

Ep #16: The Art of Transitioning



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Dr. David Phelps and Evan Harris

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Ep #16: The Art of Transitioning

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: Hello everyone. This is Dr. David Phelps with another episode of the Dentist Freedom Blueprint with my good friend, Mr. Evan Harris. Even, how are you doing today?

Evan: I feel like I'm doing really great and thankful to be on the call. How are you?

David: Awesome. It's always great to talk to you. I love always to chat with you about what's currently going on. We're both immersed in the dental field. We get a chance to talk to, to work with dentists every week. Tell me a little bit about your day today so far. What have you seen? What have you been involved in? Maybe we can just pick up and run with the topic.

Evan: Sure. Be happy to. I just came back from a breakfast with a doctor who's going to be building a brand new practice. She has been practicing as an associate for I believe two years and was actually going to be buying that practice that she's associating in, but unfortunately as they began to practice together they never had a transition plan in place, meaning that there was never an understanding of what the practice would be worth, how the transition would come about, who would carry the paper, would it be bank financed, would it be partially owner financed.

It began to progress, but in even more complexity. As she began to realize that she wanted to buy the practice the senior doctor began being even less clear. It was a challenge for her

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because she really wanted to, but it just wasn't going to be a fit. For her, she did a lot of surveys, looked at the areas that are here in her town, and she found that she would prefer actually to practice a little further north and have a more holistic practice.

What I like about her too is that I feel like she knows her brand. At a time when I feel like there's so many more corporate dental offices coming into being, I feel like she's going the other way. She really knows who she is, the kind of patients she wants to really take care of, and she wants to be a little more on the holistic side, more of a boutique type style. It's going to be apparent to the patients I think when they walk in that this is a special place.

People are going to self-select. They either fit there or they don't fit there. She's really clear on who she is and getting to do it her way the first time.

David: That's really exciting for her and I know that having a couple years to be in practice as an associate has allowed her obviously to spend time looking at the real aspects of running a practice today, which truly is a business. Even though this particular associateship is not working out, she's had an opportunity to do what you said a moment ago, and that is gain clarity.

Clarity is so important today. That's where I find, and you've seen the same thing time and time again with two doctors who wished to work together, you have a senior doctor, you have a younger doctor who is looking for a dental home, a place to get started in practice in their career. They find each other somehow, online or through advertisements that the senior doctor puts out, and they get together but the problem is lack of clarity.

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It's not anybody's fault here. It's not an area in which we're trained as dentists. We're not really trained in the business aspects, certainly not in transitions, something that we typically don't do but once in a career. Maybe twice, but more times than not it's a one-time thing.

You have two people that are getting together with the best of intentions on the forefront, but that's kind of like, Evan, people dating and going on a first date and falling all in love with each other and going let's go get married. We haven't really dug into the deep relationship, have we? That's where the problem comes. You start out with good intentions, but then going down the road neither one really had the opportunity or even knew how to express what their expectations were.

In this case, when did the senior doctor really think that he or she, whichever the case is, was really ready to step away? At what point is that senior doctor ready to give up control? That's a tough thing to do. Then for the younger associate doctor, when are they expected to become more of a full-fledged or partner if it's going to be a transition? How is that going to work? What are the timelines?

These are things that I see that fall apart so many times, Evan, in people that have the best intentions but aren't able to bring them to fruition.

Evan: I agree. Sometimes I find that the senior doctor, they say that they're done, that they want to get out and they want to sell. They want to transition because they think they'll be able to get more for the practice, it's better for the patients. The associate starts coming in one day a week, two days a week, and all of a sudden senior starts living life again. They're only working three days a week, this stuff is pretty good. I don't want to end this.

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They'll come to me and they'll say, "Evan, I said that I was going to transition but three days a week, I've got a four-day weekend, I could do this for a lot longer." The challenge was that I don't think they truly knew themselves until they were in that moment. To find the highest success rate is when senior is able to be clear. They go to the associate and say, "You know what? I've been working five days a week for twenty, thirty, however many years, and I'd really like to be able to give up a day. Let's say it's Wednesday, right in the middle, and see how that goes. Let's see about giving up another day." As they have this experience, the associate knows that that's the doctor's plan.

