

Select Practice Management

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It's your practice. Be Selective.

Practice Opportunity Outline Companion Text

To be read with accompanying Opportunity Outline

To All Brave Souls...

I've heard it from physicians finishing residencies. I've heard it from career employed physicians. I've heard it from physicians who have done it before and failed. It always seems like such a good idea to them and such a bad idea to me.

"I would like to have my own practice."

It's easy to say—and that might be the problem. It's easy to dream about what it might be like to have your own practice. And it seems easy to do. It presents itself as a way out of the dispiriting world of corporate medicine and inequitable employee/contractor arrangements.

"I'll show them—and I'll laugh all the way to the bank."

If only it were true. If any profession were deserving of a golden escape hatch these days, it might be physicians. (I have a soft spot for teachers, too.) Wouldn't it be nice if every physician could establish their own practice to connect with patients in their own style?

For most of the physicians with the dream of starting a practice, the dream will go unfulfilled. That might not be a bad thing. Only about 22% of new practices survive. That's a little more than one in five. And with the spiraling cost of care, growing consolidation of the health insurance market and glaring absence of really any good news for physicians, I would expect the success rate of new practices to drop.

It's one thing to talk about starting your own practice, but if you want to actually give it a shot, I would encourage you to explore what you are undertaking.

Physician Values

Do you know the difference between sacrifice and suffering? Sacrifice is foregoing something of value for a perceived return, while suffering is foregoing something of value with a sense of loss. This is an important distinction for new physician owners and a critical point to consider as you undertake the beginnings of your practice.

If you view your forgone income and financial tightening as a sacrifice, you are reinforcing the significance of your decision. You will remind yourself that your professional, personal and financial difficulties have a purpose, whether that is immediate peace of mind, job satisfaction or

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future financial reward. You will be less likely to become resigned to the difficulties that will confront you on a daily basis. This is all good.

If you view your foregone income and financial tightening as suffering, you are allowing that there may not be a return for the sacrifices you are making. You will be far less likely to look for any benefit from undertaking your own practice. You will be far more likely to look to a much more immediate end to your suffering, developing unrealistic goals for your practice and ultimately becoming resolved that going alone was a mistake.

Even if your practice is not successful, the difference in mindset will result in a different appreciation of the experience. Physician management journals occasionally feature articles from physicians who have tried it alone—it's a popular subject—and some physicians whose practices have failed still laud the experience for the lessons they learned.

I think the physicians who suffered and failed in their practices don't feel like writing.

So which will you do: suffer or sacrifice? Decide right now to sacrifice if you go forward with your own practice.

The X and the Y

When it's time to talk to physician recruits about their potential revenue, I ask them, "What is your X and what is your Y, where X is what you need each month to avoid bankruptcy and Y is what you ultimately want to make per month?"

It's a good exercise and makes for some interesting conversation. One physician simply said, "I don't know what my X is, but I need to make A LOT of money." Right away, I knew this physician would not be a good fit for a clinic that requires physicians to build and retain their own patient base. It did not matter what the Y was for this physician because they would never be around to see their maximum earning potential.

If you are starting a practice, you had better plan on your X being zero. Your cost of living will need to be financed through savings or loans. If you find a physician-friendly bank, you might be able to include this amount in your business start-up loan, which is favorable because you can repay the loan with your (future) business revenue and protect your personal credit (even though you will be asked to sign a personal guarantee).

The goal is to keep the X as low as possible for as long as possible. If you have \$100,000 in a business loan for cost of living, a physician with an X of \$10,000 has 10 months before practice revenue needs to reach X—or face another round of financing. A physician with an X of \$5,000

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with the same loan has 20 months before practice revenue needs to reach X—an X is \$5,000 compared to \$10,000. Which position would you rather be in: Having 10 months to generate \$10,000 in excess practice revenue or having 20 months to generate \$5,000 in excess practice revenue?

It's not a trick question. If you chose the first choice, do not open your own practice.

So that's the secret of X. The longer you can keep X down, the better chance you have of being able to run your practice without additional financing. If you repeatedly need additional financing, you run the risk of a business failure. Be very careful: Banks love to loan money to physicians. Just because they'll loan money to you doesn't mean that you should take it. And if you borrow money, you don't have to spend it right away.

In order for Y to be of value in practice evaluation, (with Y being the target revenue for the physician), Y has to be compared to the maximum revenue available to the physician. (Let's call the maximum revenue Z to continue our algebra analogy.) Typically, the Z equation looks something like: (# of patient appointments available per day) x (number of days per month) x (average reimbursement per patient).

So if you work five days a week, four weeks a month and can see a maximum of 20 patients per day with an average reimbursement of \$60, Z would compute as $(20) \times (20) \times (\$60) = \$24,000$ (less costs between 50-65%). With this Z, a physician with a Y of \$15,000 would not be a good fit unless other revenue streams were available, such as hospital work, mid-level supervision, lab, etc.

