

Owning a Practice

If you plan to go into private practice in the next few years, you have several options ranging from becoming an employee of an existing practice to owning your own practice. If you have the guts to go it on your own or with a partner, you can have autonomy and make your practice what you want it to be. Starting a practice is not easy and not for everyone, but many physicians have gone this route successfully. Doing so requires a special personality mix of superior clinician and driven entrepreneur.

The first step involves a classic “make vs. buy” decision. You can take the “make” approach by starting the practice from scratch. Or you can “buy” an established practice. Both options get you a practice. Neither approach is categorically better than the other: each has pros and cons and tradeoffs to take into consideration.

Starting a Practice

Starting from scratch allows you to make the practice exactly what you want it to be and to build a team that works well with you. Once you have surmounted the startup hurdles of finding the right location, hiring staff, and designing and equipping your space, all on a tight budget, you will have the satisfaction of knowing that you are building a practice to suit your own unique style and personality.

There are, however, downsides to starting a practice. Creating your own patient base requires a great deal of patience (no pun intended!) and a marketing strategy. No matter how great a physician you are, patients will not magically appear in your exam room. Not until you have a full schedule to generate the revenue needed to cover all of your expenses will you breakeven, and this can take longer than you expect. In addition, you and your staff will have a long learning curve. You will all be learning a new environment, new systems, new processes, new relationships--this process can be very rewarding, but it takes time. You probably will have to start with “bare bones” staff, equipment, and furnishings. As time goes on and your patient base grows, you will be able to add staff, equipment and services. While starting a practice from the ground up is more sweat equity than buying one, it can be done successfully!

Buying a Practice

Alternatively, buying an established practice offers several advantages. You inherit a patient base that potentially can help you reach the financial breakeven point sooner. You take over trained, existing staff and a full set of equipment, furnishings, and operational processes--taking, of course, the good along with the bad in all of these. These factors make buying a practice an easier path to ownership, but you will also need to invest extra time and effort learning the ropes and blending your style with that of your predecessor’s practice.

The trickiest and most important aspect of buying a practice is finding the right practice to buy. Is there one available in a community where you want to live? Would the seller leave or transition out over time? No matter what, a thorough due diligence is required. Is the practice financially stable? Is it growing? How many active patients does it really have? How many patients are likely to remain after your predecessor’s departure? What percent is Medicare? Can you be added to the

private payer networks? Is the current space acceptable or should you lease fresh new space? What equipment, furniture, computers, carpet and wallpaper need replacing now as opposed to later? You may also inherit “dead-wood” employees, staff turnover, or have bad habits to break and new relationships to form.

How long does it take? How much will it cost?

No matter which option you choose, you will need financing. Buying a practice front-loads the capital investment because you must finance the purchase price, usually with a bank loan. Unfortunately, there is no single reliable formula for valuing a practice, and values vary widely depending on location. Therefore you may want to consider hiring a professional valuation expert to help determine how much to pay. As with buying a house, however, you must ultimately bargain for the best deal you can get.

Starting a practice eliminates this front-end purchase price, but funds are needed to cover the expenses until you can become self-supporting. Usually a bank line of credit can be arranged to spend down as needed. To reach financial break even, you must attract enough patients to generate the revenue needed to cover operating expenses (e.g., rent, payroll, supplies & equipment). Only later will you be able to pay yourself a living income. With a start-up practice, it may take 2 to 3 years before you actually have a full schedule and comfortable income. If buying can compress that time line, and you can find the right practice, then investing in an existing practice may be an attractive option.

Whether starting or buying a practice, begin months in advance to arrange provider agreements with insurance plans, hospital privileges, licensing, etc. Assemble your team of professional advisors, such as an accountant and an attorney, early on to establish relationships and to help set up your business.

Where can I get help?

While owning a practice may not be rocket science, it does take an entrepreneurial spirit, tenacity, patience, and a lot of hard work. You can start by going to the ACP Center for Practice Improvement and Innovation (CPII) (http://www.acponline.org/running_practice/). There you will find a wealth of resources to help you. If you choose to start a practice from scratch, CPII’s “Starting a Practice,” includes timelines, checklists, the Young Physicians Practice Management Survival Handbook, and other resources for getting started. If instead you plan to purchase a practice, “Buying and Selling a Practice” addresses many of the issues involved in selecting the right practice and determining an appropriate purchase price. If you plan to join a group, then “Income Distribution and Partner Buy-Ins” may help you determine how to negotiate your buy-in agreement.

All of these materials are free for College members and can be accessed at http://www.acponline.org/running_practice/practice_management/tools/