The Top 10 Pitfalls to Avoid When Purchasing a Veterinary Practice

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Purchasing an established veterinary practice could be the most important purchase you ever make. It can be a satisfying experience that brings you joy, or it can be a disappointing one that you regret.

To be sure you get what you are looking for and that there are no neglected loopholes that will cause you later financial harm, there are 10 pitfalls you can avoid when buying a veterinary practice.

1. Not Planning Ahead/Inadequate Preparation

One of the biggest pitfalls of buying a veterinary practice is the failure to plan. You need to have a clear vision of your goals and your expectations. You need to answer some soul-searching questions before pursuing this purchase.

You must consider your future, where you want to live and the quality of life you want to have. You want a practice that suits you and the type of veterinarian you want to be.

Determine a location that is one where you will not just enjoy being a practicing veterinarian but will be a location where you will want to live for many years. Do you have children? If so, what is the quality of the schools? What are the cultural and recreational activities available in the location?

Is the location one that has the demographics you want and that will support the type of practice that is your dream practice? For example, you will not want to buy a practice in a rural area if you do not want to treat large animals.

Talk to other veterinarians who own their own practice. They will generally be happy to tell you mistakes to avoid and what to look for in your search for a practice to purchase.

Know what your budget is. How will you finance the purchase? Do you qualify for a loan with acceptable terms? Is the interest rate one you can manage? Repayment terms are best if you can repay the loan over 10 years. A successful practice can generally pay the loan off within 7 to 10 years.

2) Insufficient Due Diligence

Due diligence makes a difference in purchasing a practice with which you are happy for many, many years or living unhappily with a purchase that you regret. You do not want to think a few weeks, months, or years down the road, “What did I do?"

Due diligence is the process of evaluating the practice, so there are no surprises as you take over the practice and make it your own. An overview of due diligence includes:

- Checking with the state licensing board to determine if there have been any complaints. If so, delve into them to see if they are valid or if the explanations make sense. Have they been satisfactorily settled?
- Are there any pending lawsuits? If so, what is involved and check with legal counsel to determine how to handle them if you decide to go ahead with the purchase.
- Are the demographics the kind you are happy with? Do they support the type of practice you hope to have? General practice or specialty practice?
- Check the internal workings of the practice: is there a high employee turnover rate? Are the personnel contracts up to date and in order? What is the quality of the employees? Will they stay with the practice?
- How long has the practice been in business?

- Are there regular, established clients?
- Are there enough exam rooms? If not, is there a potential for addition or remodeling?
- Is there parking sufficient to support the number of clients you will be seeing?
- What does the daily schedule look like?
- Review all financial documents. Are they in order and do they substantiate the value of the practice? Review a detailed accounting of the assets and liabilities.
- Carefully check the books for business expenses. In some cases, established veterinarians “confuse” personal expenses with business expenses. If the practice owner has done this, it may look look like there is more cash flow in the business than there really is.
- Review tax documents for the past three years.
- Is the equipment in good order or will you need to purchase new?
- Is the philosophy of the veterinarian you are buying from the same as yours? If not, you risk losing clients and the value of the practice will be different than if you continued in the same type of practice.

- What is the growth potential? Is the physical space adequate to accommodate the type of practice you want to continue or to develop?

- Get a list of creditors. Are bills being paid on time or are there past-due notices? If so, does it seem to be a one-off or a trend?

- Check to see if there are any back taxes owed, any unpaid workers' compensation claims, any unpaid bills, any unpaid employee vacation time.

- Review the accounts receivable.

- Determine the value of the goodwill.

- What are the terms of the current lease?

- Does the practice seller also own the real estate? If so, does the owner want to sell the building or retain ownership of it and lease the space to you?

- Carefully review to be sure all necessary insurance policies are in place: malpractice, liability, property, health care for employees, and business overhead expense.

3) Improper Pricing

Remember you are not just buying the practice as it exists at the time of your purchase. You are investing in your future. No one wants to pay too much for anything, and this is true even when purchasing an established veterinary practice.

Take the time you need to understand the value of the practice by analyzing the current market and making future projections. What is the local market like? Where are the clients coming from? Is there a way you can give the practice a "face lift?" Perhaps offer specials or do online advertising. Is there a social media presence for the practice?

Evaluate the quality of the equipment and the technology. Is it all in good working order or will you need to replace it soon?

What is the value of the goodwill? Goodwill includes:

- The reputation of the practice in the community.
- The physical location of the practice.
- The name recognition of the practice.
- The retention of the personnel.
- The client's loyalty to the practice.

Look inside the practice so you understand how it works. Is it still drawing new patients? Is the facility up-to-date or will you need to remodel it? Are the entrances and restrooms in compliance with the American Disabilities Act (ADA)?

Your evaluation should be comprehensive in order for you to have a proper valuation of the practice.

4) Not Establishing Clear Restrictive Covenants

You are making a considerable investment in your future and taking on a considerable amount of debt. The seller is receiving significant consideration. All this is for naught if the seller can walk out the door and open a competing practice next door, down the street, or even across town.

It is reasonable to ask the seller not to open a competing practice within the same geographical location for a reasonable amount of time. There are legal requirements applicable to restrictive covenants. Your attorney will know how to include a clear restrictive covenant in your purchase agreement that will pass legal muster.

5) Rushing into Negotiations and Trying to "Win"

When you find a practice that seems to be ideal for you, the tendency is to move fast. You do not want to "lose" the deal. But history shows that you need to slow down. Do not rush into a contract.

Begin by offering a letter of intent (LOI) to the seller. This letter is not a legally binding contract, but it provides details about the terms you want to see in the purchase agreement.

