WUTCHIETT TUMBLIN AND ASSOCIATES
3200 Riverside Drive, Columbus, OH 43221-1725
Phone: 614/486-9700 Fax: 614-486-9779 Email: wta@wellmp.com

Better Management is Better Medicine®

Succession Planning - 2010

The sale of your practice is either imminent or on the horizon. How can you prepare for the sale? How can you ensure the value of your biggest investment is at a level to help fund your financial independence? You need to know how much your practice is worth now so you know what to improve, and what to expect when the time for a sale arrives. When are you going to sell? Who are you going to sell to? What do you need to consider prior to a sale? Don't wait until the last minute – take some tips from Dr. Shores and Dr. Farmer and start thinking and planning for your exit from the practice now.

[The following is a composite scenario. The names of the individuals and practice mentioned have been changed.]

Dr. Nancy Shores has been the sole owner of Beach Front Animal Hospital for 15 years and hopes to retire in five years. She has a buyer lined up and wants to be sure she can afford to reduce her schedule and sell her practice in that timeframe. To plan for financial security she must first determine her required investment base. She knows she doesn't want to change her standard of living after she retires; in fact, with the trips she has planned, it's likely her cost of living will increase. With tax, the required income to cover her projected living expenses is $150,000. Dr. Shore's investment sources include both personal and business assets (see **Figure 1**). Her liquid personal investments include CDs, a Roth IRA, a 401k, and mutual funds, while her illiquid investments include a rental property. Her business assets include Beach Front Animal Hospital and the real estate the practice is located on (which she owns). Dr. Shores' advisor helped her calculate the future value of her personal assets at retirement and then compared her current investments to the investment base required to cover her living expenses at retirement (see **Figure 2**). When Dr. Shores saw her investments, excluding her practice, were $1.1 million shy of her requirements, she knew her practice must make up the difference.

Figure 1 – Investment Sources

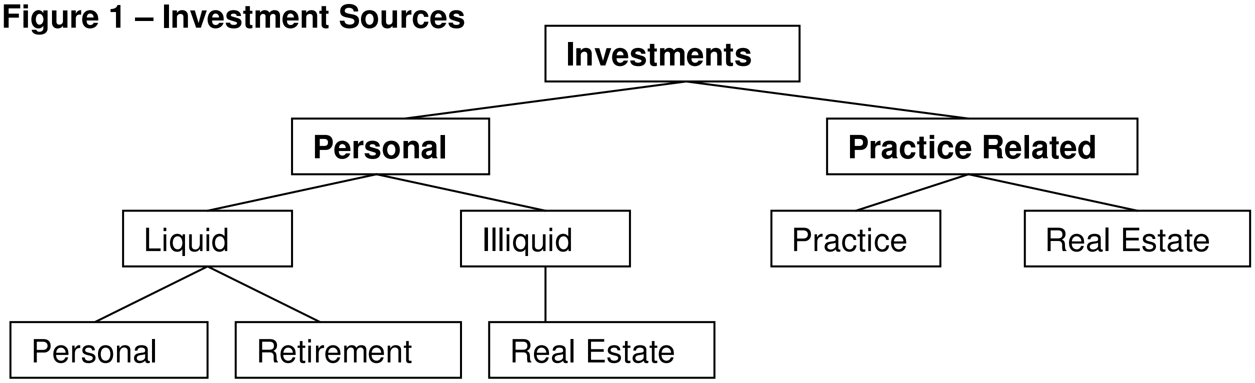

Figure 2 – Planning for Financial Security

Expenses		Income	
Living Expenses	$ 110,000	Personal Investments	$ 700,000
Tax Liability	40,000	Practice Real Estate	700,000
Annual Cost of Living	$ 150,000	Practice	?
Annual Cost of Living	$ 150,000	*Future Value of Investments without Practice*	*$1,400,000*
Return on Investment	÷ 6%		
Investment Base Required	*$2,500,000*		
Target Value	$2,500,000		
Value without Practice	1,400,000		
Shortfall	**$1,100,000**		

Dr. Shores wants to first determine the current worth of her practice so she'll have a benchmark to gauge where she stands now in relation to where she wants to be. Disappointingly, her practice value came in at $439,000, over half a million less than she hoped. Fortunately, a valuation can be a useful tool in determining areas which need additional attention. The practice valuator explained that in order for Dr. Shores to reach her goal of $1.1 million, she will need to increase her earnings and suggested several ways to do that. She will value her practice again in three years to ensure she is making progress toward her target value and again as of the date of the sale so she'll have an accurate reflection of the practice value at that time.

Dr. Shores' associate, Dr. Kevin Farmer, has expressed an interest in buying 100% of Beach Front Animal Hospital. Given that Dr. Shores wants to retire in five years, both doctors decided it would be best to create a development plan so Dr. Farmer could gain an understanding of how the practice operates and the types of decisions he will make as an owner. [See: **Callout: Who do you plan to sell to? What traits are you seeking in a buyer?**] Dr. Shores also wants to be sure he is prepared for the debt load from the purchase, understands the financial benefits he will reap as an owner, and is comfortable

Figure 3 – What's Included in Your Business Mentorship Program?

Here's what Benchmarks 2010 participants said:

Medical development	82%
Staff development	82%
Client development	77%
Facilities, equipment, and technology management	73%
Financial management	73%
Well-Managed Practice tools	5%

The first five items listed above are the management areas an owner typically handles.

