



# Ask the Broker

## How NOT to tell your staff you just sold your practice!

The goodwill of any practice is the most important aspect of a practice transition. The value of the practice is generally determined almost exclusively by its gross receipt & net profit. Generally speaking, it is not unusual for the equipment to be worth only about 10-15% of the actual purchase price & the allocation for tax/accounting purposes is normally only about 20% or so of the asking price. So, what does that have to do with the staff?

The staff is a key component in the transfer of the goodwill of the practice to the buyer of the practice. Normally they are not informed of the impending sale of the practice until all the contingencies of the contract are met, but when the time comes to inform the staff, it needs to be done with regards to making sure the staff is on board with the new buyer. They will sometimes be shocked & saddened at the news. They will sometimes believe that they might lose their jobs & begin to look for a new job, when in fact, they are more important to the new buyer than they ever have been to the seller. We strongly advise any new buyer to keep everything concerning the staff as is, including pay, hours, vacation & vesting in a pension plan where applicable.

Recently one of my clients asked his insurance carrier if there was any special advice they had in the sale of his practice. This particular company is one of the largest & most well-known dental insurance carriers in his state. They actually did have a package for him to give to all of his employees. In this package was a form letter that simply stated that the staff was all fired upon the sale of his practice. It also encouraged the seller to write all of the staff's final checks & distribute them on or just before the date of the close of the sale. The seller followed these instructions to the letter & on Monday, the new buyer arrived at the practice without two of the employees even showing up for work! Just the week prior, the buyer actually did meet the staff, bought all of them lunch & told them that he looked forward to working with them. They were obviously confused after receiving the package with their termination check they were given by the seller just days later.

While it should be self-evident that all of the staff's positions are essentially "terminated" as the prior business no longer exists, there is obviously a better way to break this news. I am confident that the attorney for the insurance company that came up with this plan has a great argument as to why the staff needs to understand the completeness of the transition. What he failed to understand is that he now exposed his client to possible action against him if the buyer fails & part of the reason given is that the staff issue caused improper transition of the goodwill of the practice.

It is our recommendation that the buyer and seller work together to carefully explain the process with their staff and assure them that they are a highly cherished asset in the transition.

Questions? E-mail [wps@succeed.net](mailto:wps@succeed.net)



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