

Ep #13: The Power of Partnerships and Joint Ventures



Full Episode Transcript

With Your Hosts

Dr. David Phelps and Evan Harris

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Ep #13: The Power of Partnerships and Joint Ventures

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.

Evan: Well, this is Evan Harris with my good friend, David Phelps. David, are you there?

David: Evan, I am here, ready to rock and roll today.

Evan: I hear it in your voice, and we are going to be talking about something today that definitely is a hot topic and one that many people don't even dip their toe into, but when they do, they either have it all perfectly right for them, or it's fraught with challenges. I'm glad that you picked this topic, and let's dive right in. You know, David, dentistry has been by and large an industry that's been a solo-practitioner-focused industry, and sure there are duo and small group practices, but overall the quest of the dental entrepreneur has been to go solo. David, the first question I have for you is, "Should a dentist consider a partner or be involved in a joint venture?" And we can talk both in dentistry, we can talk in real estate. You take it from there.

David: Yeah, Evan, I think what we're talking about today is not just about dentistry or dental practice. Partnerships, joint ventures are utilized throughout all types of businesses, and even in personal types of relationships, investments. It spans the universe essentially, but we'll take some topics here that are very apropos for dentistry and also on the real estate side. So going back to your question, should a dentist consider partnerships or joint ventures, the first thing I'll say is most of them probably not, but let me clarify. I say probably not, because most doctors – and I am one, and my mind was in this place for many years – based on the way that most of us were

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trained in terms of our background and who we are. My years of experience and my forecast of the future in terms of dentistry is that being a solo practitioner is going to be less and less the mode that one wants to go.

It's going to be more difficult, and so I think it's time for dentists to think more in terms of what partnerships can do, what joint ventures can do to leverage who we are and what we bring to the table. We've been a culture of being very much rugged individualists and wanting to do everything ourselves. That's the way we're built, and I'm not saying that's a bad characteristic, but that control factor, you know, trying to control it all, do it all ourselves does have limitations, because we're one person. We have only so many hours in a day, and if we don't learn to play well with others, to team up and figure out how to put things together either through partnerships or joint ventures, then we really do limit ourselves. In the current economic climate that I see and I forecast for the future, it's going to be more important that we learn to utilize the synergy amongst other people that can bring the best to the table and let us use the collaboration, the cooperation, the cooperation versus competition, that's kind of in their nature, right? I mean, isn't that true that we tend to think that we've got to control it all ourselves? So it's just not our nature. It's not the generation that I grew up in and many people listening today that grew up in. We don't play well together, because that's not the environment in which we were trained. We want to reap all of the glory and also suffer the consequences when we don't make good decisions. That's really –

Evan: Yeah.

David: Do you see kind of the same things with the doctors that you deal with, Evan?

Evan: I do, very, very much. It's just much easier for you to say it as the doctor rather than me to say it. I can just say I've observed those

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things, but I like you saying it from your point of view. You've used two different terms, and I think for our listeners here, let's have you clarify them. You've used the word "partnership", which I think is very common to people here, and the word, the term "joint venture." Could you kind of share the difference between those two?

David: Yeah, I'd be glad to, and I think that's important to do. Partnerships are usually what people think about when they think about working with somebody else or going into business with somebody else on some basis. Partnerships are certainly utilized out there today, but they're complicated. Let's just take one partnership that we know very well, and that's marriage. We all know that marriage is something that we want, most of us want. We like the relationship, but it's a lot of work. It takes a lot of time, and there should be, I should say, a vetting process, which we call the dating process on the front end. Well, true partnerships is where two or more people come together and combine their resources, and those resources may be experience or context, network, financing, or capital. You bring these things together, and you try to complement each other in this entity called a partnership. The partnership agreement itself certainly has to be or should be drawn by an experienced attorney, somebody who has a lot of experience in this area, and it could be complex putting these things together. The more people involved in a partnership, I think the more dynamics, the more difficulty there can be. Again, just think about a marriage. That's enough to deal with for most people. So think about that in terms of a business. You have two people, or maybe three or maybe four that are bringing different things and ideas and dynamics to the table. It can complicate things greatly to go into a partnership. With a partnership, when somebody decides they want to fall out or separate from the partnership, or if there's a death or disability, or divorce, or all kinds of things that just happen in life, it's just a fact, that separating or dissolving the partnership can be very messy. It can require litigation, and that's never good. So I'm not saying, Evan – I'll never say that one shouldn't consider partnership. There

