



CRAFTING A BUSINESS PLAN AND STARTING A MEDICAL PRACTICE

[Understanding Business Models, the Entrepreneurial Spirit and Obtaining Capital]

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The business plan is a key tool for raising start-up capital for any new medical practice or a service line extension for a mature one. It is also used for acquiring loans to finance growth of an existing practice. Although long recognized as a quintessential business tool, its formal structure and mental rigor are only now being recognized in the medical community as competition increases in the healthcare industrial complex.

There are many reasons to write a medical practice business plan. The process of gathering, compiling and analyzing information is an invaluable experience to the beginning practitioner or experienced veteran. Some specific reasons for writing a plan are included below:

- Determine the feasibility of a new practice start-up.
- Raise money from investment bankers for a new practice.
- Obtain financing to expand an existing office or turn-around a declining satellite.

- Develop an operational strategic plan and conduct due diligence.
- Create a budget, time frame or business direction for a practice.
- Unmask potential problems, risks or benefits of a medical practice.
- Focus on market opportunities by determining revenue centers or cost drivers.
- Persuade Third Party Payers, networks and insurance carriers that your practice has a future and represents a viable synergistic partner for their organization.

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HEALTH 2.0 EXAMPLE

On Starting a Micro Practice

www.mbahealthgroup.com

The concept of a "micro practice" is based on simplicity. A true micro practice allows a physician to practice medicine with only a fraction of the business expense and overhead.

A physician can run the practice with literally no staff. So that means you, the physician, are really running the show. Business expenses and overhead are low because there are only one or two exam rooms and no staff. Micro practices are typically fully electronic, utilizing both eHRs and practice management billing solutions.

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BUSINESS PLANNING FOR TRADITIONAL PRACTICE MODELS

The traditional medical practice business models include the following. Each requires a business plan or variation to ultimately obtain funding. More modern health 2.0

models may require greater innovation and even more personal persuasion to acquire needed capital from lenders.

Buying an Existing Medical Practice

Rather than starting from ground zero, you may find a physician or colleague who wants to sell their existing medical practice. Buying an established practice may cost more, but it is less risky than starting one. Having a trained and assembled workforce is advantageous.

Goodwill is the term for a proven idea and taking over an existing patient base and location. Fortunately, no federal tax is due when you buy a practice, but you and the seller must assign a value to all practice assets transferred, and report it to the IRS. And, the state, county or city where the practice is located may impose a transfer tax on either the buyer or the seller. This is more common with real estate and, if the tax is on the seller, then a practice purchase agreement should provide that it is paid from escrow at closing. Be aware that if the seller doesn't pay, the taxing agency can usually seek a remedy from the buyer. Some states impose annual personal property taxes, on business fixtures, equipment or inventory. Be sure these taxes are not delinquent, or are paid at the time of closing.

The buyer must also consider outstanding tax liabilities and potential tax audits and bills prior to assuming the practice. Other hidden liabilities like tax liens, land contamination or uncollectible accounts receivable, or expired inventory are possible. And, if buying a practice for more than the "book value" or hard assets, consult with a qualified appraiser. You can often write off goodwill and other intangible practice assets.

Medical Practice Brokers

It may be helpful to use a medical business broker to find your dream practice but it's important to remember that unless you've hired the broker, s/he represents the *seller* of the practice. So, as the potential practice owner, you too require a financial or management consultant to represent your own interests [personal communication, David Greene www.practicebros.com]. Of course, brokers are also a great source of information on current market conditions, issues related to pricing and financing, and many other facets of the practice buying process [www.DFHA.com].

If you're selling a practice, a broker may bring more prospects to your practice than you might on your own. They'll also separate the buyers from the lookers, and usually get you a better price justifying their commission fee. Brokers who work with appraisers can help you price your business properly [beware of self-dealings], tell you how you can make it more saleable, and serve as a resource throughout the sale [Michael Cargile; MD, personal communication].

Merging Medical Practices

There are only three possibilities if you want to go into practice for yourself; buy a practice; franchise a business, or start one. However, if you have an existing practice, merging it to form a larger entity can be a satisfying experience. The pace of practice mergers is accelerating, but it is often difficult to make an informed judgment about synergy. Mergers make sense only if the resulting value is more than additive to the

original; not duplicative. Unfortunately, many mergers fail to create, or actually destroy existing value. So, look for complimentary processes, personalities and ideas.

In a merger of two existing practices, there is no substitute for personal interaction between employees and physician-management. This creates cross-pollination and new ideas in everything from service-lines and the patient production process, to marketing and finance, and to proprietary and intellectual rights. Most importantly, it allows diversity of ideas.

The following are questions to consider when contemplating a medical practice merger:

- What are the risks of this transaction and how are they mitigated?
- Will talented employees be retained on both sides and can an exodus be prevented?
- Are the specific liabilities of each practice known? Remember, the farther outside your area of specialty or expertise, the greater the risk of being wrong.
- Will I appraise each practice independently, and correctly?
- Where will employee allegiance rest?
- What is the name, and logo, of the new entity? Who will be the CEO?

Healthcare Business and Medical Franchises

The International Franchise Association (IFA) estimates that that about \$1 trillion in sales, or 40% of all retail sales, were made through franchised establishment last year. On the positive side, franchises offer a branded practice concept with management training and access to proprietary methods, marketing and advertising campaigns and a host of support.

Moreover, there are franchises available for virtually every healthcare product or service, including: diet, weight loss and fitness; vein care and laser surgery; vitamins, nutraceuticals and pharmaceuticals; plastic and cosmetic surgery; dermatology, tanning and skin care; home healthcare and extended, etc. Some well know established healthcare and medical franchises are: Doctors Express, Being There Senior Care, Home Care Assistance, Personal Training Institute, Inches-A-Weigh, Remedy Intelligent Staffing, Visiting Angels, Unlimited MedSearch, prnYourHealth and Any Lab Test Now.

On the downside, franchises incur high start-up costs, rules and obligations, payment of franchise percentages and many contractual obligations. Questions to consider when contemplating this business entity include:

- Franchise stability, track record, licensing and costs.
- Training, support and proximity of other franchises.
- Independence, ownership laws, contracts and dispute resolutions,
- Screening methods, market size and potential market share.
- Replacement cost and transferability?

For more information on Uniform Franchise Offerings Circulars (UFOCs) contact www.FranChoice.com or:

Fradata

www.fradata.com

1130 Connecticut Avenue, NW

Washington DC 20036

202.659.8640

International Franchise Association

1350 New York Avenue, NW

202.628.800

Washington, DC 20005

www.franchise.org

Also visit: www.aafd.org; www.franNet.com and www.ITFranchise.net

Multi-Level Marketing and In-Office Dispensation

A multi-level marketing (MLM) business delivers products or services through a chain of independent distributors rather than traditional retail business outlets. Existing medical practices not only pursue income ancillary, but it is not unusual for beginning practitioners to plan for and include it in their start-up models and business plans.

The first layer is usually the distributor who must sell products/services and recruit additional members to produce a hierarchical organization with many employees. Each distributor profits from direct sales, and from a varying commission stream down-line. It may be best to investigate before you leap into these situations since some may be fraudulent pyramid schemes that sell no useful product or service, and requires only recruiting others into the scheme. Be sure to obtain a Dunn & Bradstreet or TRW credit report about any MLM company and inquire about current litigation. Most authorities agree that it take 3-5 years before serious money is made in the MLM business.

