



WHITE PAPER

Setting a Succession Strategy for Physician Practices

For many physician owners, their practice is like their child. As such, they invest the majority of their time and resources into ensuring the business stays healthy and has opportunities to grow and maximize its potential. Few focus on preparing for that inevitable moment in the future when they will have to hand their baby over to someone else.

While succession planning is a critical concern for a business of any size, it could literally be a matter of life or death for a physician practice. Physician-owned enterprises are particularly vulnerable because business discussions can be complicated or derailed by the emotions involved in addressing such difficult issues such as aging, death, and financial affairs. To ensure that the medical practice you worked so hard to build and nurture continues to thrive after retirement or death, you must develop a succession strategy that enables an orderly transition of both ownership interests and management responsibilities while minimizing complications between the partners. Additionally, your succession strategy must provide for economic support of all relevant parties involved.

Setting a Succession Strategy

While there is no “one size fits all” succession planning solution, and the details will vary according to the distinct dynamics of your situation, the following are key considerations as you embark on developing a succession strategy:

1. Start early. Ideally, it is best to begin this process as far in advance as possible. This will give you the opportunity to explore all of your options and prevent hasty decision making that can undermine the stability and value of the business.

2. Identify your successors. This might be the most challenging aspect of this process for physician practices. As I have written about before, there are many considerations in the selection and grooming of a physician partner. You may have a physician in the practice that does not have the interest or skills to take over the practice. Therefore, to ensure that you place your practice in the best possible hands, I recommend making a rigorous and honest assessment of the relative strengths and weaknesses of all potential heirs. Consultants with experience in physician succession planning can be well worth your investment here. Engaging such an outside expert to conduct this analysis to help make objective and rational decisions regarding the best future interests of the practice and to de-emphasize emotional attachments (as well as any

potential family politics) will ultimately be effective for the succession strategy.

It is also important to remember that management and ownership are not necessarily one and the same. Thus, it may be in the best interests of the practice to appoint an employee to take the business to the next level. Even if physician owners are not holding the business operations reins day-to-day, they will still retain an ownership interest and exercise the requisite level of control via various governance mechanisms (partnership meetings, executive control, voting shares, etc.).

3. Determine the right legal structure for transferring your business. There can be significant financial implications and tax consequences with ownership changes. Furthermore, there are numerous legal methods for transferring your business. As a result, the experienced consultant you engage should be pulling in your accountant and attorney at the appropriate times so that together, the team can advise you on the correct direction and appropriate steps. No two medical practices are the same and you should be leery about professionals approaching you with any sort of template or preplanned outcome.

The best option for you and your business will indeed depend on a host of needs and circumstances particular to your practice. In the past, I have written on several transactional methods. Two common avenues are for physicians to sell their practice outright or transfer ownership to another partner in the practice.

- *Selling your practice outright.* This creates cash for you to use as you ride off into the sunset. The sale would be based on fair market value (FMV) after a valuation is performed. Potential buyers include other physicians or practices, hospitals, or private equity-backed MSOs (management services organizations). Depending on how the sale is structured and what all is included, there could be various tax implications.
- *Transferring your ownership interest.* Essentially a buy-sell agreement prearranges the sale of the practice to another physician partner. This agreement enables you to maintain control until the occurrence of a triggering event that the agreement specifies. At that time, the buyer typically becomes obligated to purchase your remaining interests from you. There are many different ways that buy-sell agreements may be constructed and I cannot say I have ever seen two that are exactly the same, but this is a simplification of generally how they work.

4. Get professional assistance. Though trimming expenses is always a key concern for physician practices, skimping on succession planning today can jeopardize financial security for you and your family and threaten the continued viability of the business you worked so hard to build. As you saw from the brief overview in this article, there are substantive complexities to managing this process. It is strongly recommended that you begin by contacting a seasoned consultant with experience in succession planning. As I mentioned above, that individual should be bringing in other professionals (i.e. attorney, accountant, financial advisor) throughout the process so that collectively a sound succession plan will be constructed.

What's Next?

When you first begin working with the consultant, he/she should be devising a strategy based on your timelines. Some physician owners I work with want a rapid exit and thus we work to create

a diligent plan that allows for such a departure from the practice. Other physician owners are looking at an exit some ten years from now. In those cases of a future planned exit, I recommend that the succession plan be updated every two or three years. There is so much change in the healthcare industry as well as local competitive factors and also internal physician partner dynamics, (not to mention any personal changes in your life), that a periodic review of the strategy is definitely warranted. Good luck! Your patients, referring physicians, and employees are counting on you to have a strategy to hand off the baton.

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