RETIREMENT REALITY CHECK

Mike Whitmer:

It's the dream we all dream of, the goal of our careers, the holy grail of the work world. Retirement. Perhaps right now you're reaching for the stop button on your phone because you are too young to think about retirement or perhaps you assume you'll be all set once you sell your practice or you practice with a family member and that's all the planning you need. Please stay with us. You are exactly who needs to listen because many times expectations don't meet reality. And by the time we realize that, it's too late. Welcome to Chiropractical. I'm Mike Whitmer. Our guest today is Crystal **Misenheimer** with Progressive Practice Sales. Crystal has extensive experience helping doctors of chiropractic prepare for the sale of their practice, and she will be the first to tell you, you need to start planning early. Crystal is a frequent guest on NCMIC's programming and in fact, we're going to be doing much more with Crystal throughout 2024. Stay tuned for more information on that. Crystal, welcome to Chiropractical.

Crystal Misenheimer:

Yeah, absolutely.

Mike Whitmer:

Crystal, many chiropractors face disappointment when they approach retirement, finding that their practice value isn't really what they expected. Could you share some insights on why this is a common scenario?

Crystal Misenheimer:

I think that the biggest problem is that whenever we enter a process that's unfamiliar to us, we tend to lean on what makes sense, what's common sense in this situation and what is common sense to most doctors doesn't align with the way that the practice valuation process works. If you think about the years that you pour into your practice and everything that you've built over your decades of ownership, it seems like that should contribute in ways that it just really doesn't when it comes down to the actual sale. Because what you're selling at the time of closing is the practice's current condition. So everything you did in the years leading up to it contribute towards that, but they also don't add value in the way that I think most doctors expect it to.

Mike Whitmer:

Crystal, can you share a story or two with us?

Crystal Misenheimer:

Whenever I think of that, there's a story that comes to mind of a really gorgeous clinic that came to us looking to sell. They had spent a lot of money building this practice, buying the real estate, turning it into a very impressive, modern, multidisciplinary practice. And unfortunately in that process they had created a practice that really wasn't sellable and there was a lot of reasons for that, but some of the biggest ones were that the expenses of the practice had gotten too large to support the price point that they wanted. It was taking too much from the profit and the value just wouldn't transfer the way that they thought that it would when they made those investments. And they also created a practice that was so specialized that they actually reduced the marketplace of buyers who would see that practice as a natural good fit for them.

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Mike Whitmer:

So what are some common misconceptions chiropractors have about the value of their practice? How do these impact their retirement planning?

Crystal Misenheimer:

I think that some of the bigger problems are, first off, it's just not a point of focus throughout the chiropractor's career, and that makes sense. As a business owner, you're pulled in a million different directions and thinking about the future is hard for anybody when you're so busy in the present, but by not having some insight into where the practice value is and what's going to contribute to that value versus what might take it away, it's just really easy for doctors to make some missteps along the way as they're building their practices. And then another really big problem that we see is that when doctors start to enter the phase where a sale becomes likely, they start to think that they'd like to step back or they start to think about making some life changes that might result in a practice sale. They don't start preparing at that point, and so they really lose a valuable opportunity to get some of the work in that's needed and do some of the things that would really help them to achieve more value and a better sale outcome.

Mike Whitmer:

What are some of the common misconceptions chiropractors have about the value of their practice and how do these impact their retirement planning?

Crystal Misenheimer:

There's a lot of misconceptions floating around. Some of the bigger ones that we see are that people might come to us having heard a rule of thumb on valuing a practice, and they may have heard it from a consultant or a neighbor whose cousin once sold a pizza parlor. They come from all over, but most of the time they're really not applicable to chiropractic. And just to take a step back, a rule of thumb valuation would be just a very simplified formula. One that I've heard in the past that's definitely not correct for chiropractic would be you just take two times the gross collections, the total collections of the clinic for the last year, and then that's your value. And that's just not true. It's a much more complicated process than that. And that one steps into the next one nicely, which is that the doctor's not in control of the practice value.