Moreover, care must be taken with this model. According to Stephen Barrett MD, writing on the *Mirage of Multilevel Marketing*:

“Many any physicians are selling health-related multi-level products to patients in their offices. The companies most involved have included Amway (now doing business as Quixtar), Body Wise, Nu Skin (Interior Design), Rexall, and Juice Plus+. Doctors are typically recruited with promises that the extra income will

replace income lost to managed-care. In December 1997, the AMA Council on Ethical and Judicial Affairs (CEJA) advised against profiting from the sale of "non-health-related products" to their patients. Although CEJA's policy statement does not mention products sold through multilevel marketing, CEJA's chairman said the statement was triggered by the growing number of physicians who had added an Amway distributorship to their practice."

Source: <http://www.quackwatch.org/01QuackeryRelatedTopics/mlm.html>

MEIDCAL PRACTICE NAME

Most experts recommend against naming a practice with your own name because it limits future growth and you may lose the benefits that a more descriptive name would bring. Your business name will likely be incorporated using your practice's name, although larger (multi-specialty group) practices may use a more general name for the entire enterprise; and then having multiple "dba's" ("Doing Business As") for the individual practices under the umbrella. It is important to discuss these options with an attorney if you believe this arrangement has advantage; others find it confusing.

Usually, your medical specialty can be used as a base-name, and then some descriptor to differentiate it from local competing practices. Selecting a name like "The Allegiance Partners" does not indicate that medicine is your service. On the other hand, naming your practice "Podiatry Associates of Your Town" won't be helpful to patients looking for you in the yellow pages, or internet search engines, and finding your practice listed just before "Your Town Podiatry Partners". It is therefore good to be cognizant of

your competitors' names when choosing your own. And, you should select a name that will hopefully grow with you into a larger enterprise. For example, are you a solo doctor, but are pretty sure you'll take on one or more partners in the future? Then besides not naming your practice after yourself, you may choose to add "Group" or "Partners" to your name initially even if you're the only doctor. Is there any possibility you'll open a second office in another town? Naming your medical practice something like the "Apple Street Internal Medicine Group" may not make sense when your second office is opened on Main Street in a nearby city, in a few years.

Order Forms and Practice Stationary

Orders forms, invoices, purchase and estimate forms, business cards, envelopes, stationary and specialty labels can all be personalized for your medical practice name, script, colors and logo. Often, local or regional printers are the most cost effective and you support another entrepreneur, as well. Four well-know internet companies that print stationary are: www.nebs.com; www.paperdirect.com; www.vistaprint.com and www.ebusiness-cards.com

PATENTS, TRADEMARKS AND COPYRIGHTS IN BRIEF

Patents

In the US, a patent is restricted to inventions granted under federal statute. The specific attributes are called claims. A patent gives the inventor the exclusive privilege of using a certain process or of making, using, and selling a specific product for a specified period of time. In 1980 patent coverage was extended to genetic engineering. It is granted

upon filing an application, payment of fees, and after a determination that the invention new and useful. A patent number is granted to the patentee and his/her heirs and assignees for a period of 17 years. In the case of design patents, the period of the patent is 14 years. If two or more parties make an invention jointly, they must apply jointly. If the inventor dies or becomes disabled before making application, a legal representative or guardian may do so. Patents may be transferred from one party to another. Copies of US patents may be purchased from the Patent and Trademark Office in Washington, DC.

Trademarks TM

A trademark is any symbol, word, number, picture or design used to identify goods and services and distinguish them from others. A trademark identifies a service or product and fixes responsibility for its quality. If customers or patients like them, the trademark identified what to purchase in the future. If disliked, goods and services are avoided with that trademark. The name of a type of product cannot be a trademark, because every maker is free to use its' name. Dr. Mary G. Jones, for example, may be a well-known trademark for her medical specialty device, but no one can have trademark rights to the words "Dr. Mary G. Jones." On occasion, however, trademarked words become generically used. Such words lose their legal status as trademarks. Examples include aspirin, cellophane and escalator. An important condition with trademarks is they are not confusingly similar to one previously registered in the US. Upon approval, the trademark is published in an official gazette to enable objections to be heard in an opposition proceeding. Registration lasts for 20 years and may be renewed for as long as

the trademark is in use. Once a federal registration has been obtained, the owner may give notice by using the registration symbol ® next to the trademark.

A trademark may become the valuable property of a physician because it is the symbol of the practice's goodwill and of its healthcare products and medical services. Thus, a trademark can be sold or assigned when a practice and its assets are sold. It can also be licensed to others to use as long as the owner exercises control over the quality of medical goods or health services supplied by the licensee.

Service Marks SM

Are similar to trademarks, except they represent largely cognitive and intangible services.

Copyright Issues ©

A copyright is a body of legal rights that protect creative works from being reproduced, performed, or disseminated without permission. The owner has the exclusive right to reproduce a protected work; to prepare derivative works that only slightly change the protected work; to sell or lend copies of the protected work to the public; to perform protected works in public for profit; and to display copyrighted works publicly. The term "work" refers to any original creation of authorship produced in a tangible medium. Works that can be copyrighted include medical practice brochures and marketing pieces; medical photographs, healthcare drawings and diagrams; practice advertisements, websites, blogs, wikis, web-casts and pod-casts; and radio and television practice advertisement, etc. Copyright does not protect the idea or concept; it only protects the way in that an author has expressed an idea or concept. If, for example, a doctor publishes

an article explaining a new process for making a medicine, the copyright prevents others from substantially copying the article, but it does not prevent anyone from using the process described to prepare the medicine. In order to protect the process, the doctor must “fix” the work and obtain a patent. For works created after January 1, 1978, copyright becomes the property of the author the moment the work is created and lasts for the author's life plus 50 years. When a work is created by an employee in the normal course of a physician’s job however, as with an HMO or employed physician, the copyright becomes the property of the employer and lasts for 75 years from publication or 100 years from creation, whichever is shorter. The 1978 act extends the term of copyrights existing on January 1, 1978, so that they last for about 75 years from publication.

Although copyright becomes effective when fixed on creation, it may be lost unless a prescribed copyright notice is placed on all publicly distributed copies. This notice consists either of the word Copyright, or the symbol ©, accompanied by the name of the owner and the year of first publication (© John Doe MD, 2011, all rights reserved, USA). The use of the notice is the responsibility of the copyright owner and does not require advance permission from or registration with the Copyright Office. But, a work is not fully protected until a copyright claim has been registered with the Copyright Office in Washington, DC. To register, the author must fill out the application, pay a fee, and send two complete copies of the work which is placed in the Library of Congress. The sooner the claim to copyright is registered, the more remedies the author may have in litigation, if challenged. And, an author who types a story on a computer keyboard and stores it on a tape, disc drive, thumb-drive, virtual memory mechanism or cloud grid, has

"fixed" the work sufficient for copyright protection [United States Patent and Trademark Office www.USPTO.gov]

Infringement

Infringement is any violation of the rights above that produce an unauthorized copy of a copyrighted work. Infringement does not necessarily constitute word-for-word reproduction; "substantial similarity" may also be infringement. Generally, copyright infringements are dealt with in civil lawsuits in federal court. If infringement is proved, the court may order an injunction against future infringement; the destruction of infringing copies; reimbursement for financial loss; transfer of profits; and payment of fixed damages for each work infringed, as well as court costs and attorney's fees.

