Selling Your Practice

Planning in advance is the key to a successful exit strategy.

BY RANDY BAUMAN AND DR. NEIL BAUM

Probably the two greatest areas of stress for a podiatrist are the day he/she starts his/her practice and the day he/she decides to leave the practice and put his/her practice up for sale.

One of us (NHB) started a practice in 1976; and at that time, most doctors continued to practice until shortly before they died—almost with the scalpel still in their hand or healing one more diabetic ulcer. Today, many podiatrists are seriously contemplating leaving active practice at age 55, 60, or—more traditionally—65.

Podiatrists in group practice, even those with just one or two partners, presumably have in place a well-thought-out and properly drafted contract with buy-out and “phase down” provisions. For group practices, it is imperative that the members critically review, discuss, and decide whether their contractual arrangements make sense for these times. Podiatrists who have done so have an exit strategy that should be fairly self-executing as well as effective and provide the seller with a seamless transition to retirement.

Why Sell Your Practice?

Podiatrists contemplating leaving practice consider selling for two reasons: to realize some value for the work they put in establishing, growing, and maintaining the practice and to assure their patients are cared for when they retire or leave the community.

Both of these are laudable goals. Of course, you want your patients to be taken care of and want to provide an avenue of continuity for that care to your patients and to the referral base you have established. You will want to realize value for what you have invested over several decades and created.

Preparing Your Practice for Sale

People wishing to sell their home who put a “For Sale” sign in their front lawn without any advance preparation don’t maximize the value of their home; the analogy follows with medical practices. Regardless of who takes over your practice, you need to prepare in advance to segue your practice to your partners or to another podiatrist.

There is the real estate equivalent of curb appeal or how your practice looks from the outside looking in. If you’ve been in practice long enough to consider retirement, you want to make sure your office doesn’t have that circa 1963 look. While a total remodel may not be possible or economically feasible, updating the worn-out carpet, painting, the reception area, adding some new furniture, and having a good general housecleaning are usually a good place to start. Potential buyers can be very image-conscious and something that looks old is generally viewed as having less value.

Knowing your practice’s finances and assuring they are in order is the most important aspect of selling your practice. Any serious buyer is going to ask to examine your books, to look at how you run your business, and to assess the potential growth and vitality of the practice. They will want to know simply where the revenue comes from and where it goes.

You should strive to show a stable or growing revenue base, an attractive payor mix, a reasonable overhead and a personal income that is at least stable and hopefully increasing. If your earning capacity is low or has been declining, you need to be able to explain why.

When looking at personal income, don’t forget to normalize your income by adjusting for varying levels of non-standard doctor benefits and discretionary expenses that often are included in practice overhead. For example, rich retirement plan contributions and expensive automobiles which are paid for by the practice make your income look artificially low. However, if you explain your rationale for these expenses, you will make your profit and loss statements look more attractive.

Selling Options

In selling a practice, a solo podiatrist has three basic options: finding...
Timing Is Key

Beginning the process in advance of the intended exit date is critical for several reasons:

• It is not unusual for the process of recruiting a successor podiatrist to take several years, i.e., three to five years. Recruiting is difficult, candidates are in short supply in many areas, and many potential buyers are spoken for in advance of completion of their training.

• The value of a practice often starts to decline when it becomes known that the doctor is going to retire. This is because the universe of potential buyers knows that patients will seek care somewhere else and the closer you are to retiring, the less likely they will remain in your practice and accept care from your new associate.

• While not a pleasant thought, any delay in the exit process puts you at risk that death or disability will intervene, ruining almost any chance for your family to realize a financial return on your many years of hard work to build a successful practice.

By starting as much as five years in advance, you can maximize the likelihood of retaining most, if not all, of the practice’s value. It allows for thoroughly exploring all available options and finding a committed buyer.

When considering the sale of a practice, look at it from the standpoint of the universe of potential buyers. Depending on your market, that universe could include:

• A newly recruited podiatrist
• A larger single or multi-specialty group operating in the area
• The local hospital where you primarily practice
• Other local hospitals where you may or may not maintain some level of privileges

Selling a practice is often complicated, and most podiatrists don’t have any skills in the sale of their practices. So much of the success in selling depends on the specifics of the practice, the doctor and the market—i.e., the hospital and doctor environment—in which they operate.

A Newly Recruited Podiatrist

Recruiting another podiatrist to acquire and continue the practice may feel like the best option, but in the current environment, this decision can be one of the most difficult, especially with younger doctors. The current generation of younger doctors tends to be risk-averse and lack interest in the business side of medicine.

Other Medical Groups

As you work down the list of potential buyers, you should also quietly, subtly, and tactfully look at existing practices (even if you consider them competitors) to see if any of them would like to merge with and/or acquire your practice, your charts and records, and access to your referring doctors.

An existing podiatric group will often be the best potential buyer for several reasons:

1) It may have the financial capacity to pay a fair price.

2) It can most easily facilitate the transition by allowing you, the seller, to phase out gradually.

3) It may have the strongest reason to do the deal—protecting its “turf” so a younger doctor with more and newer skills doesn’t take over your practice and create a stronger and more formidable competitor.

It has been our experience that podiatrists typically refrain from broaching the subject of retirement with their colleagues. They often feel embarrassed at admitting their plan of segueing into retirement. In holding back, however, they lose out on perhaps their best possible transition opportunity. If you are contemplating retirement, you should feel comfortable quietly raising the thought and flat out asking a colleague if his or her group would be interested in discussing how you might work together toward this goal.

The key here, again, is to not wait too long. Regardless of professional and personal relationships, potential buyers will reject paying for something they think they can get for free. What you want to be “selling” here is your willingness to transition your patient and referral relationships over a period of time.

Hospitals

In the current healthcare environment, where over 50% of doctors have become employed by hospitals, this may be a viable option. Your practice probably contributes millions of dollars of income annually to the hospital, and the hospital would like to maintain this revenue stream. Talking to the hospital CEO or medical director is something to consider.

The local hospital needs podiatric services. Even in areas where there are multiple doctors practicing podiatry, those practices are usually full and your departure will likely leave the market with reduced capacity.

Hospitals also know that patients will seek care elsewhere if the market can’t absorb the additional demand resulting from you departure, either by going to a competing hospital or by leaving the community and traveling elsewhere for care. Either of these two potential outcomes result in a loss of market share for the hospital and the obvious solution is to recruit a replacement.

The goal here is to negotiate a transitional model where a replacement podiatrist is recruited, with

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the financial support of the hospital, and the practice is transitioned to that podiatrist over a specified period of time.

Selling to a hospital at the end of your career isn’t all bad. If you are starting a few years before retirement, you might find employment a welcome respite from the daunting responsibility of managing your own practice. This kind of transition can result in a stress-reduced lifestyle as you introduce and transition your patients to the new podiatrist and work less, including less call, while maintaining (or even increasing) your income without the burden of managing the practice.

Summary

Nearly every podiatrist will be confronted with the decision on exiting his/her practice. Most of us have very little experience with this process. However, if you plan in advance, and have good advice, your exit strategy can be successful and even enjoyable. PM

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