The Time to Start Succession Planning Is Now

It's never too early to develop an exit plan.

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When friends, business associates, and colleagues start exiting the workforce to enjoy their post-career plans, it tends to have a wake-up call effect. "Retirement" seems so far away for most of one's life—something for old people—but suddenly it's at hand, and many people find themselves wishing they had prepared for it more effectively. Most podiatrists near retirement admit that they hope to be able to retire "in five or six years," but they somehow manage to avoid the topic in doctor meetings.

I recently attended a reception honoring a local physician who had announced his retirement after decades of service. The doctor's retirement struck me with a few sobering thoughts. First, he and I are about the same age. We baby boomers have a well-earned reputation for living in denial when it comes to issues associated with aging. We are the Peter Pan generation, singing, "I won't grow up," even as we weigh options for different Medicare supplement plans.

The partners at the reception had worked together for a long time. The newest members had been on board for more than five years, and the two founders had been together for 25 years. There was no competition in the small town they served—the nearest same-specialty practice had an office in a town nearly 20 miles away. The group essentially owned its market, and had tremendous influence over the local hospital. The hospital administrator would seemingly do almost anything to keep these specialists happy.

Life was good. Profits were healthy—that is, the physicians' take-home pay was well above average for comparable practices in similar settings. There was almost no grousing about the profit distribution formula, physician call schedules, or any of the usual stuff that can prove destructive to group practice culture.

If you haven't pre-planned your exit and succession strategies, you will find yourself short on time.

The Biggest Issue

The practice occupied a very poorly-designed medical office facility. There had been no apparent foresight in designing the original clinic. The building sat on a woefully small piece of land, surrounded by other properties and a wooded drainage ditch. As the practice grew over the 15 years it spent in that building, the doctors built odd-shaped additions as wings in three directions.

The resulting facility was a confusing maze of narrow hallways and tiny exam rooms. Doctors, nurses, and other providers tripped over each other (and patients!) as they tried to navigate through each day's packed schedule. Add the fact that the practice was somewhat overstaffed, and you can easily imagine the chaos that characterized operations.

Reluctantly, the partners began to plan for a new building. Unbelievably, they insisted on paying an architect to explore the possibility of adding a second floor to the existing building. When he reported that the existing building couldn't support another floor without major structural modification, and that local codes and the Americans with Disabilities Act regulations would require a very expensive elevator, they began to recognize that relocation was inevitable.

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Planning a Building without a Strategic Plan

The decision to build a new office building made it clear—although not to everyone—that the practice had no idea where it was going or what it was doing in the future. All of the partners were at least 55 years old, and they had more or less abandoned the idea of strategic planning sometime earlier. Most of them were marking time, trying to maximize income for their pre-retirement years, and fretting over the impact of recession on their retirement plan accounts.

The physicians believed the hospital had deep pockets to help them out.

The solution was obvious to them: try to get someone else (e.g., the local hospital) to provide them with a new building. Of course, no one articulated that strategy in so many words, but this collection of powerful doctors began to apply considerable pressure to the hospital administration to help them out in various ways. Perhaps the hospital could purchase the old, poorly designed building. Maybe it could provide some prime real estate on which to build a new building. Who knows? The physicians believed the hospital had deep pockets to help them out.

They learned quite a bit in those months about anti-kickback statutes, public policy (it was a county-owned hospital), and various legal barriers preventing the kind of deal they dreamed of. In the end, the hospital was able to help with land, but there was more.

An Accidental Medical Staffing Plan

At about that time, a doctor in a nearby residency program expressed interest in coming to practice in her hometown. The gifted young physician was from a fairly prominent local family and would be considered a "superstar" recruit for any practice. The hospital administration recognized an opportunity and seized it. They offered significant financial assistance (i.e., a signing bonus, a monthly stipend during the remainder of her residency, payment of student loans, and an income guarantee) to make sure she signed on.

As the resident continued her training, one of her graduating classmates expressed interest in practicing with the group. The hospital made another sizable investment to bring him on, too. He actually started a year before she was due to join. Recently a third recruit has joined the practice.

The group continues to dominate the local market, happily seeing a very full schedule at its new office building located in a prime spot just down the street from the hospital. Two of the senior partners have managed to retire, and the next wave of retirees probably have their eyes on the back door.

From this case study, we can learn just one thing: Sometimes you get lucky. But you cannot count on a series of happy events like those that befell this group practice. In fact, this group may or may not have a strategic plan in place for the next phase of its unplanned succession. The hospital's situation has changed dramatically; it is presently embroiled in heated discussions about its own future, entertaining competing strategies for selling the hospital or outsourcing its management.

Effective Succession Planning

If you're in solo practice or a member of a medium-sized or large medical group, you eventually will have to face the complicated questions regarding your exit strategy. You have enjoyed the benefits of providing vital services in your market region. You owe your community the assurance that those vital services will continue after you're out of the picture.

You've spent a good portion of your life building something valuable—don't you want to see it outlive you? That takes diligent analysis, shrewd planning, and commitment to your plan. It also requires some professional outside help. You need good financial, legal, and strategic advice, so don't be afraid to spend some money on consultants, certified public accountants, and qualified attorneys.

The time to begin planning is now. Retiring, selling the practice, or relocating can overtake you rapidly. If you haven't pre-planned your exit and succession strategies, you will find yourself short on time.

Consider the complexities of each of these critical components to succession strategy planning. The following steps are very general—the details and sub-processes add complexity and time, and resource requirements:

Creating a written agreement for owners that outlines how you get out, individually or collectively;

- Creating a workable timeline for individuals;
- Creating a staffing plan that makes strategic sense for serving the community's current and anticipated needs;
- Recruiting physicians to meet the staffing plan;
- Determining future ownership (i.e., locating a buyer or planning for ownership transfer within the group);
- Executing documents, arranging financing, and completing the transaction; and
- Assisting in transitioning patients to successor physicians.

A list like this could fill several pages without spelling out the details. Add all the "to-do" lists, and you'll have a fair-sized book. In other words, don't put it off. If you don't have a thorough succession plan in place, start on it immediately—today, if possible. **PM**

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