Fair Use

Fair Use permits the reproduction of small amounts of copyrighted material when the copying will have little effect on the value of the original work. Examples of fair use includes the quotation of excerpts from a book or medical journal; quotations of short passages in a scholarly books to illustrate or clarify the author's observations; use in a parody; summary of a speech testimonial or article; and reproduction by a teacher or student of a small part of a work to illustrate a lesson. Because works produced and published by the US government cannot be copyrighted, material from the many publications of the US Government Printing Office may be reproduced without fear of infringement [United States Patent and Trademark Office www.USPTO.gov]

PRACTICE MISSION STATEMENT

The mission statement is an important and fundamental document that reminds doctor's why they are in medical practice. This document reflects the physician-executive's beliefs about life, practice, patients, employees, reimbursement and medical vendors. It serves as a guide for him or her to make choices about how to allocate time and medical practice resources.

Mission Statement Elements

There are no firm rules about what a medical practice mission statement should contain or how long it should be. For some doctors, a succinct statement is appropriate; for others, it may take two to four pages to capture the mission. However, the critical element in every mission statement is the physician-executive's belief that he or she can uphold every principal in the statement. Here are some important elements of any medical practice mission statement:

- It should include both a local vision with global beliefs, because this view helps keep things in perspective when patients get caught-up in their day-to-day business and personal lives; and healthcare needs.
- It should include steps that support the doctor's vision. These steps can be written in either a list format or incorporated in paragraph form. It is sometimes important to commit to specific facts, figures, or goals in your mission statement. Mission statements are designed to communicate principal beliefs and ideals, but a

statement of specific goals and outcomes should be included as well, to suit the doctor's purpose and patient's needs.

- It must be stable, yet flexible. Because a mission statement is about who the doctor is and what he or she believes, the core elements should remain relatively stable. However, as patients and doctors age, medical care philosophy and needs may change. Doctors should review their mission statements annually and revise them to accommodate any new principles, patient needs or beliefs.
- A mission statement should inspire. Doctor's mission statements should inspire and motivate potential patients. This is the most important criterion, so have sample patients look at the document and see if it inspires him or her and the family around the practice. They also should be able to return to their mission statements for guidance about how they want to manage their own healthcare.
- A mission statement should also inspire the doctor to do their best professionally. A doctor's mission statements will have no real value unless it inspires and motivates; internally and externally.
- Finally, a mission statement should include a vision of what the doctor's practice wants to become. A mission statement should state practice ideals, not current reality. This is a statement about who the doctor wants his patient to become too—and not necessarily what the patient's health is today. For example: what characteristics does the patient need to improve [blood pressure, weight,

cholesterol levels, skin appearance, cardiac output, oral hygiene, etc] for overall health and physical well-being?

Remember, a mission statement serves as a guide only if the doctor commits to making it a part of his or her medical practice.

UNDERSTANDING THE PHYSICIAN-EXECUTIVE'S PERSONALITY

There is no way to eliminate all the risks associated with starting a medical practice, or launching any innovative concept in the health 2.0 ecosystem. However, entrepreneurial focused doctors can improve their chance of success with good planning and preparation. So, prior to starting your practice, merging, franchising or purchasing an existing one, ask yourself the following sobering questions. Hopefully, such reflection will enhance success, or at least prevent an unmitigated catastrophe. (www.sba.gov)

Is medical practice ownership and physician entrepreneurship right for you?

It will be up to you, and your consultants; not someone else telling you to develop projects, organize your time or follow through on details. You must be self motivated.

Do you like people and get along with different personality types?

Practice owners need to develop working relationships with a variety of people including patients, customers, vendors, staff, other physicians, and professionals like lawyers, accountants, consultants and bankers. Can you deal with a demanding patient, an unreliable vendor or cranky staff person in the best interest of your practice?

Can you make decisions and leave with ambiguity?

Practice owners are required to make independent decisions constantly; often quickly, under pressure and without all the facts. Ambiguity is a constant.

Do you have the physical and emotional stamina?

Practice ownership can be challenging, fun and exciting. But it's also a lot of work. As a physician-owner, can you face twelve hour work days? As a doctor, can you offer advice, service, care and moral support 24/7?

How long can you live on your current savings?

Most small medical practice startups induce a declining bank balance in the early going. So, it's wise to look at your expenses and determine how long you can live on your savings, and what personal costs you can temporarily eliminate. Emotionally, it's easier to tighten expenses when you're contemplating a new practice, than it is to cut back after you've started. Financial consultants and accountants that perform consolidated financial statement preparation and analysis are vital in this regard. A two to five year margin of safety is not unusual and may be needed

How deeply in debt can you go?

Medical practice business debt can be good. It can fund expansion, improve profit ratios and cash flow. For physician entrepreneurs, business debt is often personal debt. Many start a practice by deferring payments for their own labor. Although lenders may make loans to a practice, the physician-owner will often be required to

personally guarantee the loan. So, although the debt is on the business's books, is ultimately the doctors' debt should the practice fail.

What about health insurance?

If your current residency, fellowship or job offers health insurance, and is subject to the Consolidated Omnibus Budget Reconciliation Act (COBRA), you might be able to keep your coverage by paying the premiums, plus another 2% for administrative costs. You may keep your coverage under COBRA for up to 18 months and is a useful stopgap. For example, pay the premiums for six months or until another health insurance plan is obtained. Others suggestions are working spouse coverage with family benefits, or an HMO; or Medical or Health Savings Account (HSA/MSA).

Can you line up credit in advance?

Some new practice owners may set up a home equity line of credit that will let them borrow money at 1-2 percentage points over the prime rate or less. Lenders are more willing to make loans to someone who has a steady paycheck than to a new practice entrepreneur. If you have an excellent credit rating, you can probably get a home equity or other secured loan, but with more paperwork than in the recent past. Once you're a self-employed practice owner, you'll probably have to provide your most recent tax returns before getting approval. But, today, the biggest obstacle to a practice loan is a home mortgage. Domestic credit has been very tight since 2007, even for physicians.

What if you can't manage the practice?

Disability insurance, unlike health insurance, usually cannot be transferred to an individual policy when you leave your job to start a new venture. So, get your own disability policy while you are still employed. Once you have the policy established and are paying the premiums, you should be able to keep the policy when you go out on your own. Remember, benefits received on a policy paid by you are free of federal income tax. Benefits on a policy paid for by a previous employer were taxable.

How well do you plan and organize?

Research indicates that many medical practice failures could have been avoided through better planning. Good organization of financials, inventory, schedules, information technology, medical services and human resources can help avoid many pitfalls.

Is your determination and drive strong enough to maintain your motivation?

Running a practice can wear you down. Some doctor-owners feel burned out by having to carry all the responsibility on their shoulders. Strong motivation can make the practice succeed and will help you survive slowdowns as well as periods of burnout.

How will the practice affect your family?

The first few years of practice startup can be hard on family life. The strain of an unsupportive spouse may be hard to balance against the demands of starting a medical business. There also may be financial difficulties until the business becomes profitable,

which could take years. You may have to adjust to a lower standard of living or put family assets at risk.

How do you feel about the Patient Protection and Affordable Care Act of 2010?

Most provisions of the PPACA take effect over the next four to eight years, including expanding Medicaid eligibility, subsidizing insurance premiums, providing incentives for businesses to provide health care benefits, prohibiting denial of coverage/claims based on pre-existing conditions, establishing health insurance exchanges, and support for medical research. The expense of these provisions are offset by a variety of taxes, fees, and cost-saving measures, such as new Medicare taxes for high-income brackets, cuts to the Medicare Advantage program in favor of traditional Medicare, and fees on medical devices and pharmaceutical companies. There is also a tax penalty for citizens who do not obtain health insurance. Decreased physician reimbursement is a component, as well.

