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# 6. Starting and Running a Practice

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## Developing Your Practice's Startup Business Plan

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### Learning objective

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- ◆ Identify the components of a practice startup business plan.

*"Plan your work and work your plan."*

*Nathan Valancy*

Starting a new practice requires more than a strong desire to be self-employed. A well-written business plan can help your practice succeed, whether you are starting or expanding a practice yourself or with colleagues, with or without financial support from a health system. The process begins long before your first patient walks through the door.

## Vision, Market Analysis, Strategic and Tactical Plans

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### Vision

A practice vision is the first part of a practice business plan.

What does your successful practice look like five years from now?

- ▶ Describe your **patients** and the types of **cases** you treat.
- ▶ Describe the practice's **setting, structure, and culture**.
- ▶ Describe your **colleagues**.
- ▶ Describe how your **career** might develop.
- ▶ Describe the practice's **location**.
- ▶ Describe your **lifestyle**.
- ▶ Finally, describe your **compensation**.

Physicians describe their ideal practices differently; and they weigh factors differently.

## Market Analysis

A practice cannot succeed without patients. Describe the market for your services, and how your practice will attract and retain patients:

- ▶ Who are your practice's prospective patients?
- ▶ How large is this market?
- ▶ Why should patients come to see you?
- ▶ What type of insurance coverage do they have?
- ▶ How can you reach prospective patients and people who refer them?
- ▶ Describe how you will build your practice over three years. Include marketing materials such as brochures and advertisements.
- ▶ Describe your practice's competitors and how they affect your practice. How can your practice respond?

## Strategic Plan

A **strategic plan** describes what you need to do, and why you need to do it, to achieve specific results and fulfill your practice's vision.

- ▶ Describe how your practice will work and why it will succeed.
- ▶ Describe the services (and products, if appropriate) you will offer.
- ▶ What will be your practice's strengths? How you will capitalize on them.
- ▶ Describe your practice's weaknesses and how you will deal with them.
- ▶ What distinguishes your practice from your competitors?

## Tactical Plan

A **tactical plan** describes specific tasks necessary for implementing the strategic plan.

Describe your practice's **resource requirements**, such as office, equipment, personnel, and outside services.

- ▶ Briefly describe the **key personnel** in the practice: the physicians and others. Your practice's success depends on the education, experience, and skills of you and your colleagues.
- ▶ Starting with the **physicians and top management**, describe who will fill each position, their responsibilities, and how they will work together. Note each person's ownership interest in the practice and compensation. Include each person's curriculum vitae or resume.

Outline the **practice startup schedule**.

- ▶ Identify significant **milestones** and the **dates** you expect to reach them, e.g., obtaining office space, completing renovations, acquiring furnishings and equipment, hiring staff.

If you are planning to **expand an established practice**, describe how your practice started and grew.

## Cash Flow Budget

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### Projecting Your Practice's Working Capital Requirements

A cash flow budget is the most important part of your practice's business plan. A cash flow budget is a month-by-month forecast of your practice's revenues, expenses, and income or loss. The cumulative loss estimates your practice's **working capital** requirements, and, hence, the amount of outside financing it might require.

A cash flow budget shows money actually received and spent during the month. It does not show accrued revenues when the practice earns them, or accrued expenses, as they are incurred. For example, the cash flow budget estimates professional fees *collected* during the month, not the *accrued* fees for patients seen during the month; it estimates checks *written* during the

month, regardless of whether the practice receives the goods or services in a past, present or future month; for example, prepaid insurance premiums.

### How to Compile a Cash Flow Budget

Lay out the cash flow spreadsheet

- ▶ The first column of the spreadsheet contains labels for:
  - Cash that flows into the practice, e.g., revenues from patient care, loans received, and total cash inflow.
  - Cash that flows out of the practice, e.g., expenses, loan repayments, and total cash outflow.
  - Net cash flow: Cash inflow minus cash outflow
  - Physicians' compensation
  - Line of credit draw or repayment
  - Working capital, i.e., cumulative line of credit draw or repayment
- ▶ The top row of the spreadsheet contains labels for the startup period, each month, and 3-month, 6-month, and 12-month totals.
- ▶ Enter formulas to compute cash inflows, cash outflows, net cash flow, line of credit draw or repayment, and working capital.

Estimate cash that will flow into and out of the practice.

Refine your estimates as you research and obtain new information.

Be conservative in your projections of practice growth and revenue. Overestimate expenses slightly or add a 10-20% cash reserve to allow for contingencies.

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