Transition Traps:

3 Types of Transitions That May Not Be What They Seem

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In my 20+ years of consulting in the orthodontic field I have seen some very interesting terms and contracts fortransitions. Whether you are the buyer or the seller of an orthodontic practice there are certain types of transitions to avoid. How have I learned about transitions not working out for the best of both parties? By seeing firsthand the destruction a sale or potential sale can have on the patient base, the practice and the Doctors involved when no plan is in place. I would like to present three types of transitions you may want to avoid!

Practice Transition #1:
Let's Just Try It and See How It Works Out.

That would mean that no value has been determined for the sale and the Sr. Doctor is ready to consider transitioning in the future. Usually in this case the seller does not know how they really want the transition to play out and is not ready to leave the profession, so the agreement is for the associate to come into the practice and eventually the Sr. Doctor will determine the terms of the sale. The Jr. Doctor will work per diem until given notice otherwise. Because many residents are seeking practices today they are more willing to take the job. Many times with this scenario several things may happen. The agreement may go on with no future for a buy-in. When the value of the practice is determined it may be outrageous in cost and not a feasible investment for the buyer. This transition could play out that the Jr. Doctor puts in many years of service into the practice without a return on the investment of time.

There is nothing worse after years of a relationship for the parties involved to get to the drawing board and not come to an agreement on the sale price of the practice, the per diem of the Sr. Doctor, or the length of the transition – in other words an impasse in creating a contract. With this type of transition the practice generally suffers because there is a revolving door of associates who cause insecurity for the consumer and extended treatment time due to the inconsistency of care. There is no "Trying it Out" – you must go into a transition with a written strategy to make it work for both parties. Oh, and, by the way, this applies to family agreements as well. Family transitions are sometimes the hardest contracts to resolve.

Practice Transition #2:
The Low Overhead Practice – A Real Fixer-Upper That Has Potential for Growth.

When a practice is valued, the value is often based on a multiple of net income. Overhead is always a consideration since the buyer will likely need to pay back student debt while paying for the practice. A practice that is being sold at a lower value may seem attractive. Being a systems consultant, I strive for my clients to control their overhead and maintain profitability in their practices, however, not at the expense of an outdated facility, extended treatment times, or lack of a great team to support the business of orthodontics. When considering a low producing, low overhead practice, please review the following. Begin with the facility; sometimes a low overhead practice has not updated the facility. It can be very costly for a buyer to purchase or recover chairs, update an x-ray unit, and replace carpeting, signage, hand pieces, etc.

The worst scenario I saw with this type of practice was one wherein there was no compressor so no hand pieces and the older building with the cement floor could not support the plumbing without great cost to the buyer to update while experiencing a loss of revenue during the construction. A nightmare, in a nutshell! What about the computer system? Count the costs of an outdated computer system that has only minimum information available. Purchasing and setting up a computer system is very costly, not only in equipment but also in the man hours to transfer and update data. Low overhead many times means a lack of systems and the team members to facilitate those systems.

A low overhead, outdated practice may have money showing on the accounts receivable books that is uncollectable. The practice may have no collection system and has saved money by not accepting credit cards or by refusing to utilize an auto-draft system. Any of these scenarios would make it difficult to collect overdue accounts. With a practice that has plateaued, where have the patients gone? Is there a competitor that has taken the patients? Has the practice plateaued due to the fact that it was so outdated? Did the community already retire the Sr. Doctor? Practices that are in a decline are much harder to kick start and rebrand than you would think. When looking at a low fixer-upper, low purchase price practice, count the costs for creating the image you would like to project and make sure you can afford the investment!

Practice Transition #3:
Buying a Competitor's Practice to Add Revenue to my Existing Practice.

If you think this may be a quick fix to add to your current patient base, consider the following: thinking you will just buy this older practice condense it with your own and enjoy the revenue of the existing accounts receivables may sometimes be an error in judgment. You may consider buying a practice and combining the patient base, the accounts receivable and some of the existing team members. First consider the mechanics – have the patients been treated in a similar philosophy? The cost to the buyer to retreat or rebracket patients could be a profit killer! Bringing on additional team members without knowing how the work environment was set up in the other practice may just rock the boat with the practice you have established and branded.

If you are purchasing this practice to gain income from the accounts receivable, check the status of the 30-60-90 day accounts. If you are purchasing only active accounts, the income may be half of what the books represent if there is a larger percentage of past due accounts. When this purchase is made, make sure all current account receivable and future contract billings come to you, the buyer. Insurance billing that is set up quarterly or that has not been billed correctly will be your problem to handle and should end up in your bank account. Also consider the number of patients who are overdue in treatment. Treating patients who are not paying you is not profitable for the practice. If you are purchasing this practice for the retention of the observation program, make sure those systems have been in place and that there has been a solid game plan for the recall system. With this scenario you can end up with disgruntled patients, no transfer of goodwill and treatment times and end results you did not count on.

What I have found is that there is no quick fix or great deal when it comes to purchasing or selling a practice. The best transitions and the transition type I recommend to my clients always begin with the end in mind! How does the seller see themselves transitioning the practice, beginning with hiring a transition expert to determine the value of the practice and the length of the transition? All terms should be agreed upon up front including the length of transition, the terms of how the Sr. Doctor phases out, and any per diem and or benefit packages to be received by either the buyer or the seller. My advice to my clients is not to begin the process until you are ready to define the strategy! No Quick Fixes – No Great Deals – No Handshakes! It is one person's life's work being passed on to another, and like any business, this should be organized and in writing!