THE BUSINESS PLAN STANDARD FORMAT

Physician Executive Summary

The Physician Executive Summary is always included at the beginning of a formal business plan and represents a brief synopsis of the entire plan. Its appearance, grammar and style should be sharp and crisp as it represents an enticement for the reader to maintain interest and contribute intelligent or economic input into the new venture.

It should contain information about the practice, advertising and marketing opportunities, physician management, proposed financing with four *Pro Forma* financial

statements, business operations and exit strategy. This last point, while unpleasant is often overlooked by naive practitioners. Business experts however, look favorably upon an escape plan and view it as the mark of mature professional that realizes the possibility of success as well as failure.

Ultimately, the plan must explain to potential investors how you will make the practice profitable and produce the required *Return on Investment (ROI)* for them. It must describe medical services, patient acceptance and benefits, provider qualifications and accomplishments, the amount of capital required, market size, potential practice growth rate, and market niche. Additional information may include office location, proximity to labor, transportation, license requirements, business entity status, proprietary technology and potential working agreements with various insurance, managed care and HMO plans. If all of the above seems bewildering to the uninitiated, you are correct. Remember however, that if you do not have, or can't borrow the funds to begin a private practice, you will just have to become an employed practitioner until you can. It is therefore imperative to start off on the right foot, with a sound business plan, as you begin your medical career.

Practice Marketing Analysis

Marketing generally describes your strategic competitive advantage and/or professional synergy that are unique to the practice and not necessarily a significant cost driver. Generally, this may be evaluated through a SWOT analysis of the practice. [(S)trengths, (W)eaknesses, (O)pportunities and (T)hreats)].

Sales on the other hand, represent the act of transferring service ownership to a willing buyer, for compensation. In the past, the four components of marketing were considered to be: (1) product (medical service), (2) price (inelastic), (3) place (office) and (4) promotion (demand and supply induced). These “four P’s” are much less important in today’s managed care environment (especially price) as this simplified secular concept has been replaced with more scientific and quantitative concepts of medical marketing, along with managed care fixed compensation schedules. But, is it vital for cash based Health 2.0 practices.

The science of such modern marketing and sales analysis is based on intense competition largely derived from the interplay of five forces. In the early 1980s, Professor *Michael F. Porter* of Harvard Business School codified these forces that are often used in medical business and marketing plans today. Although they vary among and within industries, their mix may explain why some practices fail, while others succeed. Consequently, these *five, plus one* marketing forces must be addressed and demonstrated to benefit you, in this section of the business plan.

[Insert Figure 3.1]

1. Power of Buyers:

Corporate buyers of employee healthcare are demanding increased quality and decreased premium costs that have effected competition within the entire healthcare industry. The extent to which these conduits succeed in their bargaining efforts depend on several factors:

- **Concentration:** Insurance companies, MCO and HMOs represent those buyers that can account for a large portion of a practice's revenue, thereby bringing about certain concessions. These are typically price reductions, but may also include service reductions, such as precluding certain surgical procedures, mandating surgical venue or excluding certain practitioners in favor of others. Service fulfillment is an important part of practice success so all proposed or current third party insurance contracts is listed here. A danger sign is when any entity encompasses more than 15-25% of a practice's revenues.
- **Switching Costs:** Notable emotional switching costs include the turmoil caused by uprooting a trusted medical provider relationship [i.e., OB-GYN], and the tangible monetary constraints of fees, deductibles and co-payments. These switching costs serve to either retain patients already in the practice or retard new patients from entering it.
- **Integration Level:** The practitioner must decide early on whether or not his or her practice will be vertically or horizontally integrated. For example, a provider may horizontally integrate as a solo practitioner, while a larger group practice may prefer vertical integration in a bigger medical healthcare complex.
- **Profitability:** When a TPA (Third Party Administrator) earns a low profit, and a specific specialty is an important part of costs, more aggressive bargaining is likely to take place with individual MDs or their associated networks. Explanations must be made for such unpleasant contingencies.
- **Service Importance:** When a purchased medical service such as healthcare is provided, the buyer's bargaining power is diminished if the service recipient

(patient) is not actually or perceptually pleased. Increasingly, HMOs do not often strive to delight their clients and may be responsible for the beginning backlash and changing sentiments these entities are starting to experience. In medicine, as in any business, the power is in the marketplace. Thus, always do your best.

2. Threat of New Healthcare Entrants:

Many authorities argue that medical schools produce more graduates than needed, inducing a supply side provider shock. Additionally, some of these graduates receive less than adequate post-graduate training.

Therefore, astute practitioners realize that this dilemma must be mitigated, either in the macro-economic long term through national organizations, or micro-economically in the short run by individual choice; the latter being a practical, albeit slow way for most MDs. This is accomplished by practicing in rural or remote locations, away from managed care entities, or in areas with under-served populations.

3. Current or Existing Medical Competition:

In addition to intra-professional competition, heightened inter-professional competition within the entire industry has induced allopathic and osteopathic physicians to increase the intensity and volume of certain medical or ancillary services they provide, and referrals may be correspondingly withheld. Rivalry occurs because a competitor acts to improve his standing within the marketplace or to protect its position by reacting to moves made by other specialists. Thus, physicians are mutually dependent, and what one practices does impact on other practices, and vice-versa. Therefore, increased existing

competition from non-physicians and alternate healers must be considered in any well-executed business plan.

4. Potential of Substitutions:

Professional substitutes are alternate non-professionals that are not branded and perform essentially the same function as professional. Examples include: nurse practitioners for physicians, surgical technicians for operating room nurses, hygienists for dentists, physical therapists for physiatrists, and foot care extenders for podiatrists. Aggregate competition will be particularly acute for generalists, while specialty competition will be increased for sub-specialists. Any strategy to ameliorate these conditions will augment the successful business practice plan.

5. Power of Suppliers:

The bargaining power of physician suppliers has weakened markedly in the last decade. Reasons include demographics, technology and a lack of business acumen. However, physicians will again assume their role as leaders of healthcare, if they acquire and update the business skills needed to compete in today's marketplace. Business education produces more potential for the medical practice.

6. Community Benefit:

According to Robert James Cimasi; MHA, CMP™ of Health Capital Consultants, LLC in St. Louis Mo [personal communication] this is a new [*five, plus one*] competitive marketing force in the health 2.0 era:

If “community benefit” is defined as the “one true good” of healthcare, the question arises: Can a capitalist economy and for-profit healthcare system support this concept of community benefit? The debate between whether healthcare is a right or privilege has not yet been resolved in American society and puts healthcare in competition with other social goods for resources. Furthermore, due to the public health nature of many healthcare services, most healthcare services are influenced in some fashion by public opinion on matters related to health, i.e., the perception of “community benefit,” and society works on changing or accepting the healthcare system through many channels and several organizations including: community organizations, political parties (independent of Medicare / Medicaid), civic organizations, and religious organizations. Thus, healthcare delivery — in a manner and to a degree that few other industries experience — may well be subject to this unique “sixth force.”

For example, on February 14, 2008, the IRS released information on the governance of charitable organizations and rescinded the draft *Good Governance Practices for 501(c)(3) Organizations*. Its’ views are best reflected by the revised Form 990 and governance components incorporated in the Life Cycle — an educational tool provided by the IRS. The revision of Form 990 came in response to increasing scrutiny on how much charity care is actually being delivered at medical offices, clinics and hospitals. If one health entity in a community, for example, failed to provide their share of charity care, another entity had to take those patients and ended up with a disproportionate

number of unprofitable cases. The revision prompts documentation to verify the amount of care claimed.