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are places where partnerships should be considered, and they can work, and I think in dentistry and in practice transitions set up the right way, I think partnerships can work very, very well. But again, I just want to make sure that our listeners understand that you don't just walk into them and think well, let's just – I'll go with the partnership with this doctor, this dentist, and all will be merry from here on after. It just doesn't work that way.

Now, let's look at the joint venture. The joint venture is a little bit different, and again, I'm not saying it can apply to everything in dentistry, but certainly there's aspects of joint ventures that work well, and we'll give a few examples before we end today, but a joint venture is different from a partnership in that there are what we call severable or separate interests. In other words, the combining of or collaboration of two or more parties are very well defined, and there isn't actually a mixing of the business. In other words, in real estate, I can joint venture with somebody in investment without being in business with them. I might be a lender on a property, and I can have certain documents that give me certain security and a certain return on my investment, so to speak, and the other joint venture partner can be the person who is a managing partner and can put a deal together and manage it, and that could be their responsibility. But we don't have to mix our businesses, and therefore we're keeping our interests separate, and we don't have to necessarily go through litigation if we need to separate. Our separate interests can be assigned or sold, and so it's a little bit cleaner operation. So that's the basic difference between a partnership and a joint venture, the difference in the severability of the interest in that joint venture.

Evan: Right. I appreciate the clarity. Could you give examples – and let's just on the real estate side – could you give an example of a joint venture within, say, the real estate world?

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David: Yeah, certainly, because I think real estate is kind of easier to start out with, most definitely, because most of our listeners are familiar with real estate, or let's just take a simple house, an investment property or rental property that has a tenant occupant. Whether you've had one of those or not, you understand that that's how that's set up. When I first started out in my real estate investments, I only knew one way to make that investment, and that was to acquire and buy the asset, control it 100%, which means I was responsible for everything that happened with that property. In other words, I had to be responsible for doing any renovation or repairs and putting the tenant in place and managing the tenant, and taking the income, and just dealing with all of those things that go along with it. Makes sense, right?

Evan: Yeah.

David: How else would you do it? That's what we all think. So I had to find the opportunity, negotiate the deal, close it, structure the financing, come up with at least some capital, and then manage any rehab and manage the tenants. So I wore many hats, and I wore some of them pretty well, others not so well, so I wasn't necessarily very efficient on all fronts. I was adequate, and only time made these initial investments pay off, time of letting these investments grow. I knew no other model at that time. So today I probably wouldn't wear all of those hats. For example, today I do a lot of joint ventures where either I'm the lender, and I've put my capital in, and I've let somebody else who I know, and I've done the due diligence, and I've vetted them out, I'll let them manage that property to a joint venture. Or on the other hand, I have an active business, investment business, and I have other doctors who want to be the passive partner, or co-venture partner, I should say, and they can be a lender in that capacity, and it makes it very, very clean, so they don't have to deal with the tenants and that sort of thing. That would be an example of how I put together a simple joint venture with a real estate investment.

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Evan: Uh-huh. Thank you. Yeah, that completely makes sense, too. And within the realm of dentistry, how would this apply? It might be called something different, but within dentistry, where would you see this playing out?

