



WHITE PAPER

Physician Practice Succession Planning – An Overview

After working for years to build a successful medical practice, are you ready to move on to retirement or something new? To maximize the value of your practice and properly sell or pass it along to the next generation, a succession plan should be in place. Succession planning can be a slow-moving and difficult process. While many physician owners claim they look forward to days when they can retire, they often fail to create a transition plan. Daily clinical duties and caring for patients take precedent over long-term planning concerns and this pushes succession planning to the back burner often for long periods of time.

Plan ahead

It can be more comforting for the physician owner if the succession planning process starts years before their actual transition. It's also important because the more time spent shifting the core business responsibilities of the practice away from the current owner, the better. To facilitate this process, it's necessary to document the core areas of responsibility. This will help segregate various aspects of owner's responsibilities and create a clear vision for which tasks can be allocated to others as potential backups. It also provides clarity when searching for a successor on key tasks they will need to be able to perform. The more that is known about the role, the easier it will be to find a match.

Establish a timeline

Effective succession planning doesn't happen overnight. It can take many years to understand organizational challenges, identify solutions and then get all the puzzle pieces to fit. The key is to establish a goal retirement date and then work backwards from there. Since things often change in the healthcare arena, it's not essential for the date to be an absolute. However, a rather flexible goal date that can change as needed is best. If you can plan at least four years in advance, this will allow for maximum planning time and efficiency. Working with the end in mind is the best way to approach succession planning and allows for the complex process to be broken apart into smaller pieces. Your succession plan should include a detailed list of circumstances and, if applicable, dates for all major steps in the succession plan. Depending on the situation, your timeline may stretch across many years.

Transferring ownership

A critical component to successful succession planning is determining a successor. Although every situation is unique, there are three primary methods of ownership transfer:

- **Selling the practice.** If you are a co-owner, you could sell your interests back to the practice. If you are the sole owner of a medical practice, you may sell your practice to an outside party (i.e., another physician group, MSO, or hospital).
- **Transfer to an existing partner.** Rather than selling ownership interests back to the practice, you may sell your share or interests directly to an existing partner.
- **Pass the practice along.** You may choose to pass ownership interests along to currently-employed physician within your practice.

Once you have determined which transfer option is best for your specific situation, a succession plan can be crafted.

Identify a successor

Although you may have a single successor in mind, it is best to list multiple options, organized by order of consideration. If you are not planning to transition soon and do not have a set successor list in mind, begin by listing qualifications, skills, and/or personality traits you would like to find in a future successor. It's important to identify a successor as early in the planning process as possible. Without an identified successor, much of the work of succession planning is quite limited. Beyond this, the job of most physician owners is so complex that it may require a great deal of time to conduct training, introduce them into relationships and coach them through transition. Start the training processes as soon as reasonably possible. This will ensure a maximum amount of time to transfer organizational and business knowledge.

Empower the successor

Once a successor has been identified there will be opportunity to share tasks or responsibilities. It's not uncommon to see them approach a task or tackle a challenge in a way the current owner may not. Don't be alarmed, it's important to be open to the new ideas, processes and way of doing business that a successor can bring to the table. Open the door for them by allowing them to manage some existing responsibilities and make them part of the decision-making process quickly.

Is your practice sellable?

If you plan to sell your medical practice to an outside party, determine how appealing your practice may be.

- **Does your practice have a history of profitability?** Of course, a financially stable medical practice with a history of consistent profitability will be more attractive to potential buyers than a struggling practice.
- **Where is your practice located? Is it in a highly desirable area based on the type of specialty you are in? Do you have a consistent patient base and loyal referring physicians?** Positive answers to these questions point towards long-term profitability and

higher medical practice value.

- **Are your assets in good condition?** Assets with market value and remaining useful life assist in increasing practice value and potential buyer attraction.
- **Do you have a strong balance sheet?** Medical practices that appear worth purchasing usually have good retained earnings, great net worth, and low or nonexistent debt.
- **Have you done a valuation?** If you had a valuation performed on your practice more than one year ago, it is definitely outdated.

Succession planning well in advance of a transition is extraordinarily helpful for increasing the practice's marketability. Succession planning offers peace of mind for any physician owner, regardless of retirement timetable, but it is no small task. These are emotional decisions which require structured thought and time to contemplate. Consequently, you may want to consider consulting professional advisors to assist in the tasks outlined in this article and to work with you to develop a comprehensive strategy.

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