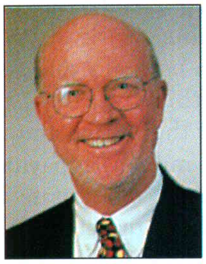
Almost a member of the family



John F. McDonnell

Even when a practice has a family member or has a long-term associate, there is a need for solid transition planning. We have found these transitions to be even more challenging than a clear buy-in or buy-out. The following examples represent the most common challenges.

Family transitions

We have had many family (parent/child) transitions that have required outside facilitation. Typically, the child has joined the practice right out of school, the military, or an internship. Usually, there has been no discussion of the details of a future transition. The well-meaning parent/owner is normally at the peak of his/her earning power. Years pass and still no discussion. Finally, at age 60+, the discussion begins. It is important to consider the ramifications of gifting to a child if there are other children. The parent many times realizes that the equity in the practice is an important part of his retirement strategy. The earlier that details can be discussed and agreed to and, yes, contracts signed, the healthier all family members will be. Arguments and bad feelings can be avoided. Because these practices normally include two dentists, it is important to plan for the introduction of a third dentist when the parent retires. This event also must be handled in an efficient manner.

Long-term associate

There are, unfortunately, numerous examples of owners who have had long term associates in their practices with no transition agreement or an agreement that is unrealistic for the associate to implement.

No agreement

I have had experience with owners who have had associates for five-20 years and have never had a formal agreement to transition the practice. This normally results in an unhappy and unhealthy separation with hard feelings and a financial loss to both parties.

Many associates leave the practice abruptly because of the lack of discussion and commitment on the owner's part to discuss a buy-in or buy-out.

In today's market where the number of qualified buyers is decreasing and the number of dentists considering retirement increasing, losing a long-time associate is a disaster without an agreement.

Unrealistic requirements

Years ago, a naive associate signed an agreement to buy-in or buy-out the owner's practice. Unfortunately, an uninformed support person recommended a one-sided agreement that looked good on paper, but made it impossible for the associate to implement the terms. After years of earning a fair income as the associate, he found that buying the practice in effect reduced his earning power.

How to avoid family or long-term associate break-up

- Have the practice valued at the time of entrance and a formula to update.
- Discuss the price and terms of the future buy-in or buy-out in the beginning.
- Commit to a growth strategy that will support two providers.
- Discuss a timeline for the future-buy-in or buy-out.
- Have a written employment agreement with details of the buy-in, buy-out, and timeline.
- Have an annual review with the heir apparent with an outside facilitator to review the progress of the agreement.
- Make changes when necessary to ensure a win-win transition.
- Include the appropriate insurance protection for life and disability in the contract.
- Treat each other as partners and the transition will work.
- Include a mentoring process for the business and management of the practice.
- Include healthy tax planning for all parties.

A family or long-term associate transition can be fun and profitable when it is approached in a professional manner with a plan. Do the right thing.

John F. McDonnell is the founder of The McNor Group, a dental brokerages, appraisal, accounting, financial-planning, and practice-management firm. He is a member of American Dental Sales and can be reached at (888)273-1014, mcnor@mcnor.com, or by writing to 1301 York Road, Suite 800, Lutherville, MD 21093. See the ADS classified ads for names and phone numbers of ADS members in your area.