David: Sure. We already talked about kind of what's the default model for dentistry today, or have been for many, many years. It's been solo practice, right? At least that's what it was when I graduated, and I think that's still a preponderance, even though I think we're starting to move more towards dual and group practice format, but pretty much solo has remained the stronghold. If I look at medicine today, you can kind of see the writing on the wall. The innate inefficiencies of the solo practice owner just aren't there, and the margins with higher overheads and the capital investment requirements are making it just much more difficult to stay solo. I think today that anybody in healthcare at all better really love and understand what they're getting into, because there's years of education, the educational debt, the cap requirements, adding more debt, regulations, competition in the marketplace. If you really want to be a dentist and practice your craft versus being worn out, burned out, small business owner who has to wear multiple hats every day and every week, you've got to change the way you think. It is a huge paradigm shift, and I wish this wasn't the case, but it is, and we're not going to change anything by just trying to wish it away. Basically, a solo practitioner is going to start to fade away over the years, and the trend is moving faster and faster. So even if you're only a few years out from thinking about slowing down or exiting your practice, you need to start to embrace this type of a model, because it actually has more benefits than negatives, but you actually have to be open and expand your mind. Change is hard, but by embracing change and going through that clumsy, sometimes unfamiliar process can really open some doors, and I know that by personal experience.

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I had change shoved down my own throat, Evan, and what I mean by that – and I won't go deep into my story – but I had to make a change in my practice from being the dentist who did it all to bringing in first associates, and then transitioning from associate to partnership because my family needed me, and I had to pull myself out of my practice. I never thought that was possible. So rather than get mired in a pity party, I took action. And I didn't take perfect action, Evan. I wasn't really familiar with this model, but the action I took allowed me to accommodate the change that I needed and face that reality, and the result, I found new benefits in my life in the freedom by learning how to do really good partnerships in practice. That's where a true partnership, I think does come into place and can work well. But there's a lot of pieces that have to go into that, and we'll talk a little bit more about what that looks like.

Evan: Yes. Now, David, I've just encountered so many people that are really fearful both of what's coming as well as what might be forced upon them, and also just making the mistake – and I think you've covered those things pretty well. I'd like to – I think we talked about a lot of different topics within the joint ventures and partnerships. Could you just summarize if there was kind of a column of benefits of joint ventures, benefits of partnerships, could you summarize what you find within those two different options?

David: Sure. Well, with the benefits of the joint venture or the partnership is really I think our ability to divide and conquer. I feel like I'm pretty smart, and I'm willing to work hard enough to become pretty good at almost anything – I'd say anything that doesn't involve major physical prowess – but anything from like a work ethic standpoint, I'm willing to do it, and I think most of our listeners are as well. For me to try to learn everything or to be able to do everything, provide all of the services towards a specific target client group, I don't think I can do that, and I also don't think I'm doing the best for my patients if I try to assume so many different roles. Looking at the real estate side, for example, my real specialty is everything with

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single-family houses. I do own some commercial, and I own a mobile home park, but I've found that when I stay focused on one area, I get so much better than trying to do it all. If I find a good deal or an opportunity in another asset class like commercial or mobile homes or multi-family, I know who I can refer that opportunity to, and I can take maybe a minor joint venture participation with that person, but not try to run the operation. I'll give it to somebody who knows how to run that well and do it well. I don't have the infrastructure for doing commercial or multifamily. On the dental practice side, say I find a doctor who is just flat out ready to sell, been wanting to get out for several years, hasn't shown the interest in his practice anymore, and it shows in his numbers. He's got maybe a low overhead but also very low productivity. He just flat out doesn't care anymore. I do know how to take a practice and turn it around without involving myself as the dentist in the practice, but that's not my focus today. If I took this project on, it would consume a great deal of my time and effort, and I'd have to let something else go. Right? So the better thing for me to do is to find somebody else who loves doing that kind of practice transition and pass that on to them.

Evan: Uh-huh. Yes. That definitely clarifies things. Well, then we've got joint ventures. We've got partnerships, and if someone came to you and said, "Well, what's an alternative?" If either of those didn't fit, what else could they do?

