Phased Buy-Ins

I am seeing a lot more "phased buy-in" clients, and my experience over the years has been that so long as (1) everyone goes in with full disclosure/ discussion/ contracts, and (2) there is enough work for both dentists to stay as busy as they desire, the transition can be highly successful. I tell my clients that any form of group practice is like a marriage, and pre-marriage counseling and lots of discussion are strongly recommended. Dentists need to be confident that their financial goals, non-financial goals and practice approaches are complementary before proceeding with the transition.

Scenario. Here's a typical scenario: Buyer pays fair market value for 50% of the practice, Buyer and Seller practice as partners for 3 years, and Buyer buys Seller's remaining 50% 3 years later for 1/2 the then-appraised fair market value. I consider this a fair arrangement. The Buyer might think he is responsible for ALL the added value to the practice (which is unlikely), an might complain that he ends up buying 1/2 of the additional value he added to the practice. However, Buyer also ended up getting the whole practice at a discount. Remember that "value" added by Seller is not just measured in Seller's level of production, but also includes everything he has done to increase Buyer's production (referring patients, introduction to referral sources, providing professional and business mentoring, sharing accumulated goodwill and credibility, giving the Buyer stability and the confidence to develop his practice, etc.).

Example. If the practice is worth $500K now and $800,000 in 3 years, Buyer pays $250K now for 1/2 the practice, and $400K for the other 1/2 in 3 years, for a total price of $650K. Buyer got an $800,000 practice at $650K, and he got to do it in stages, with introductions and mentoring, and only 5/8 of the risk ($500K/$800K) in the intervening 3 years. That sounds like a pretty good deal to me. Seller also got a good deal: he was able to cut back his working hours, not only maintain but INCREASE the value of his practice, and ensure that his patients and referral sources would be well cared for after his retirement 3 years hence.

Other Considerations. The entire transition (purchase, group practice, buyout) needs to be structured and memorialized in writing before the first buy-in is concluded, in order to avoid unnecessary risk, cost and discord. Organization and tax issues need to be considered and addressed; group practice operations (e.g., patient allocation, days in office, compensation) need to discussed and specified; and contingency plans for unexpected circumstances (e.g., death, disability, or loss of license) during the phased buy-in need to be included.