

BUYING A PRACTICE

Detailed below is a checklist, though not exhaustive, that may provide some guidance when considering the purchase of an existing practice

What is the objective that the business purchase will attain for you?

Sustainable income

What has the profitability been of the business over the last four years? You should seek a full income and expenditure statement for the business over each of the last four years so that you can determine what level of income might reasonably be sustained when the business comes under your ownership or control.

Look at:

1. Income items particular to the vendor. For example, specific sources of income from particular clients that might not readily transfer to a business under your stewardship.
2. Expenses unique to the vendor.
3. Expenses that do not currently exist but which would be incurred if you were to take over the business. This might include an imputed salary for the business operator, or rent at a market rate.

Analyse the figures to work out, as best you can, the level of sustainable profit in the business that you are looking at.

Clients

For many businesses it is said that you get 80% of your business from 20% of your clients. At a time when personal loyalty appears to be decreasing, it is not uncommon to see figures that indicate you get 60% of your business from 40% of your clients.

You need to know which clients are providing most of the business, and whether the fees that have been generated from those clients can be sustained. A large litigation file might be

coming to an end, or a subdivision might be nearing completion. Will they be replaced, and if so, by whom?

Work types

What kinds of work are undertaken at the practice, and are you sufficiently qualified or experienced to undertake that work? Is it a matter of training, or do you need to hire additional expertise?

Systems

Does the practice use a practice management system? A document management system? Computerised accounting and/or time records? Are client details in a database?

What is the mechanism for identifying the clients, and the level of fees generated from those clients? How do you propose to use, adopt or modify any system that the vendor may have, and how will you achieve that?

Are the licences for the software used at the office up-to-date? Are they capable of transfer, and at what price?

Fee agreements

Are there fee agreements? You do not need a disclosure and costs agreement for every file that you open, but it is a good practice and makes it easier for you to be paid in circumstances where costs exceed the anticipated threshold. Remember that the failure to provide a costs agreement and disclosure statement when required constitutes misconduct.

Premises

Is there a lease in place? Are you happy with the lease terms (rent, duration, rent reviews and reinstatement obligations) or, is now the time to consider an alternative?

Staff

Who is employed in the business? Are there employment contracts in place, and what are the accrued staff entitlements?

How do you want to deal with accrued staff entitlements if there is a change in ownership of the business?

Describing the transition

How will you and the vendor describe the transaction to the clients of the business?

Clients do not like to be bought and sold. They have a relationship with their trusted adviser and are more likely to be amenable to a transfer of allegiance if that is presented to them sensitively and in a way that matches their objectives and satisfies their perceptions.

Will the vendor stay around, and if so on what terms and for how long?

After the vendor has fully exited the business, to what extent can you rely upon the vendor's knowledge, assistance and contacts in the short- to medium-term?

How much do you pay?

Prepare your own budget for the business, including your expectations in terms of income and expenses.

Add in what you consider to be an appropriate income level for yourself. Does it still show a profit? If it does not, you are buying yourself a job, not making an investment.

If you think the fees being paid to the vendor are unrealistically low then consider that shifting your (new) clients' expectations will be a lengthy process. Too often we see businesses change hands, immediate price increases, and a quick fall away in custom.

Once they are your clients, you need to educate them, or reach an accommodation.

The Transition Paperwork

For the files, you will need:

1. A signed authority from the client authorising you to take over control of the file from the vendor.
2. A costs agreement and disclosure statement. There will be a fair bit of work in this, because there is an expectation that there will be a great deal of education required.
3. An authority to take control of deeds entrusted to the safe custody of the vendor.
4. An authority to take over trust monies.

An assignment of the premises lease.