[Start box]

HEALTH 2.0 EXAMPLE

www.MyFax.com

On Physician-Patient Advertising and Communications

An Internet enabled fax service used for healthcare communications and email accounts. The platform is delivered as a SaaS communications model. It includes voice rich virtual PBX services and an email marketing campaign, for personalized one-to-one email dialogues, with patients.

[End box]

Advertising Channel and Sales Methodology

Advertising channels of distribution and related sales activities are more than just placing pieces in local newspapers or sending letters to physicians and hospitals. Advertising is branding the practice you envisioned in your marketing activities. This might included a logo, holding an open house, designing your letterhead and business cards, and much more. Word of mouth is huge, of course, as is both short and long term advertising needs and the financial resources required to properly grow the practice.

Advertising is often a heuristic activity that generally describes those methods of practice promotion, or channel of information distribution, that are non-specific in nature, can be done by anyone, but do incur costs to the practice. However, a well-defined

advertising plan should be visually stimulating and include several more rational considerations, as listed below.

- **Goals and Objectives:** The goals and objectives of any advertising plan should be reasonable and quantifiable. For example, a new advertising scheme will not likely generate 250 new patients a month, but it may add an additional weekly patient, or some incremental revenue increase; multiplied by some moderate degree for the first 1-2 years. The *Law of Diminishing Returns* then becomes apparent as results subside. Moreover, the office should have a brief but specific mission statement addressing the purpose of the practice; target patient market or audience, and goals to accomplish at every doctor-patient interaction. For example, the mission statement of a physiatrist, osteopath or sports minded chiropractor might be: *“our goal is to conservatively treat athletic patients with cost effective manual and technological remedies, in order to reduce pain and return them to activity as soon as possible”*. Of course, proper execution must be the desire of every effective mission statement if it is to become a credo of the practice, rather than a mere incantation.
- **Communications and Media Channels:** Typical channels of advertising include: print: (coupons, office brochures, direct mail, newsletters, signs, bill stuffers, billboards, placards, posters, vehicle signage, local shoppers guides, signs, conventions, trade shows, health fairs, contests, direct mail and display ads), audio (radio), church, synagogues and affiliates, websites, ranking and rating sites, and telecommunications (message “hold” buttons, beepers and pagers). A *Yellow Page* ad may be a key to success with these and other media. Eventually,

potential patients will have to call and make an appointment with you. Whether directed by other media, or happenstance, it is important that your ad be conspicuous. Do not scrimp with it and plan to lay it out carefully. Or consult a graphic artist. Denote your specialty in plain language, and include your name, address, location, credentials, insurance affiliations, special skills and common conditions you treat. Stick with the same colors or design every year and include a portrait for self-recognition. Quarter or half page ads are not unreasonable. Include your e-mail and/or web site address.

- **Websites:** Secure features may include your own domain name with HIPPA approved and secure pre-registration, appointment scheduling, prescription renewal, virtual office visits, symptom assessment, list of conditions and medical glossary, online bill payment, “Ask the Doctor”, lab results reporting, new and old patient portals, eHRs and practice management system integration. Location information should also includes provided medical services, office hours, map links from Google or MapQuest, and the ability to build unlimited futures pages for services, news & events, related links, insurances, frequently asked questions [FAQs], job postings, and patient education, etc. www.officite.com, and www.baystonemedia.com
- If you believe that video (television) advertising is important but can not afford it, then look into your local public broadcasting station. Often, they do not consider what they broadcast as advertising, but rather categorize it as *underwriting*. Your dollars will support local public broadcasting programs and therefore quality as a

personal-business tax deduction. These benefits play a dual role by saving money and providing practice exposure.

- Sometimes, even the media becomes the message as in the case of the World Wide Web [internet], cloud or grid computing. The use of telemedicine is increasing, as the promise of quality healthcare, anytime and anyplace, becomes a reality. Initially, the most commonly used clinical telemedicine applications occurred in specialties like cardiology, correctional care, dermatology, fetal ultrasounds, hoe healthcare agencies, neurology and orthopedics, pathology, pediatric, psychology, psychiatry, emergency care, traumatology and radiology [SwiftMD.com].
- Other basic ways to channel new patients into your sphere of medical influence include: healthcare screenings, service, civic [YM/WCA, PTA, etc] or religious organization involvement, seminars, speaking engagements, hospital auxiliaries and neighborhood welcome wagons, writing and publications in local or community newspapers, or simply having a friendly personality. More specific referral patterns can be cultivated by certain individuals such as: the clergy, nurses, pharmaceutical representatives, bankers, realtors, and accountants, as well as a host of on-traditional healthcare providers like chiropractors, physical therapists, nutritionists, homeopathic practitioners and health food devotees. Keeping primary care and family physicians informed and happy is the source of continued referrals, particularly in a managed care environment. This can be done with introductory letters or initial personal meetings; practice mission statement,

sub-specialty interests or advantages; and follow-up telephone calls and letters outlining the diagnosis and treatment plan for all referred patients.

- Perhaps the most effective way to motivate existing patients is through effective communications. Such techniques include: proper body language, attire and eye contact appropriate facial expressions and verbal acknowledgments; mimicking and paraphrasing; or just spending time with the patient to listen to his or her concerns.
- **Message and Credibility:** The advertising message must be delivered in such a way as to build, change or reinforce patient and payer attitudes. Advertising has shown that the more honest, fair and unbiased the audience perceives the source to be; the more credible the message-and the more likely the attitudes will shift towards the source's position.
- **Reinforcement and Repetitions:** An advertisement must be repeated for several reasons: to emphasize the message, keep the audience from forgetting the message and save the costs of producing more messages (print 3-5 times and TV 8-12 times). Exposure time (15-60 seconds) must also be considered. Over-learning occurs when the audience becomes fatigued and further expenditures are wasted on needless advertising. However, the medical advantage may be fleeting if the message is content poor. Intended effects begin with the hierarchy of patient consciousness; progressing to patient awareness, comprehension and conviction; and ending with the designed behavior on the part of the client or payer.
- **Feedback and Evaluation:** Any advertising campaign must be continuously monitored for efficacy. Methods to evaluate successes include: memory tests,

practice surveys, recall tests and ultimately, revenue effects. In fact, many experts feel that no advertising campaign is better than poorly monitored one, merely because it is economically unwise.

- **A Word on Medical Practice Marketing and Blogging**

There's all sorts of advice on why and how to blog in order to promote a medical practice. Yet, most doctors haven't scratched the surface to understand what blogging is actually about and what roles it may play in their overall BP and strategic presence – on and offline. But, all practices have different concerns and goals, and every media, communications and marketing strategy is different from the other. Today, “blogging” just doesn't mean the publishing of content on a website. It's more about being proficient in various media: from traditional to emerging; a new set of skills every doctor or physician executive needs to acquire and hone. Blogging is a constant learning process. It's also a way to reveal strengths and weaknesses inherent in any healthcare organizations, culture and processes.

