How to Find the Right Buyer for Your Practice

One of the most difficult things for the typical seller of a medical practice to accept is that the value of his or her medical practice rests primarily in the mind of the buyer. But once that fact is accepted, its corollary becomes obvious: If you are attempting to sell your medical practice, selecting the *right buyer* -- the one capable of making the best offer for your practice -- is vital.

To receive the best possible offer for your practice, take the following three steps:

1. Hypothesize the "ideal buyer" for your practice: the buyer who will find the practice highly desirable.
2. Identify the universe or "pool" of potential buyers, the individuals and/or entities who would consider buying your practice for one of many reasons.
3. Identify your objectives - what you expect from the deal.
4. Negotiate with the most probable buyers to maximize value.

Define "Best Possible Offer"

To identify the ideal buyer of your practice you first must define what the "best possible offer" is. What do you want for your practice? In many cases, the easy answer is the best: the most possible money.

That may not equate to the highest sales price. If you want to sell your practice and continue practicing, the post-sale terms and conditions of your sale contract will be *at least* as important as the dollar value established for your practice, depending on just how long you expect to work in your practice.

Ideally, the best offer you can receive is the one that fulfills all of your needs and wants. Practically, the best offer you do receive will be the one that addresses most of your needs and wants without requiring too many important concessions in return.

The object of your practice sale effort is to find the buyer who will provide you with that offer, your ideal buyer. You must be willing to patiently negotiate the deal points and to walk away if you are not satisfied with the offer made.

Define "Best Possible Offer" in Terms of Your Needs and Wants

Naturally, you cannot determine what the best possible offer for your practice is unless and until you establish your goals. Knowing what you want to acquire and/or achieve by selling your practice makes it more probable that you will obtain what you want.

Do you want to retire, to make a fundamental career change (for example, to teach, conduct scientific research, or consult on a full-time basis), to relocate, or to buy a yacht and disappear? Is there a medical or personal reason to consider completely exiting practice? If so, your goal is to sell your practice outright, to the highest bidder. In this case, the best possible outcome is to receive top dollar for your practice.

Are you seeking to remain with your medical practice, as a post-sale employee? If so, particularly if you intend to remain in practice for another 20 or 30 years, your primary focus may be the post-sale contract terms and conditions.

You want to receive a substantial sum for your practice, but in contrast to the physician who is retiring the dollar value established for your practice is not your only concern, but one of perhaps many, possibly including:

- contract issues, such as working conditions, term and termination;
- control issues, such as staff management, budgetary matters, and fiscal matters;

- strategic issues, such as new offices, range of services, and geographic coverage; and
- compensation and perquisites ("perks").

Identify "Ideal" Buyers

Consider the following hypothetical practice sellers to help determine the characteristics of your practice's ideal buyer

Hypothetical Seller "A" is 75 years old and seeking to retire -- finally, after having postponed retirement several times -- and live off the proceeds of her retirement plan, investments, and practice sale. Goals: to receive the highest possible dollar value for the practice and conclude the sale quickly, with no strings attached.

This physician's ideal practice buyer may well be an established physician who seeks to acquire an established business, "learn the ropes" of that particular business from the seller, and assume control of the practice quickly and efficiently.

An established physician or group medical practice likely will need some time -- typically from two to six months -- to meet the practice's "customers" (referring/referral physicians, patients, and managed care partners), become accustomed to the practice's way of doing business, and make the necessary new owner/employee adjustments with the staff. Beyond that, he or she will neither need nor want the selling physician to remain with the practice, which dovetails with the seller's goal of making a speedy and neat departure.

Further, an established physician or group, as opposed to a doctor just out of medical school, is much more likely to have the resources -- cash or credit -- available to pay the seller a fair market price for the practice in a lump sum.

Hypothetical Seller "B" is 42, expects to remain in practice for 20 to 30 years, and is in an area that is transitioning from fee-for-service medicine to managed care. This physician is:

- gradually losing self-pay patients as employers shift to managed care plans;
- watching with alarm as revenues shrink because discounted payment schedules and capitation are replacing fee-for-service medicine;
- weary of the "stresses and strains" of personnel management and business administration generally;
- confused and disenchanted with the growing need to quantify and prove:
    - good patient outcomes,
    - quality assurance,
    - patient satisfaction, and
    - HEDIS compliance;
- loathe to continue to assume sole responsibility for the financial success or failure of the practice; and
- longing to concentrate on "doctoring."

