

Changing of the guard

Successfully transferring an established practice

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In the past, a family physician giving up an established practice was almost always moving on to full retirement. If he or she wanted another doctor to assume care of the practice's patients, the retiring physician would look to newly graduated interns or residents.

In recent years, three trends have altered this. First, the growth of two-career households and the career paths of nonphysician spouses have brought new pressures on families to relocate for job purposes. At the same time, it has become less common to have a single "career" from graduation through to retirement, with many doctors choosing to retrain or specialize in non-office-based activity. Finally, new graduates are less likely to settle immediately into a full, established practice. As a result of these three factors, family physicians have become less likely to spend all their working years in a single community. Established practices more frequently need replacement physicians. Fewer graduates, but a greater number of experienced physicians, are available to take the place of a departing doctor.

As practices change hands more often, increasing numbers of physicians are faced with the challenge of successfully transferring a practice. Unfortunately, discussions with our colleagues across Canada reveal that most family doctors are poorly prepared to evaluate either a new practice opportunity or a potential successor for their current practice. Consequently, many practice transfers lead to unhappy surprises and dissatisfaction for one or both parties.

Leaving a practice

To transfer an established practice successfully, a departing physician must recognize two facts. First, the arriving doctor is assuming nearly all the risk. Second, there are more practices looking for physicians than there are physicians looking for practices. This means that departing doctors must create attractive conditions or risk being stuck with winding down the practice and continuing to manage the accumulated medical charts.

Maintaining an attractive practice. The most common mistake you might make as you plan to

leave practice is neglecting things. With departure on the horizon, you tend not to replace outdated equipment, to postpone routine maintenance and repairs, to ignore your staff's concerns, and possibly even to become less dedicated to your patients. The overall effect is a deteriorating work environment that potential replacements will detect if they carefully review the practice. Maintaining the practice properly will provide better working conditions for you and make the practice more appealing to physicians looking for a new practice.

Though maintaining the practice is necessary, it is not sufficient. When looking for a replacement, you must "sell" the practice, both by actively advertising it and by preparing a comprehensive information package for anyone inquiring about taking over. Classified advertisements in medical journals, notices placed on bulletin boards in hospitals and at residency programs, and provincial medical association placement services are all good ways to promote the practice. Be prepared to provide a detailed profile, including recent financial statements and summary of current lease, association, and employer obligations, to prospective physicians. This will show that you are both organized and serious about reaching an agreement.

Estimating practice value. Another frequent error you as a departing physician might make is to overestimate how much the practice is worth. In communities where physicians are in short supply, you will be fortunate to find any physician willing to take over the care of your patients, let alone someone who is willing to pay you for the privilege. Though you can still recoup some of the equity built up over the years in areas of physician oversupply, the shortage of doctors willing to assume a practice means that it is a "buyer's market." Pricing the practice properly (which might require discussion with a practice management consultant or experienced practice evaluator) and a clear willingness to negotiate will help to distinguish your practice from other available opportunities.

Taking on a practice

If you are considering taking on an existing practice, you must first be sure that this is the best choice for

you. Given the cost of your time and the professional advice you will need, even if there is no purchase price to be paid, assuming a practice makes sense only if you expect to spend several years in it. Further, you will be able to build a practice from scratch extremely quickly in underserved communities, which could make it unnecessary to go through the work of transferring a practice.

On the other hand, there are definite advantages to taking over an established practice. First, you are assured of immediately having a full practice with full revenues. In addition, you will be well positioned for changes in general practitioner payment; rostering and capitation both reward physicians with large patient populations. Finally, you will be able to say no to unnecessary visits and difficult patients, something that is much harder to do when building a practice.

Deciding on location and type of practice. If you decide to proceed with the idea of finding an established practice, you should begin by deciding where you want to practise. Whether you are looking for urban or rural settings, remember that where you decide to settle is a family decision; be certain that you are comfortable with the non-professional life of the community before considering any practice opportunities.