There's also doctors that say they want transition. It's clear they have a higher purpose. They want to do outside dentistry, and they can't do that purpose if they're practicing at all, so for them it's very clear they want to give up all days and the associate knows that. They're looking for an associate that has interest in buying in. They have that know thyself moment, the senior, so that when they're interviewing juniors they know what they're looking for. Is this an associate that is just looking to practice a couple days? Maybe this associate wants to start a family and is just looking for some opportunities to work two days, three days a week, or is this a person that really wants to take over a practice and wanting to get to know if that practice is right for them?

I believe it starts with senior. The senior is going to select the right junior to fit with senior's goals. When senior really knows themselves of what they want to do and when they want to do it, they can articulate that to junior and begin to build that structure. What I mean by that is they can assess the value of the practice before the junior even starts building a patient base. Assess how much the practice is worth.

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They can have two different appraisals done so it's very neutral. They can be looked over and agreed upon so the junior feels really good, senior feels really good, and they can talk about payments. How is this thing going to be paid for? I've met juniors where they didn't understand how a balloon payment worked. Balloons sound fun to my kids, but I can tell you as a person that has to make the payment, balloons are not fun.

For those who don't know what a balloon payment is, just imagine a big chunk of change needed to be paid in one lump sum. Oftentimes it's only after a couple years, so there's kind of a run up to produce, but then a big amount is going to need to be paid. How can junior be prepared for that? Having the bank be prepared for that. Having enough working capital to be able to cover all of the overhead that comes up.

Also being able to prepare for any kind of softening when senior leaves, being able to be really ready for that, because in my experience it happens. Goodwill transfers, but a percentage. How that transition is done changes how that percentage gets transferred in my experience. The more they can do it together, the more that senior wants junior to win, the better that transfer is.

David: Yeah. The problem I see often, Evan, is that when the senior doctor should take the lead, and taking the lead in this case to me means they should have already had help in looking at the numbers of their practice, the numbers, the efficiency, the productivity, the metrics such as what's the new patient flow, do they have the capacity in their practice to bring in more patients, to have that junior doctor working either side-by-side or perhaps better even yet is expanding hours.

Is there staff on board? Is there staff ready to go? Is the staff ready and willing to accept the new associate? Many times there's a subconscious protectiveness that the existing staff

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have for the senior doctor and here comes junior doctor. If the stage has not been set correctly by the senior doctor taking the lead and bring their staff onboard, and by doing that the senior doctor has really got to create the right culture. He's got to create the vision for why am I wanting to do this, and it has to be a we, not a he or a her. It has to be a we.

If you don't have the staff onboard and give them a reason why you want that junior doctor to succeed, many times the existing staff may inadvertently sabotage. I use that word sabotage, not because they're overtly trying to sabotage, but they're still thinking we've got to protect the senior doctor. We want to make sure the senior doctor is making enough money. By the way, the junior doctor doesn't have the confidence, the junior doctor is too slow, the junior doctor ... They'll start comparing senior doctor and junior doctor.

Of course the junior doctor is not going to have the years of experience and the skill set and the communication skills to provide the same ... I shouldn't say the same level of care, but the same mannerisms are not going to be there. These are expectations that have got to be set up front. If it's done right, then the staff can kind of take the lead in this and embrace the new doctor and make sure that they're given full opportunity to see the right patients.

The senior doctor I think would also be very wise to put some of his best team members with that new junior doctor. Don't give them the new assistant you just hired yesterday who just got out of training school. That doesn't help. That's just inexperience leading inexperience. You put the best team members so that that junior doctor doesn't have to think as much.

Thinking back when I first started. There's so many things going on in your mind and you need someone there to help take you

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through those procedures that just haven't become second nature to you yet. There's a big part of the culture that I think oftentimes leads to a breakdown in making potential associateships to full transitional partnerships and buy-outs, make them fall apart. That's a key area that I think many don't focus enough time on.

Evan: I agree. I find that there's two sets of dentists that are transitioning, those coming from inspiration and aspiration, those that are very clear on where they want to go, what they want to do. Then there are those out of desperation. Those are the burned out, done with dentistry, but financially need to work a little bit longer and they're just doing things out of necessity. Those, unfortunately, in my experience sell the practice for much less, they have transitions that fall out numerous times, and many times they just end up brokering the practice, tossing the keys to the next doc and getting pennies on the dollar.

Those that come from inspiration and aspiration versus desperation, they are preparing for transition a year or two ahead of time. They know their numbers. They know their opportunities. Oftentimes when they look at the practice that way they sometimes delay their transitions another year because they see the opportunity. They look at their recall system and they go, "Oh, my gosh, we keep producing what we're producing and our recall system can improve like this?" Or, "How much marketing have we been doing? I thought we were doing marketing, but I guess we're really not. Look at our website. Wow, we haven't changed it for five years. I changed my cell phone two times in five years."