As the owner of a new practice, your Y versus Z is something you will want to revisit on a regular basis to monitor the development of your practice. Unfortunately, in the clinic patient treatment revenue stream, the only answer to increasing Z is to see more patients, (assuming appropriate coding and well-negotiated contracts). Once the patient treatment revenue is maximized—the physician is seeing all the patients they can—another revenue stream is needed to increase the maximum revenue.

As you consider the development of your practice, your first goal with Y and Z will be realize Z, (maximum practice revenue). If this revenue is not more than Y, you will need to create additional revenue streams to increase Z to meet or exceed Y. Once Z is greater than or equal to Y, you will be in pretty good shape. Your business is now looking like more of "a going concern," which means that you just might be part of that 22% Club.

Just as your patient treatment revenue stream will take to build, so will any other revenue stream. Most revenue streams also will mean a drop in existing revenue as investment in the service, staff or equipment needed for the new revenue stream is required. This is why new practices

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must do a cost-benefit analysis of every expense and revenue stream. Initially, since you want X to be as low as possible, you might consider focusing only on the most basic revenue stream of clinic patient treatment, since most other revenue streams are derived from your patient population.

If you don't have any patients, does it make sense to invest in lab equipment? This is not a trick question. If you answered 'yes,' do not open your own practice.

Once your patient population begins to grow, you can consider additional revenue streams to increase Z. My recommendation is to proceed conservatively, as any revenue stream dependent on reimbursement will be impacted by the whims of insurance companies. It is not uncommon for new procedures to gain placement on the fee schedules of insurance companies and then be dropped due to over-utilization by physicians. The unfortunate reality for physicians who have entered this revenue stream is that it can cost them money each month as they finance the equipment, thereby lowering Z instead of raising Z.

Be cautious or else your Z may be impossible to reach to your Y. If so, your membership in the 22% Club may be in jeopardy.

The Medical Practice Fertile Crescent

I don't remember a lot from my middle school Unified Studies class, but I remember studying the Fertile Crescent, where conditions were said to be perfect for the development and survival of early man. I still think about this when physicians talk about opening their own practice.

I don't want to get in a theological debate and I don't want to offend anybody. I'm just saying that I like the idea that there once was a society free of violence, taxes and managed care. I think it's safe to say there is no medical practice Fertile Crescent.

Remember this and don't be fooled by those that try to tell you otherwise. I'm sorry to break this news to you if you've been told that your new practice opportunity is "a can't miss opportunity" or something like that.

This is not to say that there aren't some perfectly good practice opportunities available every single day of the year. But remember that opportunities exist for a reason—and that reason is seldom that one physician is so much incredibly smarter than the physicians who are either already in the market or considering the same opportunity.

I always smile when I see the physician candidate cover sheet that says they are looking for "a lucrative position in a growing suburban area with the amenities of the big city and easy access

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to recreation.” For good measure, some add “desire opportunity for buy-in with physician autonomy” or “would consider cost-sharing arrangement for start-up phase of new clinic.”

I'm not saying that such opportunities don't exist, but if such an opportunity was available in an existing clinic, how long do you think they would have to wait to find a physician? Do you think that such a position would most likely be filled with a known colleague or filled with a complete stranger?

For physicians looking to start a new clinic in a new market, the question has to be why the physicians currently in the market haven't moved in on this gold mine. What do you know that they don't? Why will you be successful, while they obviously fear failure?

Be careful here. Don't fall into the trap answers of “I'm smarter” and “I'll work harder.” I've been around some physicians in my time. My general impression is that most are pretty smart and work hard. Can you be that much smarter or work that much harder?

Even so, I think you'll need something else, an “ace in the hole” if you will, to join the 22% Club. What is that something else? That's up to you to decide, but I will tell you that your something else should not be the practice opportunity itself.

The point I'm trying to make is that I think instead of looking for the “can't miss practice opportunity” the medical practice Fertile Crescent represents, physicians would be much better served looking for their own medical practice Fertile Crescent that is the best fit for them. No practice opportunity is without drawbacks. The question physicians need to ask is how important the drawbacks are to their specific needs.

A good exercise to appreciate this point is to consider which one specific drawback you would be most willing to accept for the “perfect” practice opportunity. Would you work in a rural setting? Would you take 10 years to build a practice? Would you work 12 hours a day? Would you lower your desired maximum revenue?

It's an interesting question, isn't it? The answer is really up to your personal preference, but I will caution you against two types of practice drawbacks. The first drawback to avoid is any that will compromise patient care. Will you be delivering the same quality of care to the last patient you see in a week as the first patient seen in a week if you are seeing 300 patients a week? Will working 12 hour shifts affect your performance? Be honest with yourself, as any drawback that compromises quality of care puts your medical license at risk.

The second drawback to avoid is any that has a serious, long-term negative impact on your personal life. While I realize that being a physician is a stressful, consuming profession, any practice opportunity that adds to the inherent stress factors of the profession should be carefully

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considered. Would you like to spend time with a spouse and children? Would you like to have a social life? Would you like to have time for hobbies and activities? And, most importantly, would you like to have the best health possible?