I'm not in control of the practice value. The people who really set how practices are valued are the lenders. And that's true even if your buyer isn't going to use lending to buy your practice, if you're interested in owner financing to your associate, for example. Because the banks lend to so many doctors who buy chiropractic, we see it around 80% of chiropractic practices are sold through this type of financing. They really set the marketplace. And so what they say goes regardless of who is going to be funding the transaction. And that can be a real eyeopener for doctors who have some numbers in mind for sure. The thing that surprises most chiropractors is that profit is the number one driver of practice value. And when I tell doctors that, you can almost hear them gas audibly over the phone because of course as a business owner, most people are trying to minimize their taxable profit over the years and now that's going to be the basis of their sale.

And the good news is that the banks understand that. The buyers understand that. So it doesn't go straight off of your tax returns, but there's some work that needs to be done to identify what the real profit of the business was. But that's the most important metric that you need to be thinking about. And then after that, it's really transferability, how likely is that profit going to transfer to a new owner? And that comes down to how transferable is your technique, how transferable are the different revenue sources that you do? How many other people can do what you do in terms of marketing and clinic operations? Or do adjustments need to be made because you are doing the work of three people or doing something that's so highly specialized that not a lot of people can step into your shoes?

Mike Whitmer:

What are some of the watch-out ideas, things that doctors should be thinking about early that could complicate this process? And I'm thinking things like a family member taking over the practice or an associate buying out the practice or the real estate is part of evaluation. What are some of those ideas that doctors need to be thinking about early?

Crystal Misenheimer:

That's a great question and one that I would love to put on billboards because a lot of those things, doctors will think that those are going to make their sale easier and they actually all add a lot of complexity to the process. If you have a family member who you would like to take over your practice, there are dynamics in play there that will lead to you tending to take a more casual approach to the sale process. And that creates big problems because it's not a casual process. It has a lot of steps and a lot of important details that need to be taken care of in an intentional way, and that's important for the business transfer. But for the family relationship, it's critical so that nothing comes up later to derail that from something going awry because the business transfer wasn't handled carefully.

Mike Whitmer:

And Crystal, I know I've heard horror stories over the years about family transactions that are treated very casually and the result is there are different expectations amongst family members that are not met. And an example of this was a daughter was practicing with dad. The plan was that she would take over the practice when he's ready to retire, and then he died unexpectedly and there was nothing in writing. And they found that there were some very different expectations between the daughter that was practicing with dad, mom who had run the office for decades was expecting that practice to be her retirement, siblings were expecting that practice to be part of their inheritance, very different expectations that had a very damaging toll on the family through that process.

Crystal Misenheimer:

And unfortunately, we see that a lot as well. And it's the most crushing thing because ultimately the reason why most doctors start a practice is to take care of their family and to have more time with their family and to have that kind of professional freedom and then to see it all come full circle in such an unfortunate ways is really tragic. The great news is there are things that you can do and when you do handle those sales with a real intentional and an intentional way and utilize the professionals that can manage these transactions for you, then you just get to lean on that. The broker says we have to do this. The attorney says we have to do that. Of course, if it were up to me, I might just give you this and we'd shake hands. So you get to not be the bad guy, but also have a very carefully managed sales so that you have the best of success on all levels.

Mike Whitmer:

So as doctors are preparing to retire and leave the profession, I think the human nature is that we kind of tune out what the future looks like, what are the future trends, but what are some future trends in chiropractic that doctors need to be aware of when they're planning for their retirement?

Crystal Misenheimer:

Oh, absolutely. And there's so much happening. The world is just going at such a fast pace now, and one of the things that we see doctors who are moving into retirement really impacted by are all the technological changes, things that they don't really want to implement or deal with, but at the same time, not having some of the base technology in place. Certainly that's impacting the buyer's perception of the practice and how modern it is and ready to step into. But I would say that the biggest trend that's impacting chiropractors who are thinking about retirement in the next few years is there is a massive amount of interest in the corporate ownership of chiropractic practices.

