Phase Two of Your Transition: Design

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We have discussed, in prior articles, the three phases of your transition planning. Phase One is the important first step in understanding the value of the practice and showing the doctors how the buy-in will affect both purchaser and owner. This phase is crucial to educating the parties on how the economics will work and how the deal can benefit both.

We have talked a lot about valuation and how we do it in a fair and objective way; unlike the broker “valuations” that are thrown around.

This month I want to concentrate on Phase Two. This is the design phase. This is, essentially, the “treatment planning” phase. In Phase Two we will design the legal, tax, entity and business structure of the transition.

This phase is crucial to showing the current owner and an incoming associate/partner how the deal will be structured.

After understanding the valuation and purchase price and how the purchase can be financed, the next question is; how will this deal be structured?

For instance, how do we deal with partners not getting along and needing to separate; what if a partner dies; what if a partner is disabled, or is divorced? How are partners to be compensated; how will they share profits? How will partners be retired and bought out? How will the practice be valued for all of the above?

In what type of entity should we operate our practice, going forward? Should it be a corporation, or an LLC?

How should the buy-in be done; as a stock purchase, or an asset purchase?

These are all crucial issues that need to be covered in the design phase.

All of these and other issues are designed and compiled in a document called a Letter of Intent (LOI).

The LOI presents the deal for the owner doctor and the prospective, or existing associate, and is crucial to the understanding of the transition.

Think of this phase as the “blue print” of the deal

This phase is vital for the parties to understand the terms of the deal.