Strategic Questions on Blogging for Practice Promotion

According to Phil Baumann RN, of Phil.Baumann.com, the following are helpful to consider when planning a blogging campaign to promote your medical practice:

1. **What's the purpose?** Practice development? Patient availability? A place to house your medical expertise and knowledge? A place to create a [professional or

- patient] community where ideas and questions can be explored openly? What value do you expect to provide or extract?
2. **Who is your audience(s)?** Are you thinking that your only audience would be patients? Or, perhaps your colleagues, other healthcare industry influencers, vendors or the public? Will you be able to track the social footprint of your audience – who they are and where else on the Web they interact?
 3. **What kinds of content are you delivering?** Is it informational? Editorial? Inspirational? Industrially insightful? Action-calling? How might the kind(s) of content and information you publish influence your audience? Are you willing to let your audience help determine your content?
 4. **What kinds of media will you provide on the blog?** Text? Video? Audio? Slidedecks? Different media have different properties. Have you thought about the properties of traditional media and how they differ from emerging media? How much of your traditional practice marketing expertise evolved around the properties of print, radio, traditional websites and TV? Given that new media possess different properties, how might your marketing and promotional strategies need to adapt?
 5. **Do you know what kinds of assets a blog can build?** Appointment leads? A small but relevant community of patients or influencers? Professional or street credibility? Search engine optimization [SEO] and ranking? Which do you need?
 6. **How will you distribute your content?** Have you developed other web real estate – outposts on Facebook, Twitter, Youtube, Slideshare; or will you use strictly medical networks, healthcare related platforms or build your own? Which

ones make the most sense to invest in? Can you build a visual map of your entire Web presence and how different Web and traditional presences relate to the bigger picture?

7. If you successfully build your community, do you know how to leverage it?

Will you be satisfied to just have visitors? Or, will you engage with your community – not only on your blog but elsewhere? Will you continually monitor your efforts and make the best of the connections you make? Will you develop a system to reach your community beyond your blog – either via email or other media outreach?

8. Do you think blogging is just putting content on a website – or do you believe

it is a spectrum of media skills? What’s your conception of medical practice blogging? Might there be more to blogging than what you think you know? What skills may you need to develop or build upon

9. Do you have a plan on how to distribute your blog content to traditional

media (where else is your audience)? What are your overall communications and marketing strategies? How might emerging media not only play a part, but how might their proliferation impact your established practice strategies?

10. How committed will you be? Is this going to be a chore “to be done” or will you

intelligently integrate it into your promotional routine? Do you understand the skills and resources needed to become proficient? When thinking about resources, are you considering time and talent and networks? Or, will you outsource, and can you afford it?

11. **Do you have the stamina to sustain your efforts in the long-term?** Investing in new media is about sustaining long-term capital. Given your resources, will you create the kind of working environment for your employees to enjoy the art of creating content, conversing across different networks and advancing the practice's objectives?

12. **Do you know how to make it easy (and enticing) for your audience to comment?** Will you thank and comment back? Is sharing via email and other sources easy?

13. **Are you willing to fail?** More importantly: how do you define failure? This is important to know because if you define failure appropriately, then you're more likely to know what to do when you encounter it: in fact, you may see it as a huge opportunity.

Take your time answering these questions because they aren't just about blogging: they're about your understanding promotional media and your medical practice.

What other questions do you think you need to ask yourself?

- **Public Relations:** Generally; public relations is deemed to be much more credible than marketing or advertising endeavors. Doctor purchase advertising but hope for positive public relations. Media coverage is probably most synonymous with the concept of public relations since reporters or editors will cover your story if it seems newsworthy, timely or important to their constituency. It is usually in the form of press releases, feature articles, announcements, seminars, charities, alliances and endorsements, testimonial and other referrals. Vendors for other PR opportunities include: sorts stores, pharmacies, school nurses and gym

instructors, middle, high school and college coaches, medical supply stores, police and fire departments, senior and rehab centers and nursing homes. If this tool is pursued, it is important to be systematically aggressive (proactive) in design. For example:

- ✓ Target your media audience (reporters, editors, program directors, TV, newspaper and radio editors, etc.). Send your targeted media audience a letter of introduction and offer to tell a personal or patient based success story about your medical specialty and practice. Include an office brochure, business card and brief curriculum vitae.
- ✓ Be available when a reporter calls. Some PR professionals suggest that you always take a medical call, and offer to call back at a set time, based on the reporter's deadline. This gives you time to think about the topic and set up your "key message". Meet the deadline and always call back to encourage repeat media appearances.
- ✓ If you are fortunate enough to be interviewed directly, keep your message short and supply additional written information to the reporter. Follow-up with a thank-you letter and synopsis of your response. Offer to keep the media representative informed of current updates in your specialty or practice.
- ✓ Of course, for larger practices, a professional public relations agent might be useful at an additional salary of 20-30 thousand dollars per year to your office budget; but true public relations void of expense. Public relations activities include: letters to the editor and op-ed pieces; media coverage and infomercials; by-lined articles and speaking engagements. Public relations are subtle and somewhat

uncontrolled. Advertising, on the other hand is more blunt and controlled. The advantage of true PR is that it is “free” when un-sponsored. However, since PR agents want to “accomplish something” to justify their existence, be prepared for even more advertising expenses. Monitor them carefully. Good PR agents should more than justify their costs; if not, replace them or use your imagination and do it yourself.

Remember, it is always more believable when someone else says something good about your practice, than when you say something good about it yourself.

- **Crisis Management:** If you remain in practice long enough, something adverse is sure to happen that will negatively affect your business. A patient may die, your hospital may close, the surgery center you frequent may lose accreditation, a trusted employee may be caught embezzling, or a patient may *go ballistic* (“*postal*”) and injure your staff or yourself. When, not if, this scenario occurs, you must have a *crisis management business plan* in place to deal swiftly and successfully with the matter. Most management experts suggest the following course of actions when tragedy strikes:
 - Stay calm and relaxed but act immediately.
 - Release detrimental, but accurate information as soon as possible. Stay neutral.
 - Educate your employees and staff about the crisis, and then your local community.
 - Implement and fix for problem, or find an alternate solution to minimize recurrence and routine disruption.

- Continually release information about the crisis if it is ongoing.
- Monitor and report the results of your strategy to all affected, or potentially affected people (patients, managed care plans, community, etc.), both in the short and long run.
- Thank everyone concerned for their support and turn a negative story into a positive one through good public relations. You will grow personally and professionally from the experience.
- Remember, speed and pro-activity are the keys to adverse public relations fallout. Do you want to be another *Perrier*, which never fully recovered from the adverse publicity of finding trace amounts of benzene in its bottle water in 1990; or *Johnson & Johnson* which recovered beautifully from the Tylenol® tragedy a decade ago, and not only recovered lost profits but trust in the marketplace, as well? The choice is yours.

Defined Budget: Advertising is an expense that should be controlled. Typically, it is a semi-fixed or variable cost, that is increasingly but often erroneously becoming a greater portion of medical practice expenses. Some suggest that start-up practices devote more scarce resources (5-7 or even 10 % of gross revenues) toward advertising, while more mature practices may devote less than (3-5%) resources to marketing and branding endeavors.

[Start box]

HEALTH 2.0 EXAMPLES

Online Medical Care for Employers

MD Online [dba eDocAmerica]

MD Online LLC is a fully funded, private company. The business plan of MD online has a 'no advertising policy' and therefore does not host or receive funding from advertising from the display of commercial content. It is a HONcode compliant website. (www.hon.ch). The cost for a year, for one employee, is less than one primary care visit.

HUMAN RESOURCES AND OFFICE STAFFING

The name, address, age, prior business experience, educational background, residency training, board certification status, salary requirements, benefit/perquisites, retirement plans, special skills, personal financial statement, number and caliber of current investors, and any other pertinent information about the current or future physician owner. A resume of the Chief-Executive Medical Officer (executive practitioner) must be included in this section. Strengths and weakness of the doctor, manager or management advisory team, should be noted.