And this starts with smaller investors that are buying up a few practices around their region and they're going to put associates in those practices. But it goes all the way up to some of the biggest private equity groups in the country that are coming in and buying practices to establish really large groups similar to what we've seen in dental in the past few decades. And that's going to have massive ramifications for all chiropractors, those moving into retirement and those who won't be for a long time, but will be directly competing with these groups for associates and for market share. So there's a lot happening right now, and I think with the pace of the world, it's only going to get faster. So it really is important for all chiropractors to keep a finger on the pulse of what's happening.

Mike Whitmer:

What strategies can chiropractors implement early in their careers to ensure that their practice grows in value?

Crystal Misenheimer:

The first thing that I would say is that I think every chiropractor thinks about retirement almost on a weekly basis. Oh, when I retire, someday I'm going to travel. Someday I'm going to do this, that, or the other. And that's really the time to start thinking about this. And when you do, what you want to do is you want to take a few essential steps. The first one is to get a valuation to understand the current value of your practice.

That's going to be the foundation for all of your life goals to understand where your practice is now, and then work with a financial planner to understand where you need to be to do what you want to do next. So that is the first thing is get a valuation. And if you are more than three years out from a practice sale timeline, then I would also recommend that you do some exit strategy planning with a consultant who is really familiar in this area because what you'll find is that the sale process, it's not always what you think it's going to be and the things that you think will drive practice value, they may not be driving practice value in current market conditions.

So find out what things that you could do, and a lot of times doctors are shocked at how simple and small these changes can be, but might just be how you're categorizing your expenses or who's doing what in terms of some of the things in your office. Those things can make a massive difference when it comes time to sell both in the value and the transferability of your practice. I think that it's so important for doctors to get a better foundation in understanding how practices are valued, the ways that you need to focus on your practice sale or your practice acquisition so that you can enjoy the best success and avoid the most common headaches, and then what to do as you're thinking about planning for things further in the future. Super excited to be diving into all of these topics with you guys.

Mike Whitmer:

Crystal, thank you for this information.

Crystal Misenheimer:

It's been my pleasure. Thank you.

Mike Whitmer:

It's time for Ask NCMIC where we have experts answer your questions. Sticking with our theme of planning for retirement, our question comes from Dr. Sarah who's planning to step back from practice in 2024 and ease into retirement. Dr. Sarah asks, "As I practice less and see fewer patients, I'm looking to cut my expenses. Is lowering my limits on my malpractice insurance policy a good way to save money? I'm going to be treating mostly friends and family, so I don't see the need to continue to carry the higher limits." To answer, we have Dr. John Keck. Dr. John is part of NCMIC's team that helps chiropractors find the right malpractice coverage for their individual needs. John, what advice would you give Dr. Sarah?

Dr. Jon Kec:

Yeah, Mike, completely understand that perspective. It's a question we get often, but I wouldn't recommend going that route. Think about the advice everybody gets from their financial advisors. Mitigate your risk, especially the closer you get to retirement and lowering your limits is not mitigating your risk. All you're doing at that point is saying you're comfortable taking on more risk. If there's ever a claim and that judgment or settlement exceeds those new lower limits, you're basically saying you're comfortable taking that on and paying for it. And I don't know what everybody's got planned for retirement, but if you want to go sit on the beach or you want to play golf, the last thing you want to do is put that in jeopardy to save a few hundred dollars a year. There's plenty of other ways to make sure you got your practice and yourself set up for those last couple years, your finances in order, but I would not recommend lowering your malpractice limits being one of those ways.

Mike Whitmer:

Thanks, doc, for the great information.

Dr. Jon Kec:

Thanks, Mike. Happy to help.

Mike Whitmer:

If you have a question for us, please send us an email at AskNCMIC@NCMIC.com. That's it for this episode of Chiropractical. Thanks for listening and talk soon.