Ep #71: Partnerships - The Good The Bad and The Ugly with Dr. Mike Abernathy and Jeffrey Watson - Part 1

Full Episode Transcript

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Dr. David Phelps and Evan Harris

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You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps and Evan Harris. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

David: Greetings, Dr. David Phelps here in the driver's seat with you today. Just wanted to let you know that the podcast session that you're about to hear was recorded with my good friends Dr. Michael Abernathy and Jeffery Watson, my friend, attorney, on the topic of "Partnerships: The Good, The Bad, and The Ugly." This podcast recording is golden.

It went longer than most so we cut it into two episodes. You'll hear part one today and part two is the second podcast at the next session. So hold on, you're going to want to take a lot of notes. This one was out of sight.

Good day, everyone. This is Dr. David Phelps of the Freedom Founders mastermind community and *Dentist Freedom Blueprint* podcast. Got a great discussion for everyone today. That is going to be on the topic of "Partnerships: The Good, The Bad, and The Ugly." Or, we might say, "To partner or not to partner, that is the question."

We're going to focus on dental practices but this could be for really any business, any type of partnership. It really doesn't matter because the fundamental key concepts, the issues, the reasons why partnerships fail are pretty much the same across the board. I'll start off by saying that a partnership is very similar to a marriage. Today we know that about half of all marriages fail. So partnerships have the same track record.

So why should one consider a partnership? If one is going to do it, what are the pitfalls? What should one consider before getting into one? How do you set up the exit strategy when things come up in a partnership so that if the partners need to break apart, how's that done on the frontend so it doesn't become a total litigation nightmare on the backend? To help me with this discussion today, I've pulled in two of the top people in the field of dentistry, business, and law to help me.

First let me introduce Dr. Mike Abernathy who has been in the dental arena since 1974 as a practicing dentist. He has not only run his own multi-partner practice but he's also the owner of DDS Partners, co-owner and founder of Summit Practice Solutions, Dental Success Seminars, the list goes on and on. He speaks internationally. He gives back to the field of dentistry in more and more ways than one and is also a great giver to community and the world at large. Mike, good morning, how are you doing sir?

Michael: It's kind of like being at my dad's funeral when they started saying all these nice things about him, I thought I was in the wrong room. I'm glad to be here. I'm excited about being here. This is a great topic.

David: It's a topic that comes up all the time. Then my good friend, Jeff Watson, practicing attorney from Ohio. Jeff is also a frequent speaker on many forums, many platforms, both heavily into the real estate sector and also a contingent fee attorney. Also has a unique perspective on asset protection, investing, entity structuring, many, many facets of law and certainly has seen, probably helped develop, but also probably helped break up a lot of partnerships. Jeff, good morning, sir. How are you?

Jeffery: Far better than I deserve, Dave. I'd rather talk about putting them together right than taking them apart wrong.

David: Well that's what we're going to talk about. Let's start by talking or maybe just mentioning some successful partnerships that actually worked out well. I'm sure we can name many that didn't but we know that for example Steve Jobs and Wozniak with Apple certainly started a partnership that obviously worked out very, very well. Why did that work out well? They brought complementary aspects to that team. Each one had—Jobs had the vision and Wozniak was more the technical guy. So that one worked out really, really well.

We have Google with Larry Page and Sergey Brin. They began Google back in 1998. Obviously, that one has worked very, very well. Why did it work well? They both again brought complementary aspects to that particular formation and it succeeded.

Another one would be Twitter, Evan Williams, and Biz Stone, they cofounded Twitter and still going today. We'll see how far that one goes. One that's lasted a much larger period of time? Microsoft. We think of Bill Gates but it was actually Bill Gates and Paul Allen who cofounded that partnership back in 1975.