Professional organization membership, and a list of firms providing profession services to the practice, such as accountant, public relations firm or advertising agency, financial planner, banker, stock-broker, insurance agent and professional management consultants, should be listed. Payroll processing, worker's compensation, employee recruitment, independent contractor status and employer liability coverage should also be included, with proper business associate and compliance agreements, as needed. Obviously, some of this information will be sketchy for the beginning practice, but should

be much more detailed for the established one. An organization chart that reflects management hierarchy is a nice visual addition to the practice management presentation.

An often-neglected portion of the practice management business plan is the acquisition and retention of office employees. A receptionist, billing clerk, back office assistant and office manager are important hires relative to the ongoing concern nature, or goodwill, of the business. Hiring, training, orientation, empowerment, motivation, salary and benefit packages, performance reviews and continuing education must all be addressed. Insurance and fidelity bonding must also be secured. A reproducible method to accomplish these tasks is through the use of office compliance manuals. These manuals may be individually prepared (time consuming and expensive) or purchased (quick and less costly) and then modified for practice specific use. Many employees find such documentation helpful in maintaining the orderliness of the medical office.

PRACTICE CULTURE AND BUSINESS OPERATION'S PHILOSOPHY

Some pundits believe that a general medical, or even broad specialty, practice will have limited appeal to patients and buyers of healthcare services in the future. In its place, the doctor must philosophically decide if she or he is to become either a discount, service or value provider, and then aggressively pursue this business operational strategy. This decision can be presented as an expansion of the practice mission statement, or declaration of practice culture, and then outlined in this section of the business plan.

Discount Medical Provider Operations:

A discount provider is one who has made a conscious effort to practice low cost, but high volume medicine. Unfortunately, this is easier said than done, and this section of the business plan must persuade the reader of the doctor's commitment to this moral and business philosophy through estimated cost-volume analysis projections. For example, discount providers must depend on economics of scale to purchase bulk supplies, since this model is ideal for multi-doctor practices. Otherwise, several practitioners must establish a network, or synergy, to create a virtual organization to do so. In this manner, malpractice insurance, major equipment and other recurring purchases (especially variable cost-based supplies) can be negotiated for the best price. Another major commitment must be made to health information technology (HIT), eHRs and computerized office automation devices. By necessity, such as offices are small, neatly but sparsely furnished, with functional and utilitarian assets. Most all managed care contracts just be aggressively sought since patient flow and volume is the key to success in this organizational type.

Make no mistake about it; a low cost philosophy is not evil as it satisfies a real niche in the medical marketplace for basic care. It should not however, be the operational plan of default (i.e., when all else fails) because low fees, high patient volume and high office overhead costs may be a formula for *grossing (revenues) the practice to death*. In other words low fees are often thought by physicians to be a significant advantage in attracting new patients. And, for the short term, they are. The long term reality however, is that regardless of how low fees get, there will always be a more deeply discounted competitor willing to do what you do, at a lower fee.

Think: *WalMart, K-Mart, Office-Deport, or Home Depot, etc.*

Service Medical Provider Operations:

A provider committed to a service philosophy must be willing to do *whatever it takes* to satisfy the patient. For example, this may mean providing weekend, weeknight, or holiday office hours, instead of a routine 9-5 schedule. House calls, hospital visits, prison calls and nursing home rounds would be included in this operational model. Children, elderly patients or those with mental, physical or chemically induced challenges are all fertile niches of a core service philosophy. Charge them for what you do, your time and expertise, and especially the venue. It makes no sense to provide service excellence and charge for service mediocrity.

Think: *Nordstrums, Cartier and Sak's, etc.*

Value-Added Medical Provider Operations:

A value-added medical provider is committed to practicing at the highest and riskiest levels of medical and surgical care and has the credentials and personality to do so. Value differentiation is based on such factors as: board certification, hospital privileges, subspecialty identification or other unique attributes such as fluency in a second language or acceptance into an ethnocentric locale. Now, make no mistake about this philosophy because a certain amount of self-aggrandizement is needed to develop a brand image; and charge for it. In other words, it is just not enough to truly be an expert you must also develop the gravitational pull of a singular public image. This brand

identification must be enunciated in your business plan as you answer the question: What can I offer that no one else can? Put less delicately: you have to have a unique practice proposition. Shy personality types might avoid this operational archetype.

A word to reduce complaints about fees in this model is *transparency*; inform your patients about your fees. More medical providers are harmed by fees that are too low than hurt by fees that are too high. Remember, if you never get complaints about fees, it means either than you are providing first-rate care and your patient think it is worth every penny; or you are undercharging them.

Think: *Nieman-Marcus, etc.*

[Start box]

HEALTH 2.0 EXAMPLE

On Physician Niches

www.PrivatePractice.MD

Richard A. Berning MD

There are a many folks that participate in sports. In a certain community in New Mexico, a popular sport is horseback riding. Horseback riding often causes injuries requiring the expertise of an orthopedic surgeon. In the community of people that practice horseback riding the members often consult the same orthopedic surgeon. Why?

It is an easy answer: this doctor found the right niche and became expert about the common injuries and pathologies that occur with horseback riding. But there is more to it than knowing about the most common presentations. The best doctor for these patients is

one of them. He is an avid equestrian himself, and because of his own riding experience he makes everything possible for his patients to get back on the horse as soon as possible. Even more, you can often find him at the equestrian events where patients can talk to him outside the office and more as a friend. He does more for horseback riding patients than any other orthopedic surgeon in the area.

By Rodrigo Rubio, MD

[End box]

FINANCIAL STATEMENTS

Since a start-up medical practice has no historical financial information, simplified *Pro Forma* production logs, or statements, are forecasted for 2-3 years, along with a projected practice *Break-Even Analysis*. They demonstrate the best care, worst case and most likely financial scenarios. Computerized spreadsheets are ideal for this task. Other relevant financial information may be included as needed.

Pro Forma (Production Log) Statement

A simple daily production log is shown below, with variance recordings. It may be used on a pro-forma estimated, or on-going concern, basis.

[Insert Table 3.1]

However, the more sophisticated *Profit and Loss (P&L) Statement* is a better measure of office performance than the log, for a given period of time

Pro Forma Net Income (Profit & Loss) Statement

By allocating a practice's profit or loss into operating groups, the investor can isolate profitable revenue centers and isolate unprofitable costs drivers. These are then identified in the *Net Income Statement* (NIS). In certain managed care contracts, an analysis to identify unit or per dollar revenues, gross profits and/or gross margins, is vital. Certain non-cash expenses (i.e., depreciation, amortization and deferred taxes) are then deducted from revenues to determine overall net income.

Pro Forma Cash Flow Statement

The *Statement of Cash Flow (SCF)* is the lifeblood of any medical practice. It projects estimated cash flows by month, quarter and year, along with the anticipated timing of cash receipts and disbursements. The office's bills and obligations are paid out of cash flow, not net income. It is very important for accrual based accounting practices; especially in terms of Medicare, Medicaid, MCOs, PPOs and HMOs producing insurance payment time delays and other aged accounting methodologies. Cash flow reflects the internal generation of fund available to investors.

Pro Forma Retained Earnings Statement

The Statement of Retained Earnings explains the changes in a practice's retained earnings over the reporting period.

Pro Forma Balance Sheet

The *Balance Sheet (BS)* forecasts the financial condition of an office at a singular point in time. It projects the ability to meet financial obligation and the capacity to absorb financial setbacks without becoming insolvent.