Those who come from inspiration and aspiration have a much clearer destination, and when they welcome that junior doc all the numbers can be laid out. The number one thing I hear my junior doctors be concerned about is when they or their

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accountants or attorneys as asking senior doctor for numbers and senior can't produce them in an efficient and professional manner. They oftentimes come to me and they say, "What do you think senior is hiding?"

I know the seniors. These are typically people I'm bringing together. I'm not a broker, but I try to be the friend of the practice. Senior has no intentions to do anything wrong. Senior just doesn't know. Senior is still amazing with their clinical gifts and still amazing at their oral skills, but their financial margins, those numbers are often not looked at. When it comes time to deliver all the books it's just not a professional package.

When it is a professional package and the doctor can speak fluently about it, that's when junior I find really has much more buy-in because they know what they're getting. It's like buying a vehicle and not knowing how many miles are on it. It's a guess unless it's a brand new vehicle. That vehicle is ten years old. I have no idea how many miles are on this thing. What's the history? There's no Car Fax. The junior is looking for the proverbial Car Fax of the practice, and they're looking for the specialists like their attorneys and their CPAs to give junior a nod.

Most of the time they're so scared like the lady I just met with today. She's totally scared, and she should be. There are a lot of things that are going to be relying upon her to perform and she wants to do it right and I admire that. How senior is going to be able to deliver that blueprint I believe will change the way junior moves forward, and frankly will get them a lot more for their practice.

David: This is so true, Evan. That's why I say that every dentist, no matter where he or she may be in their career ... Whether they be ten or fifteen years out from thinking about even transitioning or retiring or selling, or maybe they're within five years, but

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wherever one is, one should always be considering what will the transition plan look like for the very reasons you espoused.

When you're thinking about a transition or selling a practice, you do just what you said, Evan. You start looking at your practice as a business. You start looking at your current marketing, your website. You look at everything that you do in the practice. You look at your systems and you have to look at your books. A lot of doctors, if they're running solo, they can be a little bit sloppy about how they run their books because they don't have shareholders. They don't have the people looking in and that they have to be accountable to.

Now when you're looking to bring an associate in or sell a practice, sell a business, you are going to have attorneys and CPAs and other people that are good at looking at numbers. They want to see those numbers. As you said, Evan, if you can't produce those in a logical and organized fashion, that doesn't mean that you're doing something wrong or hiding something necessarily. I just think it shows disorganization and probably a practice that is not ready to transition, to sell, or to bring on the associate. That should be a red flag.

If that's where a doctor is right now, even if you're not thinking about selling or transitioning, now would be a great time to start looking at your practice as if you were going to set it up to bring in a new associate or sell it within a year. Start talking to your professional advisors as to cleaning up the books and look at your current marketing. Look at your systems. Look at everything in the practice from the standpoint as if others will be looking at your practice.

You do that and I guarantee you that your own practice will feel better, it will work better, it will take stress off of you. As you said, Evan, many doctors who go through this process thinking that they're ready to sell or transition, if they go through this

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ahead of time they start liking their practice better, and maybe it's not quite time to bring in the associate, but now you set the stage. Everybody is onboard and this is working well and the revenues and profits are better and you're in a much better position to then advertise, market for the right ideal subject to come into play.

Evan: Yeah. Yeah. If they could document those things as far as the what if ... For example, I had a senior doctor that was supposed to be transitioning out in one year. Senior doctor found that after six months they didn't want to leave. There was no provision for that and the associate had already started to make equity payments coming in.

I had another situation where senior was supposed to transition in two years but senior had a health issue. Senior had to be gone in one year, actually less than one year. The challenge there was what happens to the good will? They weren't planning on him departing so fast. The good will hadn't fully transferred, so what discount did that practice sell for?

Those are the kind of things that I love when my seniors and juniors can build into the paperwork so that the provision might be if senior is unable to complete the two year transition the practice will sell for this percentage of the full price. Or if junior decides to back out in the ninth hour, what will the penalty be, especially if they're paying payments going in? Would they sacrifice some of that down payment?

I had a senior doctor call me just three weeks ago and said, "Evan, I thought this guy was going to buy my practice. We were one month away and had been in it for years, and then junior dropped the bomb that junior is not going to buy." Senior has now in tough place. He has to find a whole new associate and his health and lifestyle is that he wants to move on.

