Plan to Fail: Secrets to Successful Associate Buy-In

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There is an old adage that states "If you fail to plan, you are planning to fail." In the process of bringing in a partner, perhaps the best advice to make a great transition is to plan to fail. Your process will include negotiations for the buy-in, the operating agreement, and the buy-sell agreement. In each case you must spend a lot of time considering the question of "What if this doesn't work?" While I tend to view the world from a positive perspective, years of experience has shown me that it is much better to look for the problems in a potential partnership and deal with them early on.

Here are ten questions to consider as you plan to fail:

1. What happens if the future partner associate leaves during the trial period? It is not uncommon for an associate buy-in process to have several false starts before the right partner is found. It is much better to start the process over again rather than make a deal with the wrong partner. Too often, in the haste to get the deal done, future partners do not respect the necessity of the trial period. I have always believed that if the senior doctor has less than 7 years to work, it probably doesn't make sense to bring in a partner.

2. How do I make the best of changing tax laws? Because the process of bringing in a partner is usually accomplished over a period of years, there is a chance that there could be a major change in the tax laws during the process. The future partners and their advisors must have a game plan to deal with the change. Each party will need to be willing to be somewhat flexible to structure a deal that will ultimately work.

3. What if the staff members do not support the future partner? Staff support is key to a successful transaction. You cannot assume that the staff will automatically support your choice for a new partner. Both the senior doctor and the associate need to take the time to engage the staff in assisting them in a successful transition. If you have the appropriate trial period, the staff will have time to respect the associate. It is a good idea during the association period to continually increase the associate's leadership posture. It is important to trust your staff's opinion of the associate, especially in the early months. Chances are their opinion is based on their support of you and they may see things you do not see.

4. What happens if you die or become disabled before the transaction is concluded? No one likes to contemplate bad things happening to them, but an untimely death or disability could spell big trouble for your transition. Your agreement needs to address this issue. Not only should your agreements cover this area, but you should have a well defined plan that is discussed with your staff, your family, and your advisors.

5. What happens if the practice experiences cash flow shortages after the buy-in? This is one of the biggest problems you can encounter. During the process, it is essential to create a cash flow based on realistic expectations. You should plan for the worst, but work for the best result. Your plan should include a backup strategy to borrow from a bank if necessary. It is a good idea to get a line of credit set up long before a problem occurs.

6. What happens if one of the partners become disenchanted with the agreed upon profit split? This can happen when future partners do not understand the ramifications of what they have agreed to in their contract. It is a necessity for the partners to spend considerable time reviewing the results of the profit split scenarios.

7. What happens if one of the partners overdraws their share of the profit? There must be systems in place to avoid this problem. Repeated overdrawing by a partner can spell big trouble for the long-term viability of the partnership.

8. What if one partner doesn't contribute enough to the practice in terms of effort? This is a problem we commonly see in partnerships. The problem is worsened by the fact that there often are not measurements other than the number of hours worked and the amount of production achieved to accurately judge one partner's contribution in comparison to the other. Often, I have seen the problem where the senior doctor is unwilling to give up control. It is not uncommon for a driver type personality to choose a non-driver personality. The secret to dealing with this issue is having a system of communication during the buy-in process as well as throughout the period of co-ownership.

9. What happens if there are not enough patients to support both doctors? This is purely a planning problem. Count the active patients in the practice is job one before you bring in an associate. It takes at least 2000 active patients and a 15-20% growth rate to support both doctors. Too often senior doctors ignore this very important part of the process. It is fool hardy to think that you will eventually grow enough to support the two doctors if there aren't enough patients to keep them busy during the trial period. Often, we recommend that the transaction not close until a specific production and patient count goal has been met.

10. What if we just don't like each other and cannot get along? This may perhaps be the most difficult problem to address. It is the reason why it is essential to have a minimum of eighteen months to work together to see how well the doctors get along. The biggest mistake is to rush the association period.