

Ep #72: Partnerships - The Good The Bad and The Ugly with Dr. Mike Abernathy and Jeffrey Watson - Part 2



Full Episode Transcript

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Dr. David Phelps and Evan Harris

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David: Greetings! This is Dr. David Phelps in the driver's seat with you again today. This is part two: the completion of partnerships: the good, the bad, the ugly. Hold on tight, you're gonna love this completion of this segment.

Jeff you talked about not pinpointing roles and so establishing clearly what each person, each partner roles and responsibilities will be, very very important we've given some definite consideration to the actual partnership agreement and how that needs to be put together by somebody who has a lot of depth and experience in that arena to handle the long list of possible contingencies that come up. What about just the failure to discuss between the two potential partners. The future you mention a little bit, Jeff, you know, about partners that couldn't see the future. Such things could happen, but what about the each person's goals? Where they see them, see life going, and where this partnership can go? How important is that on the front end to the extent that she can. Because.

Jeff: It's vital! David, it's vital it's, you know, it's .one of the things on my sheet of paper where it talk about exit, evaluations and timeframes. You know, it's where you're gonna have your goal conversation. Does everybody going into this partnership have the same vision? You know because if one guys going in there thinking "I want a

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creative business that I've got to work 24 hours a week and I can spend the rest of the time either on my boat or on the golf course" and the other guys goes into it saying "I wanna start here, I wanna have a chain of 15 offices across this Tuesday region." Their goals aren't the same – this deal is not gonna work. You know? So you gotta kinda have to, it's kinda like when you're dating, you need to have a conversation about kids and where are you gonna go to church and a few other things and money. The same conversation needs to happen here at the beginning of the potential partnership conversation, you know planning.

David: What about resolving a dispute or making decisions on expansion or there needs to be a capital call, what's the typical way that disputes like that are resolved? you have third party, we talk about third party arbitrators, or do you have a board of advisors or what, what have you guys both seen the past in that regard?

Jeff: Michael I want you to go first...

Mike: You deal with the bad end of it... I mean I...

Jeff: I do, haha! So you talk about the good end them..

Mike: You probably deal with both sides that gives you an advantage but I see all the bad things that happen to and I thought that it was interesting that you used family law about divorce as being the ultimate bad situation at the end of a relationship, you know, husband and wife. But I think the mistake is, like you said, is going into it without that understanding. But it's kind of a joke but also a lot of truth. I think a lot of women go into a relationship with a man thinking "I'll change him once we get into this

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relationship" and then a man goes on to it thinking she'll never change and neither one of those are great perspectives. Now, that can happen, in a partnership with doctor to, and so again, I would rather you start and then I can certainly flop out your examples with so many things that, you know, more dentally related.

Jeff: Sure so, you know, when you come down to, what we would call the decision making, the tie breaking and when we don't agree thing, I'll share with you from my perspective. The deals I've been in, the partnerships arrangements I've been in, and the ones that worked on. It's kind of a, it's kind of goes back to who's really in control. Based up on the terms of the operating agreement. Who's the majority owner, alright? And if we get into a situation where we're fifty-fifty, then we better have a deadlock mechanism, we better have a multiple layer deadlock mechanism. And then we better be people that are 'charactered' enough to accept and live with the outcome of that deadlock mechanism. You know, I rather see a deadlock mechanism, that says if two fifty-fifty partners can't agree on expenditure of \$10,000 or less, they flip a coin. If it's an expenditure, you know, greater than \$10,000, less than \$50,000, they go to the accountant and their lawyers, they get an advice and then they decide what to do. If it's more than \$50,000, then they hire a third party arbitrator to come in and look at it. You know, I'm getting a little ridiculous but, you can layer the tie-breaking that way, but have the mechanism in place and have the character to back it up ok, but the other thing I've seen in multiple relationships where you have three or more people, into a deal, you need to really look at who owns what, percentages, and who's

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committed to the business for what reasons. You know, I've seen situations where was, you know, forty-forty-twenty, and so any two can gain up from the other one. You can think about those things from that perspective because in a forty-forty-twenty, or 1/3-1/3-1/3, you can two against one is not necessarily fair and you've got to be able to say "woah! Wait a second, why are we doing it that way? What's really going on here?" And I mean, the worst case scenario that I've ever heard was two guys were in practice together, they had been successful for a long time, and they both, you know, one of them agreed, one of them persuaded.... we got this loyal assistant that's been with us for a long time and she's really helped us. What do you say, we both give her 1% of the ownership, so it's 49-49-2. And right after they did that, the one guy finds out "oh, there's a relationship between the two of them that's just far more than just professional work related, and now I'm getting out voted 51-49 all the time and I just got fired." You know, so there's some things to think about.

David: Mike, You wanna pick up on it?

