Practice Transitions: Who, What, When & How

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Have you ever attended a seminar (clinical or practice management topics) or read articles with the expectation to learn a new technique or implement systems “guaranteed” to add “thousands of additional dollars to your practice”, “make it your very best year ever,” “add hundreds of new patients to your practice,” “double your production,” etc.? Many of us have attended such seminars and read such articles, or at least seen advertisements for them. What is the attraction for the average dentist to do so? In most cases, it is the potential to add additional income to their practice, minimize stress, improve treatment for patients, or become more proficient. However, have you ever thought of practice transitions in a similar manner—a means to accomplish all of the above outcomes?

WHAT IS A PRACTICE TRANSITION: For most dentists, a Practice Transition is buying or selling a practice, or locating an “associate” opportunity leading to future equity status. In fact, a Practice Transition is a Quality of Life choice—working on who you want, if you want, when you want, and where you want! A Practice Transition is a means to achieve financial independence, creating either greater wealth at a “scheduled” retirement age, or allowing for desired wealth at an age earlier than the originally planned retirement age.

WHO NEEDS PRACTICE TRANSITIONS: For readers of this article who desire any of the following goals, a Practice Transition can help you obtain them:
- Get the equity out of your practice today and convert it to an interest-bearing asset;
- Maintain clinical income to fund your life style expenses;
- Reduce or eliminate management responsibilities;
- Security in the event of death or disability that you receive maximum value for your practice.

WHEN IS IT TIME FOR A PRACTICE TRANSITION: For dentists seeking any of the above benefits, the time to consider a Practice Transition is now! Since a Practice Transition is “process,” rather than an event, you need to plan ahead by anywhere from one to five years. The most important consideration in timing is based upon your needs:
- Financial – do you need to continue to work to fund your retirement savings—full time or part time;
- Emotional—can you relinquish or share control, what will you do with new found freedom, what is the input of your spouse, etc.

HOW TO ACCOMPLISH A PRACTICE TRANSITION: There are literally dozens, if not hundreds, of types of Practice Transition models, limited only by the creativity of the advisors and complementary needs of the dentists. Common transition models include the following:

Walk Away—as the name implies, there is little or no time spent together between the buyer and seller. It is typically used to transition smaller practices, situations in which the seller cannot relinquish control, or practices in which the seller is older and financially secure.
Pre-Sale—this transition is one in which the Seller turns over managerial control and financial responsibility to the Purchaser, but then remains employed in the practice as a clinical provider for up to seven years or so following Closing. It can be immediate, as just described, or it can be deferred, in which case the Seller maintains managerial control and financial responsibility for a pre-determined period of 1-2 years (with the contractually and financially committed Purchaser employed as the provider). It is typically used to transition practices in which the seller can relinquish control (sooner in the immediate model, or gradually in the case of the deferred model), needs to maintain his/her clinical income, desires to invest the equity of the practice now rather than waiting, and wishes to decrease or eliminate management responsibilities. It is often an ideal vehicle to use in combination with a Defined Benefit Plan, which may allow funding in much greater amounts than the typical IRAs, 401Ks, etc.

Shareholder Process—this transition is one in which two or more dentists own equal shares of stock in a single corporate entity (could be an LLC with members). It can involve the transfer of stock, assets, or a combination of them. Typically, there is a 10 – 15 year age difference between the parties, and the senior doctor has a 12 year or plus time frame in which to continue to work, and is ready to share control. Through the use of “Deferred Compensation,” it allows the Purchaser to buy into the practice using pre-tax dollars. Should the personal or professional relationships amongst the shareholders eventually change, it does allow for a planned termination of the relationship through Stock Redemption considerations. It, too, can be immediate or deferred.

Incremental Practice Sales—this transition is one in which a practice is sold in increments over a period of time, and during that time, the doctors practice together, each has his/her own corporation (or LLC), and the corporations are governed by a Management LLC. It is a type of transition where the needs of the Seller and Purchaser are similar to those of the Shareholder Process, but for tax advantage considerations is structured with multiple business entities. Incremental sales (10 – 50% equity positions) can be triggered either by time, or by production goals. As with the above transitions, deferred or immediate options are possible.

In conclusion, for any Practice Transition to be successful, it must be based upon the needs of the doctors involved, not structured out of convenience. These needs, both personal as well as professional, both economic as well as emotional, must be complementary to each other. There must be a plan in place for it to succeed. In reality, a Practice Transition is very similar to a complex treatment plan for your patients—considering options, outcomes, obstacles, benefits, and economic considerations. The scope of this article is limited by space considerations and details must be provided by experienced and knowledgeable advisors—Practice Transition Consultants (not brokers), attorneys, and accountants proficient in the determination of the needs process and implementation of sound business plans. Thus, the real purpose of this article is to motivate you to think about your needs, to plan (rather than just hope for) a successful Practice Transition, and to implement the appropriate actions at the appropriate times.