Another household name is Hewlett-Packard, so Bill Hewlett, Dave Packard. Back in 1939, that company is still rolling today. Obviously, they're not around but that company is still rolling. If you like ice cream, you think about Ben & Jerry's, so Ben Cohen and Jerry Greenfield obviously came together, worked well in forming that partnership.

eBay. In 1995, Pierre Omidyar and Jeffrey Skoll put that one together. Intel. Gordon Moore, Rob Noyce. Yahoo. Jerry Yang and David Filo. Procter & Gamble, where we get a lot of our cleaning products and toothpaste, cofounded in 1837 by William Procter and James Gamble.

So there's some examples of two people that came together to form a strong bond and partnerships that have lasted in some cases over 100 years. On the other hand, we can come up with maybe not-so-famous names but plenty out there that have failed.

What I want to jump into first, Mike Abernathy, is in dentistry in particular today we have a lot of forces that are kind of working against what we know as the conventional solo practitioner. What we knew for decades as the single entrepreneur went out and formed his or her practice and for the most part, succeeded. There was a lot of margin there. You didn't have to be a great business owner. You just open up and it just happened.

Today, we know it's much different. We have a lot of competition with corporate clinics. We have managed care that is causing a decrease in reimbursements and it just seems like it's a tougher playing field for the solo practitioner. Speak to that a little bit, the trends, what you see today, but what you predict in five or ten years. What the lay of the land might look like in terms of the dental solo practitioner.

Michael: Yeah, you know with higher and higher student debt, they get out of school, they have to go to work. Very few practices are prepared to add another doctor. You could mention all the benchmarks but there's a level at which you have to be at, let's say 90 percent of the doctors that are solo practices couldn't hire another doctor and make it work. So these kids go right into corporate dentistry. In fact, Heartland took 90 percent of one graduating class out of Florida last year. So they're going right into corporate practices.

Again, corporations have been around a long time. They're certainly a super competitor here and there's probably about five or six things we should have already learned from corporations that would have made us better.

Then with insurance and then our business becoming more commoditized and more consumer-friendly, we've got to take that into consideration. So I see over the next five or ten years since corporations are increasing seven percent a year that the practices that succeed will be practices with multiple doctors, open six days a week, adding a wider range of services, and reaching out to a wider range of patients to survive. So I don't see the solo practice, as a single doctor, working Monday through Thursday surviving over the next ten years.

David: So unless a doctor, or say in this case a young doctor, is working for a corporation that's already got solid business practices in place. They've got the marketing, they've got enough manpower, or I should say staffing to be open for consumer hours, two general practitioners who want to go together and start to form a partnership that might grow into a group practice, where does that go wrong, Mike? What happens there in many cases?

Michael: Well, yeah, certainly we could give examples of everything, but I have to say that if you think about this, there is a senior doctor normally who hires a younger doctor. You kind of talked about this when you were making your introduction. One of the things I see is doctors hire doctors, whether they're an employee or they end up being a partner, they hire somebody exactly like themselves.

That doesn't make sense because in most cases because they don't have enough new patients, they're not productive enough, they bring a new doctor in that thinks just like they do, they divide a practice in half. So neither one of them survive. So we're looking for a doctor who complements us. That again, kind of begin with that end in mind thought so that we can extend our outreach to a wider range of patients and services.

But I think the number one thing that causes these things to really not work well is that the senior doctor is not self-aware enough and he lets his ego get in the way. Because when you start to do this, you've got to be fully committed. That takes, you know, emotionally, financially, strategically, you've got to be committed.

The second thing that most likely causes these things to fail is that the senior doctor did not involve the staff in the decision making and choice of this doctor. I've actually spoken with doctors who called me on Friday and said, "Hey, would you do me a favor and come by the practice on Monday and kind of explain to the staff and introduce the new doctor who's showing up Monday?" I'm going, "You haven't even told them that you're bringing in an associate? Okay, yeah, that's great."

A lack of flexibility would be another thing. This is kind of like, you know, is it Target that has the "Blue Light Specials," or what is it?

Jeffery: That was K-Mart that had the "Blue Light Specials."