David: So if that doesn't fit, let's take the practice again, the practice opportunity that I didn't want to go in and do the turnaround. So I've got a good friend, Dr. Mike Abernathy, and he's great with practice startups and turnarounds and transitions. In fact, he already has the management infrastructure in place for this. He's got the connections in that arena with lots of young doctors. He really enjoys mentoring them. So if I found the opportunity, and maybe even negotiated the contract sale price with the senior doctor, I could do one of a couple of things. One, I could just assign that

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contract to someone like Mike Abernathy, and he might just pay me a negotiated fee based on the value I had created through my contact and negotiation with the seller. That fee could even be split up and part of it paid up front, and another percentage of it could be paid on what we call “the back end”, meaning on a performance basis, how well the deal went. It could be a flat fee, or it could be that performance-based aspect, which is like no matter which side of the deal I’m on, it could make sense, and everybody is on the same team. That’s really how I do all of my joint ventures today that involve any period of time. I like them to be set up so that everybody contributes and everybody takes part of the action. It puts us all on the same time.

Evan: Uh-huh. Sure, if it’s a win, if it’s a big win, then everyone wins. If it’s a small win, then everyone wins along the same side.

David: Exactly, and then on a joint venture participation, I could base all of my compensation again on a performance-based formula similar to the dental practice situation, and I could also, if needed, I could contribute even more than my initial contract and negotiations. I might contribute some capital in the deal or some real estate into the deal. Who knows? The possibilities are endless. The point here is that I can be involved in lots of deals and have participations in lots of deals, which gives me a lot of good stability and diversity, yet still keep my focus on what I really like to do and what I do best. Does that make sense?

Evan: It does. So it sounds like you’re leveraging your skillset.

David: Yeah, exactly, but it’s all about leverage. It’s all about how we leverage, and it’s just a different way of looking at what we do in life, and it’s again, something that I wasn’t taught, and most of my colleagues and most listeners today really don’t understand, I think, the opportunity that leverage provides us.

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Evan: Okay, I'm going to put a "but" in here. But, what about the doctor that says, "Hey, I've got to give up potential profit and control." How would you respond to that?

David: Well, that is the big but, because we all like control. I know I do. I want to control everything. So that's a problem. But see, here's a good example. There's a well-known – now, he's since deceased now – but Trammell Crow was a great real estate entrepreneur in the Dallas area and other regions of the Southwest. He created an empire in real estate, and he did it all through joint ventures, Evan. The joint ventures that he did, he found good people, and rather than having them become employees, where they may be paid a basic salary plus some commission based on leasing or selling, he made them joint venture, co-venture partners, which meant that yes, he did, on paper, give up a bigger percentage of the profit. But what you can't really measure on paper is what did he gain in terms of freedom to do more deals and do what he was good at, and that was finding the opportunities and doing the negotiations, locking in the deal, and then he would turn around and find this great joint venture, co-venture partner and bring them in to run it and would give up a bigger piece of the pie, but now he had what? He had loyalty. He had people that had incentive to make the thing work, and he could move on to the next deal. That's the way I look at it.

Evan: Uh-huh, uh-huh. Okay. Thank you. We've got a whopping one minute left, and if you could – yeah, I know. This is going to be a big question, but just in one minute, give just a taste. Let's say someone listening to this says, "You know what, David? You know what, Evan? I want to find out more about how to form one of these joint ventures and one of these partnerships." What would you say would be one thing – how does one go about starting to form a JV or a partnership?

David: Well, obviously I can't go into that in great detail here right now, but I'll give one quick hint or tip. Any well-constructed joint venture or

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partnership has to begin with the individuals involved. You and I have talked about this before. It's about reason why and meeting of the minds, expectations. You've got to look at also the character and the integrity, those mutual goals that each party is looking for, and that's where most joint ventures or partnerships fall apart, because those foundational aspects are not set up with clarity and documented well from the very beginning. I'll leave it at that. We'll go into this in future podcasts.

Evan: Thank you for leaving us hanging. That could be a whole podcast right then and there, the how to of that. If you are listening to us on iTunes, please like us. Leave a review. If you want to be able to hear about a different topic that we haven't touched on yet, or if you want us to dig deeper on something we have mentioned already, let us know. We want to be able to create this for you. This has been Evan Harris with my friend, David Phelps, two men on a mission to help practice professionals grow and have the lifestyle of their dreams.

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