

Can you sell your practice?^a

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Abstract

All practice owners have to answer an often challenging question -- when and how, to sell their practice. The decision to exit from ownership is often not an easy one as there are many details and perspectives to consider. The decision to become an owner is also a weighty decision. Both are life changing decisions and should not be taken lightly. This article contains information on both sides that should help when the time comes for the decision making.

Key words: veterinary practice, ownership, practice sale

Résumé

Tous les propriétaires de pratiques doivent répondre à une question souvent délicate – quand et comment vendre leur pratique. La décision de se départir de sa pratique n'est souvent pas facile car il y a plusieurs détails et points de vue à considérer. La décision de devenir propriétaire est aussi une décision lourde de conséquences. Ces deux décisions transforment une vie et ne devraient pas être prises à la légère. Cet article donne des renseignements sur ces deux décisions qui devraient aider lorsque vient le temps de la prise de décision.

Exit planning – What not to do

While every practice ownership transaction is different, after over 100 successful transactions we have noticed a few common pitfalls and traps for the owner/seller. Whether your exit is imminent or 15+ years from now, here are a few to watch out for on your path forward, a list of what *not* to do.

1. Give staff raises We've encountered a number of veterinary owners who, prior to selling, will give raises to the staff. There is always a myriad of reasons – no raises in a long time, wanting to reward loyalty before leaving, and as a way to ensure employees are taken care of. All are nice sentiments, but this can definitely impact a transaction and purchase price.

A raise can be appropriate if it is earned and a part of a regularly scheduled event or if your staff is currently being paid below local economic or profession standards. However, any bump in salary that is not planned for with a corresponding increase in revenues will reduce the profitability of the practice and thereby its value. If you feel you need to reward certain dedicated employees, it's better to provide a closing bonus to them out of the sale proceeds.

2. Change your accounting methods It is best to avoid accounting system changes such as moving from cash to accrual accounting, re-categorizing expenses differently than you have done recently, or changing accountants who then shift your structure. Buyers and their lenders will analyze a practice's financials and they expect verifiable results. They will assess the cash flow to determine 1) if the value is fair and 2) where risk/opportunities lie. Inconsistencies in expenses

and shifts in organization can make buyers and lenders wary about the reliability of the earnings projections. This could result in a lower offer price or worse, it could turn the buyer off the practice altogether.

3. Make significant change to employee benefits Unless you are reducing the expense to the practice, making significant changes in employee benefit plans should be avoided for the reasons provided in #1 and #2 above. Also keep in mind, continuing employee benefit plans is at the discretion of the new owner. Depending on the trend in the benefit costs, it may or may not be sustainable for the new owner post-closing. Receiving a benefit only to have it taken away could create friction between the staff and the new owner, which could set everyone up for failure.

4. Purchase excess inventory or deplete inventory Almost all practice value determinations include an operational level of inventory in the practice price. This means that a "normal" inventory level must be present at closing. Most contracts will provide for a physical count of the inventory prior to closing. If there is an excess amount or if the inventory has been depleted the closing can be disrupted and/or purchase price adjustment may be warranted.

5. Purchasing high-end equipment or engaging in new leasing arrangements The practice earnings (profits) drive the value of the practice, period. Purchasing new equipment may increase a practice's attractiveness to a potential buyer but it is not likely to increase the value of the practice – unless the equipment is used to generate new revenues which lead to greater earnings. When you are planning an

^aThe 2 sections of this presentation (1 for practice owners and 1 for buyers) provide supporting information for the sessions that were taught at the AABP afternoon sessions. If you were not able to attend the session or you have questions, feel free to contact the author at DMcCormick@TMcCG.com.

exit, such investments may make sense if you have the time to produce the return on the investment.

On the leasing side, having lease agreements can create complications during a practice sale transaction, even when the lease “pays for itself” through details in the agreement. While there are exceptions, in most transactions, the leases are paid off at closing. They do not transfer to the new owner. Just because the lease agreement is transferable or assignable does not mean that the buyer will accept the transfer and the obligated relationship. Entering into new binding agreements during your exit planning should be done cautiously and with great attention to detail.

6. Starting to coast before you exit The practice value is based on what the practice is currently doing. Having easy potential to increase revenues by expanding hours, increasing marketing or providing more services definitely adds attractant value for a buyer, but it does not add \$\$ value. Buyers aren’t interested in paying owners for the work that they will do to make the potential real. Practice owners that start coasting (cutting back hours, limiting services provided) can risk impacting the practice value significantly, which can make for a very different exit that expected.

7. Not having your practice valued It is the owner’s responsibility to set the price of the practice. Ideally this would come from a veterinary practice appraiser. However, an owner is entitled to put any price on their practice that they want. Doing so, though, does not mean a buyer will pay it. While there is still the occasional fool, almost all buyers will test the price with their advisors, lenders and accountants. If the purchase price is not realistic, the negotiations can come to a standstill, with both parties now distrustful of the other. Additionally, for the seller, it’s a poor way (and poor timing) to find out that their practice (a major retirement asset) is not worth as much as they thought.