Michael: K-Mart, yeah, okay. Yeah, when you're looking for a doctor or you're looking for a staff person, that "Blue Light Special" was they had a special table. The light would turn on and it was a huge discount but it was an as-is table. It's going to be, you know, a brand or a color or a style that's went out of style. There's some imperfection there.

Again, if we don't have flexibility and realize that no matter who we hire or who we work with, that there's imperfections there and you have to kind of put on that whatever it takes t-shirt, it's not going to work.

Next thing would probably be a lack of access. I see a lot of young doctors complain that a senior doctor hires somebody and they only want them to do buildups or see kids or they don't have the same access to the facility's staff, new patients, and equipment as the senior doctor. That won't work. Oftentimes, it's the wrong practice strategy.

Finally, would be that they either have a poorly written contract or no written contract. Then finally, and I always ask doctors this before they bring in a partner or an associate, I ask them, "Is there anybody there that you cannot fire?” They're kind of taken back by that and they go, “Well what do you mean?”

“I mean, is there anybody that you can't fire? Is your wife working as an office manager or is your spouse working as an office manager?”

“Well, yeah.”

“Well, can you fire her? Because if it’s going to be a partnership, the new partner should be more important than that office manager.”

Or, “Do you have a daughter that’s a hygienist or a son that’s working…” Whatever it is, if there’s anybody there that you can't fire, I guarantee you, you need to think about this right now. This will become an issue. It seems to always happen where the one person that the two doctors disagree on is that one person that he can't fire. So that’s a short, quick list but does that help?

David: Yeah, that’s great.

Jeffery: Ton of content there, Dave.

David: Yeah, it’s good stuff. So, Jeff, let’s go over to your side. Again, you don’t have to talk about specifically dental partnerships, although I know you’ve helped a number of dentists. You are currently helping dentists in different forms or fashion. But in general, what’s your experience in terms statistically how many partnerships do you think actually fail today in a certain period of time? What’s your background on that?

Jeffery: I would tell you that the significant majority of partnerships don’t make it five years.

David: Five years? Okay.

Jeffery: I'm going to tell you a couple of reasons why I see that. Mike was so accurate with them. I'll probably just say the same thing but with different wording. The number one mistake that I see happen, particularly in the medical field, includes dentists but also other doctors and so on, is the lack of defined and agreed upon roles and responsibilities.

Who is responsible for what? Who has what authority and who doesn't. I'm going to tell you right now, a lot of times you get people who are attracted to each other because they respect the other person's talents as a practitioner. That's great but same, same, doesn't make a good partnership.

David: Right.

Jeffery: But we also know that opposites both attract and opposites can attack. I recommend you always go into something with your eyes wide open and you have to have defined roles and responsibilities. Who is doing what? Who is doing it, why?

I've seen partnerships established where in a non-medical space I've seen this with my own personal world, the business starts to encounter a little bit of difficulty, the projections that were so rosy meet the reality of life and revenue is down and expenses are up. One partner just checks out. He's too busy running another business now. He literally leaves the other two guys behind to clean up the mess. You can't have that. You can't have that. I could go on and on but, you know.

David: With that example, Jeff, things do happen in life whether they're voluntary or involuntary. So is that something that you have seen or you can write into an agreement? That’s kind of the breakup, that’s kind of the prenup, or the exit strategy when things do happen.

Jeffery: Dave, are you looking over my shoulder at my notes?

David: No, sir, I just realize that this is what comes up. So, all right, I’m stealing your thunder. Go ahead.

Jeffery: That’s okay. You're setting it up really good because the next thing is, in my notes is, you have to consider the common what ifs. You have to build in a mechanism to handle the surprises. What are the common what ifs? What if we don’t make money? What if one of us gets ill?

What if one of us gets hurt in a car wreck? What if one of us gets, god forbid, a divorce? What if one of us has a child that gets critically ill for a long period of time? What do we do? How do we handle that? What if one of us is really good at driving in traffic, bringing in patients, but the other one is really good at performing the technical work where the revenue is? I worked at a law firm like that. The clients loved one partner but it was the other partner they didn’t like that did all the work. So you’ve got to handle those common what ifs.