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With those type of things I love to see even more documentation ahead of time so when the surprises arrive they're not surprises. There's a plan for a surprise and are able to move forward and it's less emotional. If it's documented it's more objective, less subjective.

David: Those are great points, Evan. Let me kind of wind things up with this question and we can kind of bounce this back and forth. I know we both have some perspective on this. Let's think in terms of a junior, the younger doctor who is in that position right now just like the younger lady dentist that you had breakfast with this morning. In their opinion the ideal opportunity is to go in with a senior doctor, to be mentored and have an opportunity for that transition in that practice.

What do you think a few of the key things that the junior doctor should be looking for? Without them knowing about all of the finances and things like that, but what in terms of the characteristics of the practice, the characteristics of the senior doctor ... What sort of things do you think that junior doctor should look for, Evan?

Evan: Sure. Just kind of like in real estate, David, when we look at a house, you and I are going to go look at the foundation, we're going to look at neighborhood, location, all those kind of things. I would really do the same type of thing. Most people have bought a car before or a house before. I would look at a couple things.

One, where is it? Look at the location and then vision forward. Where is this location going to be in five years, ten years? What I mean by that is what's happening to the neighborhood? Is it getting better? Is it getting worse? Is it stagnant? Are more dentists coming in? Are dentists going out? If they're going out, why are they going out?

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Always start big. Start way out, like miles out, and then move streets in. What developments are coming locally? Then I'd go inside the doors and I'd look at things such as patients. Tell me about the patients. How long have the patients been with the practice? How long is the average patient with the practice? What's the average dollar paid? What I mean by that is are these patients coming in and out? Is it like a revolving door or are these patients solid? Are they coming in and they're staying twenty years? The average patient expenditure per year and then multiply that by twenty.

How has this practice been? Unfortunately, how it's been will oftentimes continue, at least until the junior can turn it around. I can tell you oftentimes the turnaround is much more challenging. If it's already going in a general direction the way junior wants it to go it's much easier to guide it than try to do a U-turn from my experience.

In addition to the patient base, what about the team? How long has the team been there? If they haven't been there long, how long was the previous team member there? How long were the previous team members to that? Is this a revolving door practice or is this a practice that has a culture? Is this a practice that has a really tribe kind of feel that I'm going to be a part of and how do I like this tribe? Is this tribe congruent with me, Evan, or is this tribe congruent with Bill, the seller, who is a completely different type of person?

Then I would go into technology. What's the technology currently within the practice? What are patients accustomed to? What technology would I need to invest in to make this thing go? The other would be treatment plan. What kind of treatment is being done and would I do this treatment?

I have a doctor that is an amazing implantologist. He's a general dentist, but pretty amazing on the implant side and

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does cases that are beyond what most people do. The challenge is his production is super healthy but it may only consist of procedures that most juniors are not fit to do. Whoever buys that practice is going to be a unique guy or gal. They can't just sell to the general public.

I would look at that. I would look at all those things and then see if that's someone who I am or if that's someone who I'm desiring to be.

David: Those are great, great points. The only thing that I can add to that at all, Evan, and it kind of fits alongside what you said about culture, and of course the culture is really going to be created by that senior doctor, so I want to look at that senior doctor. I want to really get a feel for who this person is and what they stand for, what their convictions are.

I want to see them several periods of time in the practice. I want to see how they communicate, how they deal with the normal stresses, the ups and downs of a day. How do they handle that? Are they under control or do they lose control? Is that someone I want to be mentored by? Is that someone that I want to be spending the next several years under their tutelage?

Those are the things I think that are key in just evaluating that senior doctor to make sure it's somebody who I feel like I can gain the most in terms of their experience. Are they willing to be a good mentor? Are they willing to give me the time and invest in me if I'm willing to invest in helping them with their practice as we go into a transition?

Evan, I think this was a really, really productive conversation. I think it would be really fun if we followed along the young lady dentist who you are helping right now to move out of her current associateship into that new practice. Let's come back a few episodes down the road and check in, see where she is, and

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perhaps we even can get her on one of our episodes and do an interview with her if you think it's appropriate.

Evan: That sounds fine. We'll be having the opening day here in one month and fifteen days.

David: Excellent. All right. Ladies and gentlemen, this has been another episode of Dentist Freedom Blueprint. If you enjoyed and benefited from this podcast please subscribe on iTunes, give us a review, and invite any of your friends and colleagues to listen in on the Dentist Freedom Blueprint Podcast.

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