Once you have settled on possible locations, you should next consider what type of practice you want. Do you want to work alone in a solo setting or would you prefer to be part of a group? Do you want to work full time or would you prefer part time? Are you happy to spend all your time in the office or do you also want to include obstetric, emergency, hospital, or nursing home care?

After you have narrowed down the type of practice you want, you should begin to look for practices that are actually available. As mentioned above, journal advertisements, bulletin boards, and placement services are all good sources for opportunities. However, the very best practices often change hands with simple word-of-mouth advertising within the medical community, so be sure to also let your colleagues know that you are actively looking. Given the previously mentioned buyer's market, you should be able to identify quickly practices you want to examine more closely.

Do the finances last. When evaluating a specific practice opportunity, you could make the mistake of beginning with the finances. The problem with this

approach is that it assumes that a practice's financial success is the most important determinant of professional satisfaction. In fact, most doctors are happier in practices that suit their personal style but are financially marginal than they would be in profitable practices with unrewarding doctor-patient relationships. The more your approach to patients differs from your predecessor's, the more you will feel pressured to either change your way of practising or turn over a substantial portion of your patient population. Changing your style is usually too stressful, and making large changes to your practice population defeats the purpose of assuming an established practice.

You should start by evaluating non-financial aspects of a practice. To verify the age demographics, ask for a computer printout (some programs actually have standard reports that provide this information) or take a random sample based on 1 week's appointments. Close examination of the appointment book should tell you how much time is spent with each patient and how many complete physical examinations and psychotherapy sessions are done each week. Also do a random audit of 40 to 50 charts for patients with common problems, such as diabetes and hypertension, to get an idea of the frequency of reassessments, as well as the layout, legibility, and completeness of charts. Finally, be sure that you clearly understand the number of hours spent in the office and in each nonoffice activity.

Reviewing finances. If the practice profile seems promising, you should now move on to reviewing its finances. Carefully examine the most recent annual income statement and the detailed provincial health plan payment reports for the past 3 months. Try to establish how much money is earned per hour in each type of work (office, emergency room, etc). In addition, try to evaluate your prospects for sustaining the same revenues. The less things change (eg, by keeping the same office location, same employees, and a similar practice style) and the more good will the current doctor has built up with patients, the more likely it is that they will continue coming to see you after your predecessor leaves.

You also need to take a close look at the expenses. Concentrate on salary, rent, and computer costs, which compose the greatest part of overhead in most practices. Be particularly certain you understand the true cost of commercial lease agreements, which often include annual charges over and above monthly payments.

Negotiating

At this point, you should be able to decide whether you want to negotiate formally to take over the practice. Meet with the departing doctor as soon as possible and discuss the details of the transfer. Areas for you to review include the current office lease and renewal options, how to communicate the transfer to patients, and procedures for arranging appointments to any institutional positions. If you will be joining a group practice, carefully read the association or partnership agreement, with particular attention to how decisions are made, provisions for resolving any conflicts, and mechanisms for either party to terminate the arrangement.

An area of special concern is whether or not current employees should continue to work in the practice. If they are willing to stay, interview each one as thoroughly as if you were hiring them anew and then make a concerted effort to keep those who will work well with you. For most practice transfers, staff are the most valuable asset you will acquire with the practice.

Once you reach an agreement in principle, both of you will need legal and accounting advice. Your lawyers should draw up the contract, review the lease and group practice agreements, and advise on any employment law issues related to continued employment or severance of current staff. To keep legal fees to a minimum, inform the lawyers that they are to

provide counsel but will have no mandate to negotiate on your behalf. Even if there is no money changing hands in the transfer of the practice, there are still tax implications that each of you must review with your respective accountants. When both parties are satisfied with the transfer agreement, sign it and any other binding contracts (such as leases and group practice agreements) simultaneously to assure that the arriving physician has secured everything necessary to begin practice.

If the review of the practice and negotiations for transfer have gone well, the transition period, which ideally will allow you to work together for a few weeks, should pose no problems. Though both of you will have spent considerable time and energy on the process, the departing physician and the successor will be able to move forward satisfied that they have done well for themselves and for their patients. ♦

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