Mike: Yeah, I mean, there's so many examples of, you know, again it goes back to that your corporate papers and operating agreements and having it well designed and I'm exactly like he is, you know, when we look at this, I like things to be as black and white in print as we possibly can make it because if it's not a problem, it's never gonna come up, if it's a problem, I want it so clear that it gives us very little wiggle room to just do what we want to and hopefully the solution was designed again by an attorney or someone with experience to know that it needs to have multiple layers and they need to have, redundant would

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be a better word, even redundant layers so that it doesn't depend on the personality of the people there it's black or white. And I see this happen a lot of times, they fall out of love, or ultimately wants just a whole and one dies, and often times when originally when these contracts are done, it's the senior doctor who's kinda pushing and running this, the junior doctor walks in and, he got a kind of 'halo effect', and the senior doctor takes the majority role in designing a contract, and then presented the young doctor, and then, while there might be a slight movement one direction of there, it really was designed in the senior doctor's favor, and I've actually seen this backfire where the senior doctor was thinking on exit strategy "I'm gonna be the one that retires first, or I gonna be the one that dies first, I wanna be the one that, let' say both, and so I wanna write this in such way, that this really favors me, and then the young doctor dies, or the young doctor wants to go in this formula that they set up, the remedy to that particular situation is catastrophic for the senior doctor. So it can go both ways in so, you kinda have to check your egos at the door and your personalities, and let a mediator of some sort, I mean the person who's drafting the document, advise you, and hopefully you're getting good advice and as I say, you know, I was at your meeting, who was it that said, you know the nice thing about being in this meeting, was we've all met a lot of advisers, we've meet a lot of consultants, we've meet a lot of lawyers, and I won't say exactly what he said. He said "I finally figured out, all of these people are whole of, you know, it's really important that you find a great adviser, not that that they're not gonna make mistakes or that they're impalpable, but they have so much more history in helping people do this and,

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again, if they are somebody with integrity, their whole purpose is to serve that client. And I remember my dad did family law, it wasn't that I had seven attorneys at my table I had seven generations of attorney. I don't have a male in my family that is an attorney except for me. My daughter's an attorney. But he made an error in drafting the will 26 years before and he went to the people when they were actually probating the will and wrote in them a check for little over a hundred-eighty thousand dollars because the integrity that he had in the fact that he screwed up. You know, this is one of his friends, best friends, and you know, he took, that relationship is real important and you need to be real picky about who you go to for advising stuff. Because you can get advice from anybody and oftentimes it's not worth anything so

Jeff: Mike let me piggyback on that for just a minute, when you are picking an adviser, I tell my clients and I tell other people look for two things: look for someone who has the heart of a teacher. Are they willing to teach you and work with you or they just gonna be, you know, some functionary filling at forms and cranking up numbers—that's not the heart of a teacher. The second thing is, I look for somebody who has their own business aptitude because they recognize that they're in business or that they have already other businesses so they know what it's like to run a business. And I've seen this so many times, you go to mid-size or large law firms, the associate that you are dealing with, they are an hourly employee, they are not a business owner. And you've got to find somebody who has the perspective of seeing it as a business owner in addition to having the technical knowledge as the lawyer, or as accountant etc.

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David: Great advice guys! With the last few minutes, I would like to just take one other aspects of this that we have gone to... and that is: What kind of background checks should be done on a potential partner? people think know each other, or they meet, they have some dinners together or how are they gonna put in this thing together, and everybody's affable and everybody seems congenial and nice but, one of these scenes, that's behind the scenes, if and when, any real due diligence is done?

Jeff: Look for other control egos, go find and watch to see how that potential partner treats the cleaning staff in an institution where they work. How do they treat the waiter or waitresses at the hotel or the restaurant where you may be staying or having dinner. Listen to how they talk about their parents. Listen to how... you know, if they are willing in their conversations to talk about the mistake that they've made and the lessons they learned from it, then they are not being candid with you. I mean, I... these people, I've sat down and listen to and everything that everyone wronged and anything that they were involved in was always somebody else's fault. And man, that is a big flashing red light that says STOP!

David: Mike, what about the legal or financial sides, what lurks behind that people can find out about by doing

Mike: Yeah, I have to agree with Jeffrey about that. I seldom see doctors who mishandle money or their means spirited to their wife or they don't treat their kids well, that they don't operate that way in a business or vice versa. But you are meeting people for the first time, so any time that I'm gonna meet somebody, and this includes, I mean you know, you meet people all the time David and you are

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busy, I don't meet as many people as you do, but I was meeting with an adviser yesterday, and I paid \$65 to have a criminal and civil background check done on this guy, I didn't use it against him, but it was kind of interesting to know, you used to work in your dad's lumber business did he for what? 15 years? And that's all I said. And then from that point on, this closure was a lot easier to get from somebody where they think you know more than I do. I checked the site board, I wanna find out, I checked criminal and civil background check, I checked social media. If it was an existing client, I checked their online review. I do call the references, I looked at and analyzed, you know, their profit loss statements, you know, I find out kinda of how productive they were where they worked and then I also ask them about that, there are certain things you can't ask in a job interview but, you know, for example, you can't ask, where their spouses are from, I mean, you know, if I'm interviewing a female doctor or interviewing a guy with a wife, I need to kinda find out where are you guys come from? Especially the wife, because you know, statistically, they're gonna end up a two and a half hour drive from the female's parents. I mean, you learn tricks and you learn them coz you need to know but the overwriting thing when I first talk from the phone is just to kind get a feeling of whether I wanna go any further with this process. That to me is very standard people's skills and on the internal motivation they bring to this potential relationship and it's true with employees, too. I find that I could train doctors to do anything except develop people's skills. And you know if you have been to your 40th dental school reunion, you'll notice that the doctors that did really well weren't the A student's. I mean they usually work for C students by that time but you