Then you also need to build in a mechanism in your partnership, again, I don’t like partnerships for a lot of reasons but if you're going to do it, have a written mechanism for how you handle the surprises, the common what ifs that you didn’t think about. How do we do this? Have a method for how you sit down as mature, responsible adult business owners and talk through the business.

David: People that consider getting into a partnership really need to go through some counseling, just like you would if you're going to get married. Go through and really establish all these parameters in advance and figure out who they are if they haven't done so already. Correct?

Jeffery: Yeah. I'm going to tell you something else, I'm seeing this playing out right now. You getting into a partnership are actually getting into a partnership with your partner and their other partners. Be it their spouse. Be it their life partners. Be it their other business partners.

Let me give you another example, stretch it a little bit further. Older doctor, more senior doctor, establishing a partnership, bringing in a younger guy that's been in the practice for five or six years coming out of school with a heavy debt load. Hey, guess what, you're getting into a partnership with the younger guy and the holders and owners of his student loan debt.

David: Interesting.

Jeffery: Don't you think that young guy wakes up at least four nights a week thinking about his student loans? You're in business with both of that. Think about that. Dave, I could go on and on.

There's one other comment that I want to make and then I'll be quiet here. When you're going into a relationship, when you're evaluating these opportunities, you have to have an honest discussion about exits, valuations, and time frames.

Procter & Gamble was established in 1837. Do you think those two guys thought about how they were going to do business in the year 2010 or 2016? Of course not. Do you think those two guys had an idea that the Civil War was less than 30 years away from them? No. They had no clue.

But I bet you they had some mechanisms and a relationship that let them talk through these things and figure it out. I can tell you regrettably subsequent generations of the founding families didn’t do so well because I've seen the litigation over multiple generations of the wealth compounding through the stock and it kind of created a lot of problems on valuations and such. But anyhow, you’ve got to think about exits. You're not going to practice for the rest of your life are you?

David: Correct.

Jeffery: When are you going to get out? Are you going to phase yourself out? Are you going to go cold turkey? When is that going to be? How do you value the business? What if we disagree as to the value of the business? How do we arbitrate that? Do we hire a third party appraiser? What are the time frames? Okay, so we build this business from scratch to now it’s a four-million-dollar business and I call up one day and say, “I want my money. Buy me out. Write me a two million dollar check now.”

No, you can't do that. What time frame do I have to come up with that two million dollars if it’s a 50/50 partnership that we've built up over time? How long do I have? Can I pay you off over ten years, what? Different thoughts. You’ve got to plan these things out. A lot of this is both good and bad changing because as LLCs become more and more popular, limited liability companies, and because they're often taxed and treated and run like a partnership, a well-written limited liability company operating agreement can cover the vast majority of these situations.

I can tell you from personal experience, I'm in one where we started with nothing, we've hit the Inc. 500 list, we've gone from zero to large, and it's all nicely controlled and scripted because we have a really well-written 50-some page long operating agreement.

David: So it can be done but everything you're talking about, which I know is real world, is kind of pushing me back to the other side saying, "Well, you know what, I don't think I ever want to go in a partnership so if I need the leverage and have a larger operation, Mike, and have consumer hours, and have a real business rather than me doing all the things, I think I'm just going to run with associates, that is employees with no financial stake."

How would you look at that today? Talk about what you did because you started out as a sole practitioner but you grew into a multi-doctor partnership over the years. Would you do it the same way today or would you do things differently if you were starting out as a young doc who had the ability to go and do what they wanted to do. How would you do it?

Michael: I'd do it either way but at the time I did that in my main office, not the ones I had in other states, but in that particular main office. It was a time when graduation rate of dentists was about 3,000 a year. There was about 6,000 doctors a year retiring. A great ratio, there was always practices for sale and the goal and strategy of a graduate was to have ownership.