Related to this is sharing the practice financial and operational data with the possible buyer before your valuation is complete. As the owner/seller, it can be challenging to commit to a transaction before you have all of the details involved in your decision. Value the practice first, commit to an exit, and then begin the process with your buyer. Resist jumping ahead in the sequence.

8. Ignoring facility and equipment care and maintenance—If you have a haul-in facility, whether it will be sold or leased, the buyer will most likely have a building inspection

performed and will test all of the equipment. When multiple issues surface, a buyer can start to wonder about the conditions of things that are not so visible. It can be overwhelming to a potential buyer to realize that not only will they have the new challenge of business ownership but that they will also have to deal with the hassle of facility repairs. This can often add a new round of negotiations prior to the closing which often result in purchase price adjustments. As you plan your exit, engage a building inspector and fix the issues long before the transaction process starts.

9. Sharing the news prematurely—This is an exciting and transformative event for all involved. Sharing the news before it becomes real though, can create many issues for your staff, your clients, and your community and for the buyer and the transition.

A pending practice sale can cause a lot of unrest and speculation among staff, which sometimes translates into employee turnover. If clients find out, some may start looking for another veterinarian rather than wait and give a new buyer a chance. The practice needs to remain stable and financially healthy while the right buyer is found. Once a buyer is located, there will be plenty of time to answer questions and provide assurances before the transition actually happens. Have a plan for the announcement.

10. Waiting too long to plan—This is a very common mistake. Don’t wake up one day and decide “now is the time to sell!” There are many details to prepare including appraisals (practice and real estate), building inspections, tax implications, and the retirement plans such as cash flow, health insurance, and what you are going to do with you time. Additionally, if you do not have a buyer already, you may need to find one on the market. We have our buyer list with over 450 people waiting for a practice, but if none of them want to move to where you are, it may take some time to find the one who does.

Conclusions

A successful sale and transition is a life-changing event for all involved. It is worth making the time to plan your ideal exit and then a back-up plan or two. Make your decisions with full knowledge of the relevant facts and you will have a plan that once put into place, will get you where you want to be, when you want to be there.

Is practice ownership for you?

For many veterinarians, the thought of being your own boss is quite appealing. This can be especially true depending on your current employment arrangement. Thoughts of making the rules and key decisions, practicing medicine your way, leading the charge, increasing your earning capability and so on, can be very attractive. The grass can look mighty

green on the other side of the associate - owner fence. But is it really? What does it mean to be a practice owner? Are you owner material?

We have worked with many practice owners from all types of practices: 1 doctor, multi-doctor, general companion animal practices, large animal, specialty, emergency, species

specific, holistic and more. Many of the owners thoroughly enjoy owning and operating their practice. For others, while it is what they do, it may not necessarily be what they still love doing. A few others are simply surviving being the owner - they are counting the days to their exit (regardless of their age). So what seems to make the difference between a successful owner and the alternative?

What is success? For this article, we focused on practice owners that seemed to have a balanced and (mostly) enjoyable ownership experience. Looking through our records, we found that successful owners tend to have strong capabilities and knowledge (natural or learned) in the following areas: (and they are in order of importance!)

- People management
- Medical management
- Business management

Yes, these are very broad terms. For those contemplating buying or starting a practice, this is a good indicator of just how large the scope of responsibility they will have as a practice owner. If you are considering such a step, below are some of the challenge points and experiences that owners have shared with us.

People Management Skills

Believe it or not, this is the first and foremost element of successful ownership. The hospital team is your (and the practice's) most valuable resource. As the owner, it is important that you make the team a priority. You must meet the team's needs before the team will willingly meet the needs of your clients. This often requires several skill sets.

Motivator Effective motivation includes accountability/discipline, fair treatment, satisfying employee needs (which are not always their wants), goal setting, positive reinforcement, incentives, and rewards. The challenge in working with your team is that what may be effective for 1 individual may not be effective for another - especially when you add to the mix the differing expectations of different generations - X, Y, Baby Boomer and so on.

An unmotivated staff often results in lower productivity and efficiency. It can increase your staff turnover and absenteeism. This won't go unnoticed by your clients. They too will feel the impacts of the absence of a motivated team. It changes their experience in your practice. Studies have shown that the number 1 reason why clients leave a veterinary practice is due to a perceived attitude of indifference by the employees.

Mediator and Judge The owner is the ultimate decider when it comes to conflict resolution within the practice. Being the mediator and judge requires the ability to clarify and understand differing perceptions as well as the ability to generate options for overcoming the conflict without ignoring individual needs and the needs of the practice. Not every conflict needs to be resolved by the owner, but it is important that the owner maintain an understanding of what is happen-

ing within the team and between the team and the clients so he/she can skillfully intervene when necessary.

