

Practice Purchases & Sales

Creative Transitions

Q: *I It seems I have a “nervous Nellie” associate on my hands. We work great together and have for three years and she does superb dentistry. I’d like to have Nellie buy-in to the practice. However, she finds partnership is too much like a marriage, and she’s “been-there-done-that”. She is willing to buy my practice when I am ready to retire, in about four to five years. Right now, she wants more income, but I feel she should buy-in before being entitled to more of the net. What should I do?*

A: It sound like everything is working for both of you in the practice. Three years practicing together and a respect built on excellent patient care. It doesn’t get much better than that! I suspect that you are right; it would be best to have Nellie buy-in and both of you plan for your eventual retirement and the continued growth and success of the practice. But a practice-owner has to take his associate/owner/buyer as they find them. If the other party is just not interested, you have to tailor a proposal to meet their desires as well as your own.

Before moving on, I would want some assurance that you have followed the steps discussed in several of these columns. Namely, you took the initiative and secured a professional written valuation from a certified valuation expert that follows an earnings-based methodology—preferably, the capitalized earnings method. Further, that you worked with an advisor to demonstrate (without guaranteeing) that Nellie can pay for the interest while still having income to live; and listed and discussed the core terms for a proposed partnership with a retirement protocol. If she still is not interested ,then move on.

With practice transitions, creativity can often be the route to meeting all parties’ desires. Discuss with her an employment agreement that will preserve her current base compensation. In addition, add profit sharing on any amount over all fixed and variable expenses and set doctors’ compensation (yours included). You can treat her like a partner with your compensation distribution formula even though she is not legally a partner. I have seen arrangements like this fire up associates, and the practices step up to the next level. With this approach she is not in a partnership marriage, and she has her goal of higher compensation if she (and you) work to reach the profit sharing level set.

In exchange for this arrangement, discuss with Nellie about including a provision that she purchase the practice in the event you suffer permanent disability or an untimely death, or you reach your predetermined date of retirement. Set the method for arriving at the value and price now for the sale.



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