Finally, there are other miscellaneous considerations when estimating financial statements. For example:

- Business and service revenues may be seasonal in some areas of the country.
- What percentages of revenues come from: Medicare, Medicaid, MCOs, HMOs, PPOs or traditional indemnity insurance plans?
- What are the revenue and cost positions relative to peers? The industry?
- What are the potential costs and paid-up expenses possible in the future?
- What credit analysis is used to screen potential-private patients?

Break-Even Analysis

Break-Even Analysis [BEA] is a method of assessing a practice's profit potential and down-side economic risk. It represents the minimum percentage or productive capacity the office must use; the minimum patient volume it must generate, and the minimum market share it must obtain to break even. At this product, [i.e., revenue] volume, the doctor experiences neither a financial profit nor a loss. Thus, a comparison can be made between estimated unit services and the number of services that must be produced to break-even.

For example, if the office project 300 new patients during the first year, but only requires the revenue of 150 to break-even, then the office has only to obtain fifty-percent of its projected volume to break-even.

To perform a BEA, practice expenses should be divided into fixed costs that do not vary with volume and remain constant as patient volume increases [i.e., rent, utilities, insurance, interest and minimal doctor living expenses], and variable costs that are uniform per unit of output [i.e., labor, materials, and equipment] and fluctuate in direct proportion to volume. The Break-Even Point [BEP] in patient units [BE-PIPU] and break-even point in dollars [BE-PID] is then calculated with the following formula:

$$BE-PIPU = \text{Fixed Costs} / [\text{Revenue price per patient unit} - \text{Variable cost per patient unit}]$$
$$BE-PID = [\text{BEP in patient units}] \times [\text{Revenue price per patient unit}]$$

THE SIX BASIC PRINCIPLES

Professor Gregory I. Kravitt, managing director of a Chicago based investment banking firm, lists six principles as providing a solid foundation for any effective business plan. We have modified them for emerging medical professionals as they begin private practice.

- An effective business plan is a detailed, consistent, and factually supported document that persuades bankers and other financial decision-makers to support and fund your medical practice plans. Avoid superlatives and use specific methods to quantify your goals.
- Address your audience, avoid medial jargon and do not be a slave to minutia. Remember the reader's background (bankers-relatives-financier). Anticipate questions and remember the journalistic 5 W's (who, what, where, when and

why). This later interrogative is most important since WHY you decide to pursue a certain course of action is usually more important than how?

- A detailed marketing and competitive analysis is a vital factor to raising cast for a practice. Understanding your own strengths and weaknesses, as well as performing a patient population analysis, is the key to recruiting and maintaining new patients for your practice.
- Define and understand the major problems associated with starting a new medical practice and evaluate possible solutions and contingency plans when launching the business.
- Use GANT, CPM or PERT flow charts and Pareto diagram to illustrate thoughts and reinforce your message. Computerized project management software is a sophisticated method to highlight an organizational timetable.
- The quality of management (i.e., the doctor) is the most important element in any business. You must hook the reader with our education, training or other method of service differentiation that fills the market need and adds an element of excitement to your future practice and business.

BUSINESS FRIENDLY STATES

Do not allow the need for a formal business plan to dissuade you from your dream of starting a medical practice. But, realize that some states are more business friendly than others. To determine the best states in which to open a medical practice, Medical Economics evaluated a number of factors like overall compensation, malpractice liability

insurance rates, cost of doing business, health insurance competition, and the mix of public and commercial payers. They also considered quality-of-life factors such as residential real estate prices, natural amenities, and weather. The top ten states for 2010 were Texas, Wisconsin and Indiana, North Dakota, New Hampshire, Oregon, Minnesota, Alabama, West Virginia and Alaska.

Source:

<http://www.modernmedicine.com/modernmedicine/Locum+Tenens/What-are-the-friendliest-states-for-physicians-Her/ArticleStandard/Article/detail/611405?ref=25>

SOURCES OF PRIVATE HEALTHCARE AND HIT START-UP EQUITY

www.acaciavp.com

www.capstonevc.com

www.accel.com

www.chlmedical.com

www.advantagecap.com

www.cwventures.com

www.alloyventures.com

www.domainvc.com

www.altapartners.com

www.edfvc.com

www.ampappas.com

www.euclidpartners.com

www.atv-ventures.com

www.fairfaxpartners.com

www.beeckenpetty.com

www.forwardventures.com

www.bessemervp.com

www.greylock.com

www.brentwoodvc.com

www.hcp.com

www.bu.edu

www.intersouth.com

www.canaan.com

www.ivp.com

www.jeffersoncapital.com

www.sproutgroup.com

www.kblhealthcare.com

www.stpaulvc.com

www.mayfield.com

www.summitpartners.com

www.medven.com

www.svlifesciences.com

www.mpmcapital.com

www.ta.com

www.msdw.com

www.tcvc.com

www.nea.com

www.technologypartners.com

www.pacifichorizon.com

www.tlventures.com

www.pacven.com

www.usvp.com

www.polarisventures.com

www.venrock.com

www.primusventure.com

www.ventanaglobal.com

www.rhomanagement.com

www.willisstein.com

www.richlandventures.com

www.windamerevp.com

www.salixventures.com

www.wpgvp.com

www.sorrentoventures.com

The Small Business Resource Guide 2010 (IRS Publication #3207) contains all the business tax forms, instructions and publications needed by small business owners. In addition, the free CD-ROM provides an abundance of other helpful information, such as how to prepare a business plan, find financing for your business and much more (<http://www.irs.gov/businesses/small/article/0,,id=101169,00.html>).

ASSESSMENT

Finally, when writing a medical business plan, avoid using Internet business plan writing mills. They are cheap but you get what you pay for. It is possible, however, to work with someone in an online relationship and that is frequently less expensive because the consultant may be located in a lower cost area with prices to reflect that and they don't have bricks and mortar overhead costs. However, the best business plan is often the one that is prepared your self. After all, no one can envision your future practice better than you.

CONCLUSION

Writing a medical office business plan is a daunting effort, but it is not nearly as difficult as starting or expanding a practice without one. And, out-sourced help is always available, for a price:

<http://www.sba.gov/smallbusinessplanner/plan/writeabusinessplan/index.html>.

But, the writing and crafting process methodically forces you, the future or current chief executive, to test assumptions, research markets, analyze competition and evaluate the viability of your start-up, expansion or revitalization efforts. It is also time-consuming and emotionally challenging, but more often than not, leads to an increased likelihood of success and procurement of needed capital. You may even learn something about yourself and whether or not you wish to be a corporate employed-physician or an owner employer-physician.

Nevertheless, writing a medical practice business plan is a decidedly positive endeavor and well worth the conscientious industry it requires.

COLLABORATE NOW: Continue discussing this chapter online with the author(s), editor(s) and other readers at: www.BusinessofMedicalPractice.com

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THE END

Table 3.1

	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>
			<i>Ahead</i>	<i>Ahead</i>
<i>Daily</i>	<i>Month-to</i>	<i>Today's</i>	<i>(Behind) Ytd</i>	<i>Ytd (Behind)</i>
<i>Date</i>	<i>Target</i>	<i>Date Target</i>	<i>Charges (A-B)</i>	<i>Goal Charges (D-C) Frwr</i>
1	1,600	1,600	1,200 (400)	1,600 1,600 (400)
2	1,600	3,200	1,500 (100)	3,400 2,700 (500)



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