3200 Riverside Drive, Columbus, OH 43221-1725

Who's Buying Your Practice? Cultivate Success with a Business Mentorship Program

Denise L. Tumblin, CPA
WTA Veterinary Consultants
3200 Riverside Drive, Columbus, Ohio 43221-1725
Phone (614) 486-9700
E-mail: dtumblin@wellmp.com

Owners who plan to groom an associate for practice ownership provide a business mentorship program that starts two to three years before the buy-in. The program is designed to develop the associate's management skills and comprehension about what it takes to lead a successful business. An effective mentorship program addresses compatibility and philosophy issues related to managing the business to head off potential conflicts once you become co-owners. A clear understanding of what each of you wants in a partner is crucial to a favorable transition for both the buyer and the seller.

A business mentor shares knowledge and experience, points out other resources and networks that may be helpful to the mentee, provides critical feedback related to the mentee's communication skills, interpersonal relationships, technical abilities, and leadership skills, and encourages the mentee to move outside his or her comfort zone. The ultimate goal: a confident associate who is comfortable assuming the risk and rewards of ownership.

24 to 36 months out

1. Hold weekly management meetings with your future owner(s).
   - ✓ Create an agenda with a planned discussion topic for each meeting. See *Topics to Discuss Prior to Co-Ownership* in Figure 1.
   - ✓ Create a 6-month calendar of the topics you'll cover during each meeting. You may get through some topics in one meeting. Others will require multiple meetings to cover everything you need to address. You'll have recurring monthly topics, like reviewing the financial reports.
   - ✓ Develop the next 6-month calendar of topics based on the results of the first six months.

2. Discuss the levels of management in a veterinary practice
   - ➢ Decision making - the owner's vision
   - ➢ Implementation - the manager's plan to make the owner's vision happen
   - ➢ Responsibilities – the team members who implement the steps of the plan

3. Discuss the areas of management, compensation for management responsibilities, and how the management fee will be divided. Identify the area the associate will assume responsibility for (and when), and the types of decisions required in each area of management.
   - Client Development – 30% of management fee
   - Employee Development – 30% of management fee
   - Financial Management – 15% of management fee
   - Facilities, Equipment and Technology – 15% of management fee
   - Medical Development – 10% of management fee
4. Map out the associate's management CE plan - target 10 to 12 hours of management programs this year.

5. Prepare a list of the leadership and management reading you'll include in your mentorship program. Incorporate resources from the veterinary profession and outside the profession. Plan to complete one item on the reading list each month.

6. Hold an off-site Strategic Planning Meeting facilitated by a trusted advisor to set short- and long-range goals for the practice.

12 to 24 months out

1. Create a 6-month calendar of the topics you'll cover during your management meetings this year. Develop the next 6-month calendar based on the results of the first six months.

2. Delegate primary responsibility for a management area to the associate based on skill and interest. The associate won't be making decisions alone – he or she is responsible for bringing ideas to the table for discussion for a collaborative decision. Associates often begin with Medical Development and will receive a portion of the owner's management fee for the added responsibility.

3. Map out the associate's management CE plan - target 12 to 15 hours of management programs this year.

4. Add to your list of leadership and management reading. Incorporate resources from the veterinary profession and outside the profession. Plan to complete one item on the reading list each month.

5. Expand the associate's grasp of the revenue and expense metrics you measure. Explain what's important to track, where to find the information, and how to interpret the metrics. Discuss opportunities to grow revenue and improve profitability. Involve your associate in financial decisions such as setting fees, developing the annual budget, and staff compensation and benefits.

6. Hold an off-site Strategic Planning Meeting facilitated by a trusted advisor to update short- and long-range goals for the practice.

1 to 12 months out

1. Create a 6-month calendar of the topics you'll cover during your management meetings this year. Develop the next 6-month calendar based on the results of the first six months.

2. Determine if the associate will assume responsibility for an additional management area.

3. Map out the associate's management CE plan - target 15 to 18 hours of management programs this year.

4. Add to your list of leadership and management reading. Incorporate resources from the veterinary profession and outside the profession. Plan to complete one item on the reading list each month.

