

Dealing with Unplanned Transitions

There is an old saying, “Life is what happens to you while you make your plans.” As you go down the road of life you learn that sometimes you get to plan for what you want and sometimes you get what you didn’t plan for. Therefore, it makes sense to understand what can happen and have contingency plans ready.

What can happen to you and your practice? Is it possible that you could be forced into an unplanned transition someday? Let’s hope that doesn’t happen, but doesn’t it make sense to be ready, just in case?

What can cause an unplanned transition?

Disability

Certainly, we’ve all known colleagues who became injured or disabled. I speak with personal knowledge of this phenomenon. I had my dream practice and planned to work many more years before the pain and incapacity accompanying a very bad neck cut my plans short. I was forced to sell while I still had value in my practice. Fortunately, I found a great buyer relatively quickly before I became completely unable to safely care for my patients. I could see how quickly the value of my practice would evaporate should I be unable to answer the bell one morning.

Illness or Death

Sudden illness or death can occur at any time. We don’t like to think about it, but what would happen to our family and our practice should the worst strike? Do you have a plan to deal with the management and sale of one of your most valuable assets, your practice?

Uncontrollable Circumstances

One doctor that I know had his office destroyed (and the surrounding neighborhood) in a devastating earthquake. Another friend’s practice neighborhood became seedy. Still another’s wife decided she needed to be with her ill and aging parents in another state. A client’s special needs child required unique care daily out of the area. We just don’t know what is in the cards as they are dealt.

How can you prepare for the unknown?

Begin With the End in Mind

My advice is to build your practice with the idea that you could have to sell it any day. Hopefully, you'll practice as long as you want to in your dream location. Doesn't it make sense to build and maintain it in a way that would be attractive to a buyer? This means to focus on being profitable with a committed team and loyal patients. Keep your office clean and up to date. Remodel when necessary even if it is just some new paint and paper. Keep great books so it is obvious that you are profitable. Practices that have nice hygiene programs are more saleable and have higher value than those that don't.

Have Proper Insurance and A Disability Group

Both disability and life insurance are important to protect you and your family from unexpected loss. We see these coverages in place where practice loans are involved because the lenders require them. Be sure to review the coverage periodically to make sure you have enough as your family grows and your income needs progress.

An area where we often see doctors exposed to unnecessary loss is during their disability insurance waiting period. If you have a 60 or 90 day wait to receive your insurance payment on a disability, it makes sense to have a group of colleagues that agree to work your practice for you during that time. Even if you have Business Interruption insurance, such a group can help maintain the continuity of care in your practice. If you don't have that insurance, the group can keep you solvent.

It is also important to have such a coverage group in the event you were to die unexpectedly. It is often difficult to sell the practice of a deceased doctor in less than 90 days. During that time a group of your peers can care for your patients, maintain the practice numbers and the practice value for your buyer. In cases where there is no group, the practice value diminishes rapidly and the remaining spouse can be left with more debt than asset.

Create Written Instructions

As difficult as it is to deal with the thought of your demise, it is very helpful to have clearly instructed your family and advisors as to your wishes should the worst occur. It is smart to have chosen an attorney, a practice broker and an accountant and given them written instructions regarding disposing of your practice.

How Can I Go Wrong?

Waiting too long

We often see the value of practices diminish significantly when a doctor becomes disabled or infirmed. It is not easy for those of us who have built up our life's work to give it up. Certainly,

there is a fine line between leaving a viable business when you can return and recognizing when it is time to go. When a doctor is unable to maintain the intensity and focus necessary to properly perform clinically and lead his or her team, the value begins to fall off. Should it become necessary to be away from the practice for extended periods or the doctor becomes unable to work at all, the value drops precipitously. If the doctor is aware of this and is ok with it, that is one thing. However, frequently we see doctors who do not realize how fast their asset will dwindle once they are unable to perform and it can be tragic to see the results.

The concept of waiting too long is important to understand in the case of the death of the doctor as well. Many times the surviving family underestimates how fast even the most compelling practice loses value. Even with a coverage group holding the practice together, the attractiveness of that practice falls very rapidly. You can discuss this with your chosen broker and pre-establish a price that will enable your practice to sell within 30-60 days. Have that price in your written instructions so that the family understands that it is your will to get the practice sold soon. Family lack of understanding of this concept has caused great loss for the estate time and again.

Lack of Written Instructions

At the risk of being redundant, not having written directions for your family is a huge mistake. In the instance of a serious accident, debilitating illness or death, there is great turmoil. The family is stressed greatly. Your team is unsure what to say and do. Often things are not handled well or in a manner that you would prefer. You can reduce much of this “fire drill” phenomena by planning ahead, writing good instructions, choosing your service people and training your team. Have a staff meeting or two dedicated to discussion of personal disaster. Discuss these concepts with your spouse before the meetings and invite he or she to attend.

Having More Important Things To Deal With

Of course, what we frequently hear when we get called to assist in an urgent sale where there was little or no planning for disaster is “I (he or she) had many more important things to deal with.” Closely following, we hear, “What do you mean the practice will only sell for that”? Please don’t let that happen to you.