This physician wants to remain in practice for decades, but not as an entrepreneur. He seeks a practice option that shifts the *business* responsibilities of practice to another party, allowing him to focus on medical practice

Naturally, this seller wants a good price for his or her practice, which is an extremely valuable asset; but this physician also is also concerned about post-sale employment conditions and guarantees, management-employee relations control, and physician autonomy issues.

In this situation, the ideal buyer is most likely to be an institutional entity, such as a hospital, physician practice management company, or other large integrated delivery system.

Which of these entities is this seller's "ideal buyer" depends in large part on:

- which specific entities are active locally;

- each active entity's reputation, in terms of how it treats its acquired practices after the sale;
- the specific terms of each contract the seller is offered;
- the amount of money each entity has available for practice acquisition; and
- the plans each entity has for operating the seller's practice after the transaction, in specific terms.

Universe of Buyers

Physician Buyers

Many physicians and groups seeking to acquire established practices do so expecting the seller to retire and relinquish full control of the acquired practice to the buyer. Thus, the buyer avoids a potential situation in which not only staff loyalties, but also patient volume and profits, are divided. Rarely, if ever, is a formerly solo practice large enough to accommodate two full-time physicians after the sale.

In contrast, the typical institutional buyer wants the seller to continue working after the sale, as part of its health care network.

Therefore, if you want to sell outright and retire, your universe of buyers will primarily be physician buyers, who may be established or young physicians. What's the difference?

An established physician or group is more likely to:		**A young physician is more likely to:**
have substantial liquid assets or financial borrowing ability;	*whereas*	be paying off medical school bills and establishing credit;
be willing and able to pay substantially for practice goodwill;	*whereas*	back off from a practice sale if a substantial payment is required for goodwill;
make a substantial down payment and pay the balance as quickly as possible; and	*whereas*	prefer a token down payment and a longer-term/smaller-installment payment plan;
learn the ropes from you and take over the practice within 0 - 3 months.	*whereas*	ask you to remain in the practice for six months or more, to assure maximum patient acceptance.

In any particular local market, the *pool* of potential physician buyers depends on a number of factors.

First, the bad news: Generally, there are fewer opportunities than ever before to sell your practice to another physician, as many physicians just entering practice are shunning entrepreneurship in favor of employment.

Unlike physicians who are already established as owners of solo and small-group practices, young doctors now often are unwilling to work the long hours, deal with the hassles, and accept the financial risks associated with entrepreneurial medical practice. They prefer the relative safety and comfort that they perceive accompanies employment.

Now, the good news: There are fewer physicians buying practices these days, but that does **not** mean there are **no** physician buyers in the market for medical practices; you just have to look for them.

Search for Physician Buyers

Individual Physicians

In your search for a physician buyer, remember that doctors tend to practice where they trained. Contact the local medical schools and associations, network with colleagues, talk with brokers, advertise in appropriate publications, contact hospitals and other health care entities, consider a direct mail campaign, and try going on line to find potential buyers.

Generally, if your local market is an active one but not heavily penetrated by managed care, you may have a number of suitable physician buyer candidates immediately at hand. If not, you will need to extend your buyer search nationally, and may benefit from the services of a practice broker or, if you prefer to remain with the practice for a few years but must expand it to remain financially competitive, a physician recruiter.

One advantage of selling to a young physician just out of residency is that there tends to be, in most markets, more young physicians starting out than there are established physicians who are forming or expanding their networks or relocating into the potential seller's market.

Thus, even though the number of young physicians entering private practice out of residency is dwindling, you may be able to find more young physicians than established physicians as potential buyers, if this is the nature of your local market. If not, go national.

Group Practices

In many situations, the most likely buyers of medical practices are other practices, typically group practices seeking to expand their networks. You may find yourself negotiating the sale of your practice -- in earnest -- with group practices that are currently your competitors in your local market.

These groups have certain characteristics in common. They tend to be aggressive in their acquisition plans, already have multiple offices, and negotiate further practice purchases through designated "deal makers."

Institutional Buyers

Hospital and other institutional medical practice buyers (e.g., HMOs and PPMCs) usually want the physicians whose practices they acquire to stay in the purchased practices as salaried employees, typically for at least five years.

If you are selling your practice and wish to remain with it, your pool of potential buyers will probably include primarily institutional buyers of medical practices. The good news is that, just as physician buyer opportunities are *decreasing* in number, opportunities to sell to institutional buyers are *increasing*.

