



Medical Practice Start-ups: A Viable Alternative to Physician Dissatisfaction

by Michael T. Deyett, MHA

Many physicians employed by large medical group practices and hospitals are feeling their compensation and job satisfaction squeezed by a myriad of factors including a decline in provider reimbursements, revenue sharing from one profit center specialty to cost center specialties, and increasing malpractice rates. A downward spiral begins as administrators and physicians attempt to regain lost revenues by increasing their utilization. The spiral continues as physicians lack the proper administrative and clinical support, compensation, and recognition for this increased utilization. The result is a disastrous combination of physicians feeling undervalued, overwhelmed, and unable to control the quality of their care.

To remedy this situation, physicians begin to look to the marketplace for other alternatives, including starting their own practice. The benefits of starting an independent practice are numerous, but the decision often comes down to two basic reasons: an ability to achieve the lifestyle that they dreamed of before entering medical school; and to control how they deliver care. This is why I am often asked by physicians, "how do I start my own medical practice?"

Don't Sweat the Small Stuff

For many physicians, starting their own medical practice is a gigantic step into the unknown. Typically, physicians' expertise is not with running their own business. Therefore, a physician who independently starts his/her own medical practice is often overwhelmed, especially concerning the ability to focus on the details and clarity needed to make critical business decisions. A common pitfall experienced by eager entrepreneurial physicians is that they see only their vision and overlook the dance it takes to achieve success. There are countless small steps involved in starting a medical practice. Like with any goal, physicians will accomplish owning their medical practice not by taking one big step towards that goal, but by completing all the mundane steps along the way.

The first step to creating a medical practice start-up is to surround yourself with professionals with whom you are comfortable. Partner with a lawyer who specializes in medical practice start-ups, federal anti-kickback laws, and healthcare compliance. Find an accountant that has worked with medical practices and can offer financial and tax advice, as well as suggest the appropriate type of corporation you should create.



Plan on the accountant to manage both personal and business financial accounts, as both are uniquely interdependent in service-related businesses.

Finally, hire a healthcare consultant that understands your needs, and can offer you direct support with sound advice. You may also want to consider consultants that have the capacity to bring in specialized support, such as legal and accounting experts, as needed. Most importantly, you should feel comfortable with the professional expertise you hire by checking references.

Funding Your Dream

The second fundamental question that I am often asked by physicians is "how do I achieve the financing necessary to start my own practice?" Many physicians are daunted by the task of acquiring capital necessary for start-up, or capitalization. The pathway towards capitalization is different for every physician. For instance, some rural physicians may have the ability to receive grants. Other physicians may have personal funds set aside that will finance their own practice startup, although this is extremely rare. Most physicians use a loan or find capital investors, or some combination of both. Let's take a closer look at both of these options separately.

Investors are an excellent source to help launch a practice. When examining options, look for investors that have invested in practice start-ups before. They will be more familiar with your business plan and will help to guide the start-up for financial success. With this option, be prepared to relinquish some level of control of your practice to the investor. Typically, investors work for a percentage of equity invested in the start-up. Most investors will not be willing to invest large sums of money without the ability to control how it is spent. Regardless of how the deal is sliced, my experience has been one of equality for all investors. In other words, the portion of equity held in a practice results in an equal share of voting control of the practice.

In seeking traditional loans, physicians are often surprised by how much a bank is willing to loan for their start-up initiative. Banks typically prefer lending to physicians because physicians usually generate excellent cash flow. In addition, banks will often provide business loans to physicians in order to diversify their business loan portfolio. This gives the bank some protection against economic shortfalls that may occur in other industries.



Banks will also limit their risk by expecting that a physician invest at least 20% of the total cost of the start-up, although I have seen many deals with much less equity invested. In the end, a bank's decision to loan funds is based on a solid business plan and the physicians and professionals who back the plan. This is where having an accountant, consultant, and lawyer on your side with successful banking deals associated with medical practice start-ups can lead to successful capitalization. Creating your support team early in the process, once again, enhances your chances for success.

With your team defined, your goals established, capitalization secured, and the motivation to achieve your goal, you will be well on your way to success. Remember to focus on the small steps and keep your vision within grasp. And don't be afraid to leverage the expertise of others. Physicians who surround themselves with excellent professional expertise will greatly increase their chances for success.

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