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know, it wasn't their clinical skill it was the one's that had people's skill and they kinda had a self-driven motivated attitude about glass being half-full instead of half-empty and stuff, I mean, that first interview has to be "I kinda like this person and they're interesting" and I make sure that when I'm interviewing, I never ask questions that they could just answer 'yes' or 'no', I just wanna hear them talk. And then I also, I know that you know that I do this, but I've had 22 partners in a variety of practices. And the last thing, we'll get it down to 1 or 2 and then I give the staff some money, they go out and just put them on a social setting with my staff, I find that females, for the most part, are more intuitive about how another individual fit into the team or the culture that we've created. And, on their advice, even the doctors that I thought were pretty good, if they said no, I said no. And that has been a huge tool for me and a huge, you know, to the success of having partners. I'd never had a partner that didn't work out when I did that and then the final thing was once I got the right person and they think they're hired, this is kind of weird. I know, I only had a couple of doctors do this but they were amazed how good this had made this work, I said look it appears that this is gonna work out fine and what I'm gonna ask you to do though, is when you come in here for the next week or two, you are gonna work as an employee, paid you know \$15 or \$16 an hour or whatever, somebody was paid at that time. I said "you're gonna work as a hygienist, until the very best hygienist and I had 11 of them, the very best hygienist I have tells me that you can clean teeth, you can communicate well, you understand the software and when you can do that, you get to be an assistant, and then you get to be the collection personnel. You can be the front desk person

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and you get be, whatever you want through the whole office, and the advantage of that is it takes a person who understands the dynamic of culture to allow that to happen, but the advantage to me was when he's there or she's there on Saturdays working and some questions comes up or someone's sick, they actually know the system and protocol to the practice as well, or better, than I do. And on the other hand, they came in, not as a doctor, but as a peer with my staff, knowing that they had to impress my staff. And once they did and my staff said thumbs up, they fought hard to make sure this doctor was a success in my practice and that's a weird thing to do but it's worked every time.

David: That's gold! That is gold

Jeff: I have to say the same thing, Mike. That's absolutely the protocol that, I think, everybody should use for some many reasons you listed. Excellent!

Mike: Let me add one other thing, too. Because that you know, everything we talked about, because some of the doctors I met at your freedom founder field where in the process of bringing in a son or daughter. The steps you are talking about, most of you are thinking about. Yeah that would be great with a total stranger but, in Texas called the YELP but this is my kid. you know, it's even more important that you do this with a relative, because that relative or that person is gonna be difficult to fire, is never gonna be a real team member if he doesn't earn that position or authority you've given him when they come in. And two, from the Standpoint of family law, you make sure to not give this kid anything that you don't give your other kids. If they feel at your desk, this son or daughter has to step up

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on them from this relationship with their parent or with the, he may be got the practice at a discount, I mean, it is even more important these contacts and stuff, everything is done dotting the I's and crossing the T's even more important with family.

Jeff: Oh! Absolutely. The thing I love about what you just suggested Mike is, not only does it help build the culture, but it also checks the test for humility and it tests for integrity and it just do so many other things in it, that it bust down and is a quick revealer of the entitlement mentality.

Mike: That's a good point! The entitlement, yeah.

Jeff: That's gold!

David: Listen, gentlemen. whether a doctor decide to bring in a partner, become a partner, go in a partnership, or decides not to, I think the information you provide today will, no doubt, save time, money, turmoil, for many many out there, that was the point today, seriously, you did it so, so well. The tips both of you gave are definitely gold and I wanna thank you and other people, that hear this, will thank you very much! Real quickly, if you wanna be available for people to contact you regarding follow up on this or get help on this, it's up to you of course, but what would be the best way? Mike I will go to you first, best way if you want people to have a chance to contact you?

Mike: Well, just e-mail me it's my last name Abernathy, Abernathy2004@yahoo.com.

David: And Jeff, I know you'll give us your cellphone number, right?

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Jeff: ahhh! No David, I won't. What I will do instead is I will tell people that they can find out about me and contact me by going into my blog watsoninvested.com where I share tips about entrepreneurship, investing, and business and things like that and there's a 'contact me' form in there. So it's watsoninvested.com all one word and that's a great way to get a hold of me.

David: Both of you guys, delivered a lot of information out there about the topic we talked about today and many other topics regarding chemistry and business, and Jeffrey your real estate entity structures, so much out that you guys both have immense amount so I would just encourage people to go to the websites, google them look them up. Lots of stuff out there podcast, blogs, books, articles, white papers, a ton of great stuff. You both excel in what you do. And thank you for the influence, the positive influence that you provide for so many. With that, we will call it a day, thank you gentlemen, have a great day.

Mike & Jeff thank you!

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