

Spring 2012

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# Playing Offense or Defense?

## Transitioning Your Professional Practice

by Neal B. Inscoe, CEO CWPP

**W**hat does the word transition mean? Well, in sport vernacular it signifies the process of changing from offense to defense as in a basketball or baseball game.

Recently, I attended a dental convention in San Diego, and a doctor walked up to me and asked, "Equity in Dentistry, what do you do?" I responded in what I thought was a simple answer, "We help mid and late career doctors develop and fully implement the right strategies, so they can transition out of their practice, receive the highest value at the least possible tax cost, which will allow them to live in financial freedom during retirement." He said, "I don't understand." So I asked him, "When the time comes to stop practicing dentistry, what will you want to do with your practice?" His response was, "I am going to call ABC practice sales and have them sell my practice." So I further inquired, "Do you care what you receive for your practice since clearly at the end of your career the practice will have declined, and the value will be significantly less?" And without hesitation, he answered, "No."

This is the most common type of transition; simply sell the practice and walk away. However, if you are going to choose this path, the practice better not be your only source of income after the transition ... unless of course, you plan on living in a double-wide trailer, drive a beater car and live a very modest lifestyle. If the practice is not the only source of income, and you have other assets, then you need to carefully study your financial position along with your chosen transition option to make sure you can live financially free during retirement.

Another scenario would be to transition your practice to a younger dentist while working in the practice for a 2-5 year period. The key to this choice is selecting the right owner you can work for during the transition. Working for this dentist is the critical point here. This scenario can be successful if you choose wisely. It can also be a disaster if you do not. I believe, except for the walk away scenario, all transitions must have a process to follow similar to a dental protocol if success is the goal. This process would include a series of interviews, the prospective candidate working in the office for a few days so the staff can get to know them and provide input, and finally, psychological testing such as DISC, Myers Briggs or

the Hartman Value Profile. Most often the work back option is used because the late career doctor either needs to work for a few more years for financial reasons, they want to work because they like dentistry or the incoming doctor wants a mentor relationship. In all transitions, your chances of success are 50% greater when a proven process is implemented.

Believe it or not, I have met many doctors who enjoy the management of dentistry. Creating a group practice model by hiring associates who are employees is yet another transition option. Roughly 80% of doctors state that they do not like the business and management of dentistry and just want to work 9 to 5 without the headaches ownership produces. Others embrace the opportunity to spend more time with patients, running the operations, working one day per week and developing the team into a well-oiled machine to provide total patient care. This type of transition fits the entrepreneurial spirit.

The fractional transition and trial partnership model is accomplished over a longer period and creates the right group model. I say "right" because although this option can be very lucrative to all partners, it is the most difficult way to transition. Before you consider a transition, you need to ask yourself if you are set for growth, how many new patients you're acquiring each month, what is your current overhead, will your facility and lab be adequate and are you currently utilizing practice management people who can help you grow in the future.

Mike Abernathy, author of *The Road Map to Wealth and Security - Your Complete Guide to Dental Transitions* says it best. "In order to have a successful fractional interest transition everyone needs to show up everyday and put on your 'whatever it takes T-shirt' in order to make it work. If you are not willing to do that, then do not waste your time with this type of transition."

If you are willing to make a fractional interest transition work, even though this is a difficult path, you will enjoy benefits that you could not have imagined. For instance, your practice will never be closed even when you take time off, you will continually discover new ideas to make the practice better, and you will be able to offer extended hours to provide special

care to patients. Plus, you will be creating multiple streams of income that will not only allow mid to late career doctors to receive more from the practice, but the partners will benefit as well as they share in the increased income and equity.

The important keys to a successful fractional transition; first understand the financial implications, implementing a process for locating the right partner and you must overcome 20-30 years of bad habits. You will need to do internet marketing and utilize the experience of practice management consultants if you are not presently working with them. Most importantly, once the transition starts, everyone needs to be pulling the boat paddles in the same direction at all times. These are just a few of the keys to developing the right strategy which will help you stay on track to achieve your practice goals.

How can a transition fail? All of us have heard stories about how egos cause businesses to fail. It's no different in a dental practice. If you are a late career doctor, you have to consider that maybe your new partner will be better than you not only as a doctor, but with the staff and patients. You may find out that your patients may want to see the new, younger doctor instead of the one who has had their name on the door for 30 years. Once this happens, many late career doctors tend not to allow the new doctor to have equal access to staff, patients and equipment, which can be a transition killing mistake. You can also fail by not involving the staff in the decision-making process, and especially by not having detailed written agreements.

I recently met a doctor and his wife in their late 60s who sold a fractional interest by thirds. "It was the best thing we ever did," they said. In their case, all parties were able to work together over a 10-year period and not only did they receive

more for the practice, but the buying partners retained more equity for the future.

There are many options and combinations of options available when it comes time to transition your practice. A transition is a journey, not an event. There are significant transitions, financial and life planning issues that need to be addressed before the actual transition occurs.

If you are a mid or late career doctor, you have been playing offense for the last 20 to 30 years. A transition is moving from offense to defense, and defensively you now need to think differently. You need to decide how you want to transition your practice and then develop strategies to protect the value of your practice by creating and implementing a written plan that ensures success.

Vince Lombardi once said, "Running a football team is no different than running any other kind of organization—an army, a political party or business. The principal is the same."

I am sure he had a profitable and successful transition in mind when he said those words.

*Neal B. Inscoc, CEO of Equity in Dentistry, specializes in assisting early, mid, and late career dentists successfully transition their practices. Neal has 26 years of experience working with business professionals and is a Certified Wealth Preservation Planner (CWPP). Neal is the co-author of "Wealth Preservation Planning: A Team Approach," and a contributing author to "The Road Map to Wealth and Security: Your Complete Guide to Dental Transitions."*

