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Published through a partnership of BSM Consulting and *Ophthalmology Management*.

September 2012

Q&A: Selling an Established Practice to a Young Doctor

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Editor's Note: *This question and answer is one of nearly 4,000 eye care-specific questions available on BSM Connection®. Two more topic-related QA's are available right now on the BSM Café (www.bsmcafe.com).*

QUESTION: We are trying to sell our well-established general ophthalmology practice to a newly trained physician. We are located in a wonderful new office in a downtown area with great street visibility, unlimited free parking, and an outstanding optical dispensary and medical spa. Our reputation in the community is solid.

We are finding that young doctors have no idea how to purchase a practice. They are unfamiliar with business practices, dealing with banks, securing loans, etc. Their idea of buying a practice is to work as an employee for several years to see if there is a good fit, and then start negotiating. An established doctor wanting to sell his practice doesn't have time for a multi-year, let's-see-how-it-goes approach. We are willing and able to train a new doctor in the business of medicine, to introduce him or her to the community and to bankers, and manage the business of this practice until he or she feels ready to take over. But we worry when the first questions are, "What is my salary? How many days do I work? How much flex time/vacation time is there?" I can truly tell you this has happened with more than one doctor.

We see a multi-step approach:

1. *First, the new doctor works as an employee for six months, not three to five years.*
2. *Secondly, the new doctor will buy into the equipment and share overhead through a percentage of collections. We understand the new doctor's collections will be less at first and the senior physician will be paying the higher percentage of overhead. But, as the new doctor's practice begins to grow, that will shift. Overhead should consist of lease payments, rent, utilities, computer expenses, salary, employee benefits, etc.*
3. *Thirdly, the new doctor will buy out the senior partner by purchasing the remaining 51% of the senior partner's interest at a pre-established amount at a pre-established date. The junior doctor can bring in another physician to buy this remaining 51%.*

There also should be some consideration of the buy-out of the optical shop. These details would be decided upon completion of six months of employment, so everyone knows what is expected.

Are we off the mark in our ideas for selling this practice?

ANSWER: Physician practices can be challenging to sell in the current economic environment, reflecting the difficulty of arranging lender financing and the enhanced perception of risk of an unknown future. Young physicians have additional concerns regarding the assumption of significant debt on top of extant student loans, the uncertainty of success in operating a freestanding practice and business venture, and the need to quickly consolidate their clinical training into an efficient delivery model. As a result, young physicians typically attempt to mitigate this risk by minimizing their purchase price or hedging on their purchase obligation, allowing them to gain a better sense of the future before committing to the purchase.

In our experience, most young physicians do not have the capability to purchase a practice immediately following their training, due to lack of clinical experience, lack of business experience, sensitivity to risk, or lack of entrepreneurial interest. That last factor is common to many younger physicians, which inherently limits the subset of potential buyers within the young physician population.

The outline you describe may be viewed as acceptable to certain potential buyers, provided you can demonstrate adequate personal cash flow for the individual during the transition period. However, a few deviations are worth noting.

- *First, the outline suggests a co-ownership arrangement rather than an outright purchase. If so, both parties benefit when the usual one to three years is used to confirm compatibility before co-ownership is consummated. We are unaware of any arrangements whereby a newly recruited physician would be obligated to proceed toward buy-in automatically upon conclusion of the employment term; such matters are invariably based on mutual consent for the benefit of both parties.*
- *Second, the outline suggests the new co-owner would hold a minority, 49-percent interest that would normally require a discount on pricing due to the inherent lesser value of a non-controlling interest. Instead, the co-ownership arrangement should be done on a 50/50 basis with certain senior partner protections in place, ensuring the founder can unilaterally buy out the younger physician during the buy-in period and retain rights to the practice name, location, staff, etc.*
- *Third, the buy-in outline addresses equipment only but fails to include receivables and goodwill, which would normally be included too.*

Confirming the details of eventual ownership is always a good idea as part of the pre-employment process. However, we find it unusual to expect a young physician to be committed to such an arrangement immediately upon arrival. We encourage you to seek specific guidance from a qualified advisor regarding this matter.

About the author: *Richard C. Koval, M.P.A., CMPE is a principal and senior consultant with BSM Consulting, an internationally recognized health care consulting firm headquartered in Incline Village, Nevada and Scottsdale, Arizona. For more information about the author, BSM Consulting, or content/resources discussed in this article, please visit the **BSM Café** at **www.BSMCafe.com**.*

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