

First Steps

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What You Need to Do Before You Put Your Medical Practice on the Market

Some doctors open a practice with the intention of keeping it until retirement, while others plan to sell within a few years. In either case, they have a relatively clear idea of when they will sell. Yet, all too often, they do not begin working towards the sale until they are ready to put it on the market.

Rushing into a sale unprepared is a serious mistake for several reasons. At worst, you can inadvertently commit fraud or face other serious legal repercussions due to signing a flawed contract. At best, you will reduce your profit margin because the practice value is not optimized.

Preparation is the key to a hassle-free, high-profit sale. Here are a few of the most important things you can do, long before you put your practice on the market or talk to a potential buyer.

Optimize Your Office

On average, the number of hours a doctor spends at a computer is triple the time actually spent with patients. This staggering statistic highlights the importance of data management, virtual paperwork, software, and all things digital. Not surprisingly, these things can have a significant impact on the value of your practice, and its desirability to potential buyers.

An efficient office will not only make a good impression on buyers, but also make the transition of ownership smoother. You will need detailed financial, legal, and organizational data. A little preparation can ensure that it is accurate and easily accessible.

- Are your medical records digitized, patient files organized, and books in order?
- Are your files and records complete and up to date? Are insurance codes used correctly?
- Do you have a centralized system for organizational files?
- Is everything backed up?
- Are all services and file storage locations compliant with HIPAA and any other applicable regulations?

Create Digital Curb Appeal

First impressions matter, and not just with people. If you have ever sold a home, you surely understand the importance of curb appeal. When people arrive at the house, either they like what they see, or not. If the first impression is not favorable, you are facing an uphill battle to change their minds, no matter how many great features are inside.

The concept of curb appeal applies to selling a medical practice as well, except that the first impression is usually formed long before the person lays eyes on your building. Just like patients, potential buyers are likely to start by looking up your practice online.

Make sure your profiles on business directories and social media, are current and complete. Respond to any negative reviews, and encourage your happy patients to review your practice. It is also a good idea to step up your marketing efforts now, because a well-known and highly rated practice is most appealing to buyers. If your reputation precedes you, buyers may have a preconceived notion about whether your practice would be a good investment.

Increase Your Practice Value

The fair market value of a medical practice is usually calculated from a combination of accounts receivable, tangible assets, and intangible assets. The first two categories are easily quantifiable. Intangible assets are more challenging to evaluate, but also tend to present the best opportunities to increase practice value. This includes:

- **Trained personnel** – Consider hiring specialists, expanding your clinical team, or investing in additional training for staff members. Don't overlook customer service training for your front office staff, because their actions have a significant effect on patient loyalty, and conversion of new leads.
- **Computer software** – An efficient practice management system, billing system, and other programs, will make your practice more valuable and more inviting to the potential buyer.
- **Potential income** – Do your financial projections realistically show expected growth? If not, you need to figure out why, and how to reverse the trend.

HOW TO AVOID COMMON MISSTEPS WHEN SELLING A MEDICAL PRACTICE



THREE THINGS TO DO BEFORE YOU SELL

Have your practice appraised. Know exactly what it is worth before you accept any bids or begin negotiating with buyers.

Digitize your records. If you have been avoiding transitioning to an EHR system, now is the time to stop procrastinating. Buyers don't want to face this daunting task either, so paper charts will make your practice less appealing.

Review lease agreements. If you plan to transfer leased facilities or equipment to the buyer, be sure it is possible. Some contracts include clauses that forbid transferring.



HOW TO REACH POTENTIAL BUYERS



Notify area hospitals that your practice is for sale



Reach out to your competitors



Spread the word through your network of professional associates



Advertise in industry publications



Ask your marketing company for assistance

PURCHASE AGREEMENT LEGAL LOOPHOLES TO WATCH FOR

TERMINATION TERMS



When you sign an agreement, you are confident that the sale will be completed. However, there are many things that can go wrong. Clear termination conditions can save a considerable amount of time and money.

HOLDBACKS



It is common for a buyer to "holdback" a portion of the price until all terms of sale are met, or until the noncompetition clause expires. If a holdback is inevitable, avoid giving the buyer autonomous control over the release of funds.

NONCOMPETITION



If you agree to a noncompetition clause, review it very carefully. Make sure the scope is limited by time or location, and that it is reasonable.

LIABILITIES



If the agreement is structured as an asset sale rather than a stock sale, be sure the contract expressly states that the buyer assumes all liabilities.

REPRESENTATIONS AND WARRANTIES



Carefully review the seller representations and warranties. If you sign an agreement that includes untrue claims, you could be subject to a lawsuit or fraud charges.

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Research and Analyze

A good relationship between buyer and seller is essential for a mutually beneficial transaction, and minimal disruption to patients. It is wonderful to trust all parties that you are working with. However, it is a mistake to trust them to look out for your best interests. Before you discuss a bid, know what your practice is worth, how the process works, and what you want to get from the deal.

- If you intend to transfer leases, subscriptions, or other legal agreements, review your contracts carefully. Make sure there are no clauses prohibiting transfer, and find out if there are any fees or other requirements.
- Finalize your own professional post-sale plans. Many physicians come to regret overly restrictive non-compete clauses. If you want to continue practicing, decide when and where. Don't let the buyer talk you into an agreement that undermines your plans.
- Scope out potential buyers. In most cases, the best candidates are area hospitals, medical centers, a competitor who wants to expand, and/or a doctor who is ready to open his or her first practice. Often, the buyer will become a partner or employee, eventually purchasing the practice.
- Talk to a lawyer. There is a virtually endless list of potential legal loopholes in a sale agreement. If you don't understand exactly what you are signing, you could be making concessions you didn't want to, or making warranties that are not accurate.

Remember it's never too soon to begin laying the groundwork for your practice sale. Ideally, planning should begin at least a year or two in advance. Even better, keep a potential sale, and your target timeframe, in mind when making business decisions from the beginning.

About the Author:

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