

## The Private Practice Equity Plan

How to attract, retain and groom  
your practice successors

Craig West – Succession Plus

## A Self-Funding Equity Plan to Attract and Retain Successors for Your Practice

The Private Practice has collaborated with industry leaders Succession Plus to design and deliver medical practice succession planning workshops on behalf of several medical colleges, societies and associations.

These workshops have been extremely successful and have received great praise from delegates; as one put it:

***“The content was relevant & exciting and challenges many medical practice ‘norms’..... engaging presenters who excel in their fields and are passionate about empowering others with their knowledge and experience”***

The following article aims to convey the issues and possible solutions to the much debated subject of practice value and succession, and is offered here as preparation for those considering attending the Private Practice Succession Planning Workshop .

*Steven Macarounas - Course Director, The Private Practice*



## Succession planning is about taking a strategic approach to your business exit. Without it, the value in your practice will retire when you do.

*Editorial by Craig West, Succession Plus.*

**Business Succession Planning** is a big issue for many Baby Boomers approaching retirement age. Why? The average age of a family business owner in NSW is now over 58 years old, and 68% of them plan to exit their business in less than 10 years time.

To use a real estate analogy, most business owners are like property investors who expect an income or rent return while they own and an increase in capital value when they sell. Put simply, they go into business to build their equity value and hopefully sell for a substantial gain. The reality sadly, is that most never get there!

Our experience with many businesses has shown that a simple five stage succession strategy solves the problem. It revolves largely around taking a strategic approach and taking the time required to plan and manage the succession. In other words don't wait until you reach 64 years and 9 months of age before you contact an advisor. By taking our strategic approach to succession planning business owners find the process takes place over a minimum of five years, and the most successful plans over 10 or even 15 years.

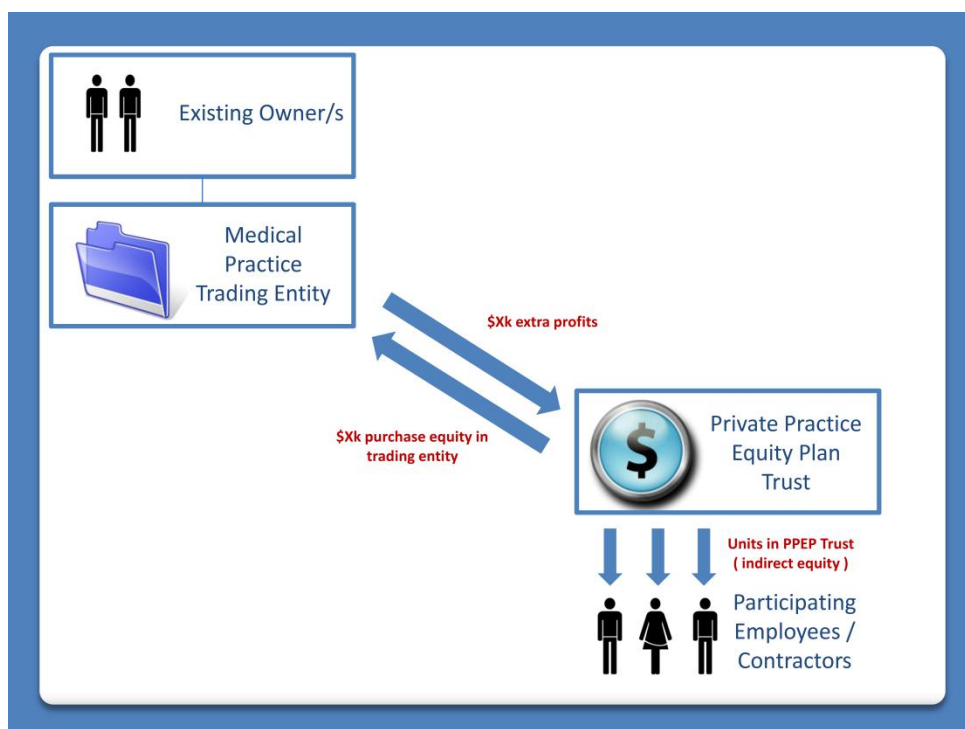
There are many exit options open to practice owners - the trick is to work out which one is most suitable for your practice.

But in many cases owners can't see the forest for the trees and miss the most obvious option: sell their practice to younger practitioners and practice managers. Many practice owners are susceptible to the risk of key people leaving, taking with them valuable patient lists, referrer and supplier relationships, and therefore having a negative impact on the overall value of the practice.

Many listed companies have employee share plans, option plans and other profit schemes designed to reward employees based on their contribution to profitability. Unfortunately, many of these don't work in small businesses. Shares are often difficult to value, normally illiquid, and the legal and accounting complexities involved are cost prohibitive for small business owners.

We have had success in many businesses introducing a custom designed vehicle which is both an incentive plan in the form of a profit share scheme and a mechanism for funding succession. In other words, the business owner is happy to contribute additional profits generated by key people into a fund that is used by them to purchase equity in the business.

As a part of the arrangement, key people sign agreements that deliver increased benefits the longer they stay with the company. The business owner has the comfort of knowing that his key people are unlikely to leave because they now own equity and share in the business profits.



Medical practices face the same key issue as many business owners when they start to think about and prepare for an exit - they need to find a willing buyer with the necessary qualifications and / or experience that has a funding mechanism available to buy the business.

The Private Practice Equity Plan (PPEP) has been specifically designed with this issue in mind. Because it is funded by a profit share plan based on improved performance the funding should not be an issue for the buyer or buyers.

Generally the people we are looking for to succeed in our business will be younger (it is not much point really trying to sell the business to a 65-year-old who is approaching retirement as quickly as you are) and typically their financial position may not allow them access to equity in their home or the borrowing capacity to fund an upfront purchase of your practice - the ability to fund the purchase over time through the profit share plan allows access to equity to people who would never ordinarily be in a position to do so.

Coupled with the ownership thinking management plan and a time frame that is reasonable to allow the funding to take place, the PPEP is a viable alternative to many medical practitioners who have little alternative option other than to close the practice, sell-off the equipment and hope to rent the rooms, which they probably by now own, to a third party.

The advantages to all those involved are obvious. Key people now have an equity stake (real ownership with tangible value) in the practice. They can increase the stake over time based on an increase in their performance and also have the ability to make extra contributions from external sources, salary sacrifice, or even drawing down on their existing home loan.

The practice owner has a predetermined sales strategy with identified buyers and an agreed valuation formula to calculate the selling price. They are also able to maximise the sales price, because it constantly increases along with improvements in performance of the business.

The system is a win-win because a buyer entering into the system over time benefits from the increased value of the practice as performance improves. Key people now have a reason to think and act like business owners.

For the many succession plans that fail due to the inability of potential owners (often younger and less financially secure) to fund the purchase, this plan represents a real alternative. The Private Practice Equity Plan offers a practical solution as well as ensuring key people/purchasers have an incentive to maximise their performance and that of the practice at the same time.

**The Private Practice has collaborated with Succession Plus to convene a series of 2 day workshops on Medical Practice Succession Planning**  
For workshop and registration details, please follow this [link](#).