WUTCHIETT TUMBLIN AND ASSOCIATES
3200 Riverside Drive, Columbus, OH 43221-1725
Phone: 614/486-9700 Fax: 614-486-9779 Email: wta@wellmp.com
Better Management is Better Medicine®

with the responsibilities he will assume as an owner (see **Figure 3**). While Dr. Shores would prefer to delegate staff development to Dr. Farmer as soon as possible, she recognizes his current strengths are better suited to medical development and facilities, equipment, and technology management. She asks Dr. Farmer to first take the lead (with her guidance) in these areas, and in successive years he'll add responsibilities in the other areas. Dr. Farmer will supplement his knowledge of ownership by attending practice management sessions at continuing education conferences, so he's comfortable making decisions in all areas of management by the time he buys the practice.

Three years out from the sale of the practice Dr. Shores will begin involving Dr. Farmer in the strategic planning meetings so he'll have a hand in the long-range planning for the practice. During monthly management meetings she will also begin to introduce him to financial management, setting revenue targets and identifying areas where the practice finances can be improved. Two years from the sale Dr. Shores will explain the valuation process in preparation for the sale. Dr. Farmer's advisor will complete an affordability analysis, so Dr. Farmer can see how he'll be able to pay off the debt he'll incur through the practice purchase. The year of the sale Dr. Shores will share all the practice's financial information with Dr. Farmer, and the two of them will begin discussing financing options for the sale.

Dr. Shores also realizes the importance of discussing philosophy issues with Dr. Farmer. Though they will never be partners, the two of them desire to make the ownership transition as seamless as possible for staff and clients. Throughout the five years leading up to the sale, monthly management meetings will also include philosophy discussions. Topics might include whether a hands-on or hands-off policy would work better when managing the staff, given the practice history and the current and future owners; financial management and views on spending, debt, and reinvestment; and staff development and training expenditures, benefits, and desired skill sets.

After five years of preparation, when it finally comes time to sell the practice, Dr. Shores is comfortable that her staff and clients will be taken care of, and that the proceeds from the sale of her practice will help her achieve financial independence. Dr. Farmer sees the purchase of Beach Front Animal Hospital is an affordable and financially-beneficial decision, and he understands the medical and the management responsibilities he will handle as an owner. With forethought and consistent planning, the sale of your practice can go just as smoothly.

WUTCHIETT TUMBLIN AND ASSOCIATES
3200 Riverside Drive, Columbus, OH 43221-1725
Phone: 614/486-9700 Fax: 614-486-9779 Email: wta@wellmp.com

Better Management is Better Medicine®

Callout: Who do you plan to sell to? What traits are you seeking in a buyer?

Here's what Benchmarks 2010 participants said when asked who they plan to sell their practices to:

Unsure	57%
An associate currently employed at the practice	38%
A future associate	27%
An outside, independent veterinarian	8%
A corporate consolidator	8%
Current partner(s)	3%

When you're interviewing associates, don't compromise on qualities that are important for potential ownership. Everyone has different strengths and challenges, but there are certain characteristics common to practice owners and leaders. To get your "must-have" list started, consider the following competencies:

- **A sense of purpose** – Associates should have a clear sense of what they can contribute to the care and well-being of animals. They should feel passion for veterinary work and want to make a positive impact on the practice and the people associated with it.
- **People-development skills** – Future practice owners must have a talent for developing people to their full potential. This promotes practice growth.
- **The ability to delegate** – Delegation helps create a climate of trust and collaboration and motivates people in their work and in their willingness to accept new responsibilities.

Online Tool: Determine nice-to-have traits in a buyer
Some qualities aren't absolutely necessary for success but will certainly help that person on the leadership path. Fortunately, many of these traits can be taught.

- **Thinking –** The associate is able to stay organized and focused, reflects accuracy and clarity in work, and considers the broader impact of current decisions while generating innovative ideas and maintaining an optimistic attitude.
- **Conduct –** Potential owners should demonstrate respect for clients and coworkers, while building and nurturing positive working relationships. They should also demonstrate a reliable work ethic.
- **Striving –** The ability to continually learn and improve skill sets and knowledge shows a desire to make a difference – very important in a leader. Future practice owners should be able to work independently and initiate investigation and research. They will also take pride in their accomplishments and the accomplishments of coworkers.

WUTCHIETT TUMBLIN AND ASSOCIATES
3200 Riverside Drive, Columbus, OH 43221-1725
Phone: 614/486-9700 Fax: 614-486-9779 Email: wta@wellmp.com

Better Management is Better Medicine®

This article is intended to provide the reader with general guidance in practice succession matters. The materials do not constitute, and should not be treated as, appraisal, tax, or legal guidance or technique for use in any particular succession situation. Although every effort has been made to ensure the accuracy of these materials, Wutchiett Tumblin and Associates does not assume any responsibility for any individual's reliance on the information presented. Each reader should independently verify all statements made in the material before applying them to a particular fact situation and should independently determine whether the succession technique is appropriate before recommending that technique to a client or implementing such a technique on behalf of a client or for the reader's own behalf. As with all financial advice, check with your professional advisor before adopting any succession strategy or technique or recommending a particular strategy for another individual.

To obtain additional information:

Wutchiett Tumblin and Associates
3200 Riverside Drive, Columbus, Ohio 43221-1725
Telephone: (614) 486-9700
Fax: (614) 486-9779
Email: wta@wellmp.com