be able to stand on its own financial feet.

Today's market also speaks to the need for established practitioners to consider equity purchases much sooner, too. Today, in many areas, there are more sellers than buyers. Gone are the days when an established practitioner hires an associate, waits for a year to see how things "work out" and then starts talking about equity-purchase opportunities. Today, established practitioners are taking more of an assertive approach to securing a higher level commitment from top candidates earlier in the transitioning process.

One of the important process pieces that should be brought together primarily by the owner includes a well drafted equitable employment agreement for the period of any associateship. The process of reviewing the draft and securing legal counsel's

review with both doctors discussing it can teach each person a great deal about the other party (for a checklist of associate agreement provisions, visit www.BerningAffiliates.com/references.htm: item 3 is an excerpt from the chapter “Evaluating Employment Agreements”, from *A Guide For New Dental Practitioners*, published by the California Dental Association). Here are some tips that I look for in facilitating a transition:

- **Observe.** Are both doctors patient? It can take a lot to negotiate the actual buy-in or buy-out. Is each party open to compromise? Without compromise most group or transitional groups don't survive.
- **Set the terms.** Any practice relationship that will be built on a future equity position requires upfront, honest discussion about the terms. Either start together to list the key items you each want or select a third party to act as a facilitator. Facilitators can be the practice accountant, transition consultants or trusted friends with experience in the area.
- **Address the important areas in a logical progression.** For example, ask yourself the following questions:
 - what percentage will be purchased?
 - How will it be paid?
 - What tax approach will be taken to get the best result for both parties (it can be helpful to secure specialized counsel on this point).
 - What happens in the event of disability or death of either party?
 - What valuation method will be used?
 - How will the retirement of the founder be handled?
- **Tackle practice valuation early.** If there will be a buy-in, buy-out or immediate purchase with a hire back, the best approach is to hire a third party professional valuation firm. Another reasonable approach is to consider

using the capitalized earnings method. Check it out in the ADA publication *Valuing a Practice, A Guide for Dentists* updated in 2001.

All periodontists will benefit by evaluating and following a step-by-step approach to the transitioning process. Identify the objective of the transition early. Is it going to be an associateship, buy-in or buy-out or sale and re-hire? Identify who will prepare or provide what, and that the information includes the valuation and the reason for the methodology chosen. Undertake the process of working through the terms of the relationship together with good advisors. Practice transition planning, approached in a step-by-step manner reflecting good business protocol, will make the process go smoothly and be a rewarding experience for both parties.

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American Academy of Periodontology

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