In my opinion, these two drawbacks have seriously compromised the overall health of the medical profession and are responsible for the impending physician shortage. Is it any wonder that the bright, compassionate college students needed for medical programs reconsider when the job description is, "Six-figure earning potential available for those willing to endure grueling training followed by a lifetime of exhausting work. Should not fear divorce or estrangement from children, as likelihood of marital separation is about 50%. Opportunity to save for retirement offset by chance of early demise due to career stress. APPLY NOW!"

So, for your own health and happiness, accept right now that the medical practice Fertile Crescent is a thing for the history books and decide what drawbacks you will accept to have both the career and the life that you desire.

These are my People

Something I'd like to point out to physicians in regards to location is the fact that patients tend to prefer physicians who are like them. I'm not trying to promote racial, gender or any other kind of separation—I'm just pointing this out. I think it's a factor that should be taken into consideration when choosing a location or market.

A good example of this is a physician I know who is a male physician from Pakistan. After residency, he took a need position in a rural community in the United States. So what do you think happened? He was so successful that when he left seven years later, the local paper ran letters from patients hoping that "their" doctor would be delivered back to them. The local hospital ownership sent a representative to visit him in his new location several states away to try to persuade him to return.

The connection the physician developed with the community accounts for his success. His fondness for hunting, his easy-going nature and his down-to-Earth presentation endeared him to his patients. Who you are as a physician is far more than your gender, ethnicity or other demographical factors. Your interests, values, humor, social situation—almost every facet of your life impacts who you are as a physician.

So take this into consideration. Look at where you want to practice. Would you like to live there? Will you be happy treating the problems the locals will bring to you? Do you understand the people you will be treating? Are these your people?

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Because if you go rural with your practice and don't rural with your life, I don't think you'll find much success.

Patient Care or Postage Stamps?

For physicians starting a practice, an interesting question soon arises: What is my time worth and what is worth my time?

Initially, without a captive patient base such as a pre-enrolled capitation panel, your time won't be worth much. If you start off seeing one or two patients a day, you will have plenty of time to install and maintenance equipment, handle staffing and run to the store for postage stamps.

If you're lucky and have planned well, your growing practice will soon put you in a time crunch. Fiddling with the computer server means you are late to—or miss—patient appointments. Interviewing staff might be moved to nights or weekends so as not to interfere with your appointment schedule. Running for postage stamps means being out of the office—and not seeing patients.

I'm convinced that when you have the time, you should do everything possible in your practice. While you won't continue in all of the roles you perform for your fledgling practice, you will have knowledge of the various duties and will be better equipped to evaluate the future performance of others. In a bind, you can even do some of these chores for a taste of your early days.

As your practice grows, you will need to decide how to delegate the various tasks related to your practice. The basic decision is to entrust one entity to handle all tasks—which typically has the advantages of saving you time and possibly money—and addressing related tasks separately—which most likely allows you greater control.

Both of these approaches can be successful with the right checks and balances. I don't think one is inherently better than the other. The services I offer are a hybrid of the two approaches. My company, Select Practice Management, serves as a conduit to most services instead of performing the tasks. We hold the vendors accountable and represent the physician's interests. This gives physicians the advantages of centralized management with the control of addressing related tasks separately.

One disadvantage of this hybrid structure is that it requires physicians to remain active in the management of the practice, which requires time. That's why I'm a firm believer in empowered physician owners. They are my target market. These physicians are the most likely to see the advantage of investing time in their clinic while appreciating not having to perform all of the management functions themselves.

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A second potential disadvantage of the hybrid structure is that it adds a layer of cost to the management structure. My goal is to offset any additional cost to practices by working for less than other management companies and recouping as much as possible from the vendors benefiting from the combined size of our client base.

As you make the decision about patient care or postage stamps, remember that everything has value—including your time—and everything has a cost. The true value of any expenditure or activity is the net value taking into consideration the opportunity cost involved.

Somebody has to get postage stamps, (or have them delivered or lease a postage meter). The real question is how much getting those postage stamps will cost you. The postage stamps are never free—and neither is anything else.

Remember This

Regardless of whether you decide to join a new practice or start a new practice, use my services, manage your own practice or use someone else's management services, you should be applauded for considering change. Too many physicians lament the condition of the profession without investing themselves in a solution or response.

If you read this far, you've spent a significant amount of time and thought considering your new practice opportunity. If you choose to undertake this change, I hope you approach every aspect of your new practice with the same thought and consideration. If you choose not to pursue a change in your practice situation, I hope you turn your attention to one of the many problematic issues in medicine today.

Please do not fall into the trap of ambivalence with the status quo. I firmly believe that your profession's improved future is dependent on active, caring physicians with ownership in the health care system.

I appreciate the chance to share these words with you and wish you luck in your professional and personal life wherever they may lead you.

Sincerely,

Brett Sparks
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