That was at a time too when probably less than 3 percent of the people attending dental school were female. That's totally changed. Now it's 52 percent or more and only about 32 percent of the females that graduate from dental school end up in an ownership position. About 68 percent of the males will. This is one of those times where the times have changed, and again, if you want to do nothing but associates, you could easily do that now. There's an unlimited supply of doctors out there and because of their debt, they've kind of encumbered themselves. Again, there's a move away from ownership. So, could have done it either way.

But I did it that way originally because my problem was I was a very strong leader that had a good business model. We were doing, I think when I was by myself we were doing $300,000 or $400,000 a year. Then adding these partners made it better. When I tried it with employees, the average associateship will last around 15 to 24 months back then. They would move on to bigger and better things, especially if I got the right doctor. If you got a doctor that would work for you for five or six years, you probably got the wrong doctor.

David: Right.

Michael: Because they don't have that fire in their belly and they're not going to go get there early, leave late, go out and attract patients and become part of the community. They're just there for a job. So I think you could do it either way. I think it makes it easier to do it either way today. Now the advantages in having a partner as opposed to—I mean I understand the legal ramifications—but the pluses would be an owner treats a business different than an employee does.

So if you had the framework of a great contract or an operating agreement and really a great operating agreement or contract is basically structured by a caliber of attorney that has a lot of history in all the things that can go wrong. I can't tell you all the attorneys that I've made suggestions about an operating agreement. They go, “Well these guys are friends and this is a small town. This is small practice. They won't need this.”

I went, “Even more so, okay?” Because a great contract creates remedy for every possible situation you can think of, and you're still going to miss some things. But that structure is difficult to build. It takes a talented attorney and a CPA and somebody that has great insight and history in doing this. I think a dentist can create problems in an infinite number of ways. We must be really talented at screwing things up.

If you don’t have a great contract to guide you, you're going to be in big trouble. Now, if you don’t have trouble, it’s awesome because you're never going to look at that contract again but the bad thing about contracts, like wills, you never know how good it was done until something bad happens, and then it’s too late.

Jeffery: Mike, you made a very good point there. That is getting advice from competent, outside professionals. I really like the comment you made about accountants. I have seen and had the chance to work with accountants that that’s their focus. Their focus is on medical practice groups or on dental groups. These people are tremendous resources. They've been there. They've seen that. They've got the ability to look over the shoulders of hundreds if not thousands of dentists and see the things that can and do go wrong. They can help you anticipate those things.

Michael: That's not the average CPA.

Jeffery: Oh no, that's not the average CPA and I'm going to tell you, if you want an average business, okay, go get yourself an average CPA. You want an above average business, you better go find yourself an above average CPA that knows and understands your business, your niche.

Michael: If you look up the definition of accountant or CPA in the dictionary, it's not somebody that sends you a profit and loss statement with things miscoded 90 days after the end of the month where you couldn't make any management decisions. I mean, it actually says not only is it gathering that financial information, it's so that they can offer advice so that you can make good business decisions. I rarely see that happen with your first cousin or your brother or sister down the road.

It takes somebody with history of relationships with dental practices and they've got an entrepreneurial bone in their body and they're looking at this as a business, not as a bunch of numbers.

Jeffery: Right, right. I'm thinking of two different examples. One is in the grocery store business and one is in the medical practice business where the owners look at me and they go, "But for my accountant I wouldn't be here because my accountant, that's all they do is medical practices. That's all they do is grocery stores. So they see this and they know this and they can tell me what to anticipate." Those are the ones you want to go find. Those are the people you need to be working with.

Michael: Yeah, it's a different type of relationship. It's not just somebody you've employed. It's someone you've partnered with, big difference in fiduciary responsibility. Huge difference in responsibility.

Jeffery: It also requires you to be a lot more candid about your business and about your situations. Some people aren't necessarily as candid. I'm watching a partnership right now come apart because of that.

Michael: Right.

David: We'll pick on part two of "Partnerships: The Good, The Bad, and The Ugly" on next week's podcast. Stay tuned.

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