When selling to an associate makes sense

Consolidators possess deep pockets, but practice owners might welcome a partner's offer when the property itself, creative financing and even one's legacy are taken into account.

By **Leslie A. Mamalis,** MBA, MSIT, CVA

Corporate consolidators get all the attention these days when the topic is practice sales. As a generation of veterinarians reaches retirement age, the number of practices available to purchase is greater than the number of private practitioners ready to buy.

If consolidators can and will pay more for a hospital than an associate veterinarian can afford, why would a practice owner consider selling to a colleague, or any private buyer for that matter? Many sellers are asking, what would be in it for me?

The Purchase Price

Rumor has it that corporates can and will pay much more for a practice than an associate can. However, consolidators will not pay significantly more than fair market value for most of their targets. In fact, the price offered by a corporate might be very similar to the amount of financing an associate qualifies for from a traditional lender.

It's true that consolidators have readily available cash and that in a bidding war they usually can outbid a private veterinarian. Consolidators have deep pockets; associate veterinarians generally do not.

Associates must rely on the earnings generated by the practice to cover debt payments. Banks will not lend more money than the earnings can support. Lenders are not investing in the practice; they want assurance that the loan will be repaid. That said, some banks offer creative financing to help associates meet a high asking price. Veterinarians looking to own a practice should investigate all options for private financing.

The Method of Payment

Selling to an associate veterinarian might mean you carry part of the loan. This is not an onerous requirement. In fact, doing so shows the lender your confidence level. Under such an agreement, the seller receives the bulk of the purchase price immediately and finances the remaining 10 to 15 percent. The lender often dictates the terms of the loan, sometimes specifying that the length and interest rate match those of the primary loan.

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A Matter of Timing

Selling to a consolidator is a fast process. The time from signing the papers to closing the deal can be as little as six weeks. Consolidators might acquire several practices each month, creating a cookie-cutter process. Selling to an associate takes longer because neither of you transacts deals for a living. Your associate hasn't done it before, and you might not have, either. Both of you need time to work through the details with the assistance of attorneys, accountants, consultants or brokers. Completing the transaction could take six months or longer because neither buyer nor seller is familiar with the procedures.

The Real Estate

An associate will be interested in buying the real estate either immediately or within five to 10 years. Owning the real estate becomes a priority so that the buyer can control the facility rent and own an additional asset. If you sell to a consolidator, the company might have no interest in owning the property

— ever. This could present a great opportunity for you: a long-term tenant. However, if the consolidator decides to, well, consolidate your practice with another hospital, you could be left with an empty building designed for a highly specific use.

Are You Flexible?

Consolidators have standard contracts and common compensation and benefits plans. Sellers who stay with the practice — a corporate buyer could require it — might lose the ability to take frequent vacations or destination continuing education courses. When you are accustomed to setting your own fringe benefits, the switch to a compensation package with finite terms can force a lifestyle change. When an associate veterinarian buys the practice, the seller usually has a greater ability to negotiate the most important benefits.

An Easier Transition

Selling to an associate presents fewer unknowns. Face it, your staff might be pleased to hear that you sold the practice for a high price, but what they really want to know is how the sale will affect them. Will they still have jobs? Do they have a new boss? Who makes decisions that affect them? When an associate buys the practice, your staff knows the buyer and might have some insight into where changes will and won't be made. The doctors won't expect significant changes to the standards of care or general operating procedures. Overall, selling to an associate creates much less anxiety for others in the practice than selling to a consolidator does.

A Shorter Transition

Some sellers stay on for years after the sale, but the time is usually much shorter. You need to stay long enough to transition your personal goodwill to the buyer. When you sell to an associate, the process is already underway. Actively participate in this process by reiterating your confidence in the buyer, particularly when you see clients who are closely bonded to you. While you may want to keep special clients for yourself, they need to be comfortable seeing another doctor. Otherwise, they might see your departure as an opportunity to visit a competitor.

Be sure to quickly transition the practice management responsibilities. When an associate veterinarian buys your practice, she will take the reins. She will need to learn, if she hasn't already, how to handle staff issues, client complaints and other "joys" of ownership. You can hang up your owner hat and focus on seeing clients. In other words, you get to be "just a doctor" while you remain with the practice. The new owner might ask for your advice, but don't be surprised if she doesn't. It's her business now, and while she is learning to lead, she may not want your input.

Your Legacy

Selling your practice to a consolidator might bring you a higher purchase price, but when it comes to preserving a legacy, selling to an associate is hard to beat. So consider this. A corporate player is looking for practices that are profitable and growing and that fit into their investment sweet spot. Many will appreciate the atmosphere and clientele you created, but their ultimate goal is to make as much money as possible from the practice. This is a characteristic of true investors and isn't a bad thing.

A veterinarian considering a purchase wants to make money, of course. But she also is buying a career in veterinary medicine. The typical veterinarian isn't looking for the fastest way to get a return on her money. She wants to find a good fit where she can practice the kind of medicine she wants to provide.

When an associate veterinarian, or a practice manager for that matter, wants to buy your hospital, it is because the practice fits with her core values and she wants to maintain and advance its place in the community. She wants to buy your practice specifically.

Money Matters columnist Leslie A. Mamalis is the owner and senior consultant at Summit Veterinary Advisors. Learn more at www.summitveterinaryadvisors.com.