Selecting the Right Buyer

The Ideal Physician Buyer

Target your practice sale efforts to physicians and group practices of the same medical specialty. Not only will these buyers need and want to buy your equipment and supplies at a good price, but they also probably will be satisfied with the layout of your practice.

For example, if you have a lead-lined x-ray room, another physician who also takes x-rays routinely is more likely to consider this leasehold improvement an asset, rather than a liability. Thus, another orthopedic surgeon or orthopedics practice will be more likely to pay for an orthopedist's x-ray room than will, for example, an ophthalmologist or ophthalmic practice.

When considering a solo physician as a buyer, consider other specific "ideal buyer" factors, such as whether or not he or she:

- has a history of working hard; and
- can demonstrate the necessary technical proficiency in terms of the skills he or she will be using.

Obviously, this will be easier to assess if the potential buyer is an established physician. In any case, obtain and check references.

Also look for a physician or group with the financial wherewithal to pay you. An established physician should, but check anyway. In most cases, group practices and established solo physicians may be better prepared to make a substantial down payment and also keep up with installment payments, or simply have the ability to borrow the needed funds.

Conversely, it may be more difficult for a physician who is just starting out to prove that he or she can make the necessary payments. Nevertheless, if he or she adequately demonstrates to you the talent, skill, charisma, and work ethic necessary to succeed, you might do well to select that candidate as your buyer.

Also be aware that a substantial number of young physicians fresh out of residency fail to remain with their initial employers for more than a year or two, so many reenter the market each year. Often, these initial engagements fail primarily because of mismatched expectations between the young physicians and the entities that hire them. Therefore, if you are considering selling to a young physician, it behooves you to find out all you can about him (her) and his (her) expectations and goals before you sign the sale contract. Again, obtain references and check them. Do your homework.

The Ideal Institutional Buyer

Be careful about institutional buyers. Even if the MCO makes you a very generous offer for your practice, be sure to read the rest of the contract, as well, to evaluate the entire deal. If you are to be a post-sale employee, consider both the contract and the potential buyer itself, in terms of:

- the amount of your salary;
- the length of initial term of the contract;
- salary guarantees;
- indemnification clause(s);
- escape or "buy-back" clause;
- restrictive covenant;
- financial stability;
- mission statement;
- business/strategic plan;
- track record of dealing with physicians;
- whether you will remain in your practice or be reassigned elsewhere in the system;
- degree of physician autonomy within the system;
- degree to which physicians influence the future of the network.

There are special considerations for each type of institutional buyer.

For example, if you become an employee of a hospital, expect your practice to be run by the hospital's administrators, who are typically used to managing large, monolithic institutions, **not** small service-oriented businesses such as your practice.

Or, if you sell your practice to a PPMC, be aware that you are likely to receive a substantial portion of your practice sale price in **PPMC stock**, which -- depending on numerous potentially shifting and volatile variables -- may:

- increase in value;
- decrease in value;
- fluctuate, perhaps wildly; or
- flat-line.

An ideal institutional buyer should have a track record of supporting physicians whose practices it acquires. It may have, for example, an established orientation program recognized for its effectiveness. It may have a history of consulting with its physicians (or at least giving them advance warning) before making major decisions that affect them. It should have a history of good business performance.

Do Your Homework

Thoroughly investigate the past business dealings of all institutional buyers who may be candidates for acquiring your practice and hiring you. Do so especially by talking with doctors whose practices previously were purchased (assuming yours was not the first) by these entities. Check with your national medical specialty society, as well as your state, regional, and county medical societies, and the candidates' competition.

Talk with medical directors and human resource personnel of third-party payors. Read information about the candidates that appears in the trade publications, financial publications, and general media; hire a clipping service, if necessary. Go on-line and chat. Check with the appropriate business, health care industry, and ethics watchdog organizations.

Obtain and review the institution's financial records and samples of actual contracts with physicians. Extend your search back at least three to five years. If you detect evidence of recent instability or other trouble, dig deeper and farther back. Get help if you need it.

Summary

Before you try to find the "ideal" buyer for your practice, determine exactly what you want to accomplish by selling your practice. If all you need is cash, finding the "right buyer" is much simpler than if you want to remain an employee after the sale.

Determine the characteristics of the "ideal" buyer of your practice. Determine who are the potential buyers within that universe of buyers, and who are the potential buyers in your local pool of buyers. If necessary, broaden your search. Once you have received the purchase offers, select your ideal buyer: the one who fulfills most of your needs without requiring "too much" of you in return.

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