Talent Scout To provide a positive pet health experience for your clients, you need a solid team. As the owner, you need to be an active participant in selecting the members of your team. Identifying appropriate talent is an investment in your practice. This is true at all levels - practice manager, kennel, assistants, technicians, and associates. What skills are most important for your practice and your team? It is attitude? Learning ability? Experience? Maturity? Owners must give thought to the team positions and then finding the talents to fill the positions, plus the compensation package to recognize their value.

Mentor This role of the owner requires an investment of your self and your time (which is often in short supply) and the attributes of commitment, patience, and sensitivity. Providing too much help limits an employee's independence and his/her ability to fully own a position. Conversely, providing too little help can result in a floundering and disillusioned employee who may never attain independence and will always require direct instruction. This can be especially difficult when the personalities involved are not necessarily compatible. As a future owner, learning about your personality type and learning style can help you learn how to reach out and connect with those who have different personality types and learning styles.

The responsibility of the owner to be a people manager is true whether the practice is a solo practice or a large multi-doctor, multi-discipline practice. Managing everyone or managing the managers still requires the owner to be the leader, the motivator, the guide, and the nurturer - to help everyone progress toward the practice's mission and vision (you do have one, right?)

Fortunately, many of these skills can be learned. It is never too late to start - and now is a great time to do so! There are many texts; CE courses (both veterinary and non-veterinary); Dale Carnegie, Fred Pryor, and SkillPath workshops; practice management workshops; and so on that can help you learn and grow your people management skills.

Medical Management

It is the responsibility of the owner to establish and enforce the medical protocols at the doctor level. For many owners this can be an uncomfortable position to be in, if only because they are aware that differing treatment protocols will often lead to the same favorable result.

Beyond the doctor level, this establishes the standard of care for your patients and the foundation upon which your entire team agrees to operate. Deviation from the standards and inconsistent protocols for your practice can be confusing to the staff. It also can place the practice at risk. Should there be an unfavorable (or misinterpreted) outcome, the owner and the practice are the ones held accountable. Because of this, the owner has the right and the obligation to determine

what the standard protocols should be - as well as what is acceptable risk to take on when deviating from protocols.

The standard of medicine that you believe in sets the pace for your practice. Also, the owner is often the conduit and leader through which the support team increases its medical skill and expertise. Your entire team must understand it and believe in it. This is fundamental for their ability to educate your clients. Additionally, the practice team's skills, attitudes, and knowledge base are assumed to be a reflection of the owner. This can be especially true in smaller practices - after all, you hired them.

Business Skills

This is a catch-all term for many different business environments. We've placed it in the third order of importance position because, of the 3, this area is the 1 that a practice owner can most easily hire support in or advisors when necessary. However, it is still essential for practice owners to at least have a working knowledge in these fields.

Human relations This is a constantly evolving field. Practice owners have shared that employee record keeping has become just as challenging as client record keeping. Employee benefit administration has become a major employment cost that needs to be managed closely, from health care and retirement benefits to employee discounts.

Legal environment Business ownership brings many facets to the legal rights and responsibilities: the rights of clients, privacy issues, standards of care, safety, and so on. Additionally, the legal rights of employees and the responsibilities of owners to the employees are not this big 'unknown' anymore. The internet has increased awareness in these areas exponentially so even if an owner doesn't know their obligations and responsibilities, their employees do.

Financial environment This is what most owners and future owners consider when they think of business skills: the fee setting, inventory control, cash control, the checks and balances, establishing (and using) a budget. This should also include future planning for team development and practice improvements (in standards, services provided and equipment). We also should not forget owner exit planning and

retirement. As the old adage says, the best time to plan your exit is when you are planning your entrance.

Marketing environment Closely related to the financials via the revenues is the marketing of your self and your practice. This is becoming especially true as competition increases. Expansion in the use of technology and social media as advertising medium has this field presenting new challenges daily for practice owners. Even if a practice owner does not wish to utilize these methods, they still have the challenge of managing their online reputation as a result of client comments and reviews.

Preparing for Ownership

There are increasing numbers of practice managers that can help ease the burden on the owner. There are also many veterinary-specific consultants covering a wide range of skills that can help bridge an owner or management chasm to keep you moving forward (visit www.VetPartners.org).

However, it will always be true that the 'buck' still stops with the owner. If the owner does not fill these shoes or direct the filling, then the shoes may get filled by default. The default may not take you, the practice, the team, the clients and the pets where anyone wanted to go.

Whether you are an owner already who is looking to improve and grow, or you are a future owner, these are the fundamental areas for self assessment. Improving your skills in these areas can help you reach your goals and be a dramatic boost in your ownership experience. When an owner truly enjoys operating their practice, everyone benefits - your team, your clients and most importantly, the pets you are serving.

Acknowledgement

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