5. Discuss the ways owners are compensated and how you'll structure owner compensation once the associate buys-in. Consider compensation for the following responsibilities:
   - Landlord – the practice/tenant pays the owner/landlord fair market rent to occupy the building, assuming the owner of the practice owns the real estate in a separate business. Will the associate also buy-in to the real estate business now, or have the opportunity in the future?
   - Doctor – owners receive fair market veterinary compensation for the practice of medicine. Discuss the formula you'll use - fixed salary or production-based?
   - Management – owners with management responsibility receive an allocable share of the management fee based on the areas of responsibility.
   - Returns on Investment (ROI) – owners receive a portion of the earnings available after all other operating expenses are paid, based on the percent of ownership.

6. Coach the associate in the valuation process. Ask your valuation advisor to explain how practices are valued and how the buy-in process works. Discuss the ownership share the associate will have the opportunity to purchase, and the share he or she wants to purchase.

7. Discuss the affordability of the buy-in. Ask your valuation advisor to explain how the associate's cash flow will change once he or she is an owner and demonstrate how ROI covers the purchase loan payment.

8. Discuss possible financing arrangements. If the buy-in will be seller-financed, talk about down payment requirements, interest rates, and the loan term (number of years). If the associate plans to seek outside financing, encourage them to begin researching available options and the documentation requirements of the financing companies.

Buy-in Process

1. Ask the associate to sign a Confidentiality Agreement prepared by your attorney.

2. Provide a copy of the Certified Valuation Report to the associate. Include a transmittal letter that specifies the deadline for responding with the associate's intent to proceed (or not proceed) with the buy-in. Encourage the associate to hire an advisor to review the Valuation Report on his or her behalf. Ask your Valuation Advisor to address any questions.

3. Provide the associate an Affordability/Cash Flow Analysis based on the Valuation Report. Include a loan amortization schedule that reflects the principal and interest payments.

4. Confirm the share of the practice available for purchase, finalize the owner compensation formula, and confirm the financing terms.

5. Meet with your tax advisor to discuss any tax issues to address prior to completion of the sale.

6. Ask your attorney to draft the sale documents. He or she will guide you through the legal steps and documents necessary to complete the transaction.

7. Ask your Valuation Advisor to update the Certified Valuation Report, if necessary.

NOTE:
This information 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 assure 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.

Figure 1 - *Topics to Discuss Prior to Co-Ownership*

Management Philosophy:

- Update (or develop) a practice mission and vision statement to reflect any desired changes given the new ownership structure.
- Discuss how you'll collaboratively manage the practice. Define the areas of management and the responsibilities in each area. How will the responsibilities be divided among the owners? Will each owner have equal management responsibility, or will the longer-term owner(s) assume this role?
- Do you share similar management styles? Collaborative or control management style? Hands-on or hands-off? Can you adjust to differing styles?
- Identify the number of hours per week you'll devote to management responsibilities.
- Discuss the ideal/target number of owners for your practice.

Financial Management:

- Business structure of the practice.
- Develop a budget. Do you have similar views regarding spending?
- Do you share common objectives regarding compensation and benefits for the owners, associates and staff members? Annual investment in equipment and technology updates?
- Discuss your respective philosophies regarding debt. View as a strategic leverage opportunity, or are you debt-averse? Practice's current debt obligations?
- Personal expenses excluded from the practice books?
- Discuss who prepares the financial statements, pays the bills, and manages accounts receivable.

Staff Development:

- Practice Organizational Chart - identify the key doctor and staff positions and the responsibilities of each position.
- Identify the traits, talents, education and experience levels, and competencies you'll seek for each position and the number of employees needed in each position to meet your patient care and client service goals.
- Establish the compensation and benefits for each position.
- Standard process for hiring, training, evaluating, and promoting staff members. Create written guidelines to ensure consistency.
- Annual CE plan for each position (internal and external)

Source: Benchmarks 2015 A Study of Well-Managed Practices® by WTA Veterinary Consultants and *Veterinary Economics*. The above is a partial list of topics. See Benchmarks 2015 for a complete list.