You should include some essential information in your LOI. For example:

- The time frame for when you would like to complete the purchase.
- The amount you expect to offer for the purchase of the practice.
- What assets do you expect to be included with the purchase?
- Will the purchase include accounts receivable? If not, how will these be handled?
- The financing terms you need in order to complete the purchase.
- Risk allocation between you and the seller.
- Whether the seller will stay with the practice for a time in order to ease the transition.

- What documents are required and which one of you will prepare them?
- Contingencies that must be met in order for the sale to be completed
- Any restrictive covenants you will require.

The LOI establishes a dialogue between you and the seller. You both need to understand each other's expectations and what you each hope to gain from this transaction. It allows you to build a professional relationship where you can pursue solutions that will satisfy you both.

A letter of intent, followed by reasonable non-rushed negotiations increases the likelihood that you, the buyer, can come to a satisfactory agreement with the seller that will be signed, and the transaction can be completed without conflict.

6) Not Hiring a Team to Handle the Business Dealings of the Transition

Buying a veterinary practice may be the most important business decision of your career. There are so many intricacies involved in the purchase of a business that has patients versus one that does not, whether the patients are human or nonhuman.

An advisory team can help you avoid the pitfalls involved in the purchase. For example:

An attorney. Your attorney will draft your LOI and your eventual contract. The attorney will also review all legal documents, such as the lease and any employee and vendor contracts. Additionally, the attorney will know state laws and how to include a restrictive covenant in the sales contract that will be legally enforceable. The attorney will evaluate all other terms of the sale. You do not want to show up on the first day of seeing patients and have no supplies or equipment because you forgot to include this in your contract. The attorney will also help you determine the best business structure for your new business: Sole proprietorship? Partnership? Corporation?

- **An accountant.** Your accountant will help you establish a workable budget for the purchase so you know what you can pay for a practice, and what type of financing you will need. The accountant will review all the financial documents and evaluate the cash flow and total earnings of the practice after expenses are paid, inform you of any tax benefits that will help with the cost of purchasing the practice, and any other accounting numbers which you need to know.

When you choose professionals to assist you, choose ones who have specific experience in evaluating a veterinary practice.

7) Unreasonable Demands

Some sales tactics are simply unreasonable. First on the list may be, “Trust me.” This is used by a seller who is impatient and does not want to allow you the time to consult with professionals you need to evaluate the practice before you sign the final contract.

The tactic is often accompanied by, “time is running out.” The seller may say there is another buyer, and this is a “now or never” opportunity you are about to miss out on if you do not move fast. Do not succumb to this pressure.

8) Inaccurate List of Assets

When you buy the assets of a professional veterinary practice, you buy the equipment, all the inventory, the furnishings, and the goodwill. You are also purchasing the clients and their medical records. You expect to show up for your first day with a full appointment schedule and a functioning environment. You do not want to suddenly notice you have no pens or paper, no charts, no examining tables.

The list of assets should include everything that is part of the sale. Review the list and tour the facilities with the list in hand to be sure everything is there and included. Do not trust the list by itself. Confirm.

9) Thinking That You Can Buy Only a Small Practice Due to Lack of Financial Resources Without Considering the Potential to Grow the Practice

Carefully evaluate the current practice. Then determine if there is a potential for growth. Can you add new services that are not currently being offered? Can you expand the practice by hiring an associate veterinarian?

What is the current marketing plan? Do you have room in your budget to increase this? Can you become more active in the community in a way that will generate growth? Is there room for later adding an associate? Is adding an associate acceptable according to the terms of the lease?

10) Delaying Lease Talks

Negotiating the lease with the current landlord is a separate transaction from negotiating the terms of buying the practice. The current lease terms for the practice are extremely important. You cannot assume the lease is sound and acceptable even if the practice owner tells you that it is.

You need to get a copy of the lease and have your attorney carefully review its terms. When does it expire? What are the terms of the renewal? Is it transferable to you, the new practice owner? The property owner should be personally consulted and the lease terms discussed.

Is the lease transferable or will you need to negotiate a new one? Does the lease cover whether a similar practice can be located in the same building? If so, is this acceptable to you? What if the owner sells the building? What happens to your practice?

Does the lease allow you to hire associates, remodel, or add examining rooms? Is there any restriction on adding services? What are the terms of the maintenance? Are you responsible for the landscaping? Can you change the landscaping if you want to?

The lease can make a difference in whether you want to pursue the purchase. If the terms are unacceptable and cannot be renegotiated to your satisfaction, you will not want to purchase the practice no matter how many other factors of the purchase appear to be in your favor.

Contact Dental & Medical Counsel for a Complimentary Consultation

The purchase of your veterinary practice is exciting but complex. It will be one of your most important life decisions. At Dental & Medical Counsel, our team of professionals has years of experience in helping veterinarians purchase their dream practice.

To learn more about how we can help you with this endeavor, contact Dental & Medical Counsel at 925-999-8200 or use our contact form to get more information and to schedule a complimentary consultation with attorney Ali Oromchian.

Do you have questions regarding anything we covered in this whitepaper?

Dental & Medical Counsel was built with veterinarians in mind. We understand that you already have a busy professional life full of stress, heavy workload, and constant liability. Let us help you reduce your stress levels, improve your work/life balance, and minimize your concerns regarding any legal matters you may have.

Additionally, our comprehensive and unique approach enables the most entrepreneurial optometrists, dentists, veterinarians, and physicians to achieve their personal and business goals as they create wealth through smart strategies with the peace of mind of knowing that their practices are compliant with all federal and state laws.

Best of Luck,

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