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## AVOIDING THE PITFALLS WHEN STARTING YOUR OWN DERMATOLOGY PRACTICE

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Setting up a new dermatology practice is challenging, no matter where you are in your career. This expert offers tips to help you understand the variety of activities that are involved, the most critical steps in the process, the timetable, the costs and where to go for good resources.

Setting up a new dermatology practice is challenging, whether you are just completing your training or are at a later stage in your career. Before deciding to establish your own practice, make sure you understand the variety of activities that are involved, the most critical steps in the process, the timetable, the costs and some good resources. This article covers these topics and describes the experiences of a physician who set up a new MOHS surgery practice in Raleigh, NC, in 2008.

### What Steps Do I Have to Take to Set Up My Own Practice?

Setting up a new practice involves at least 70 steps! These fall into the following categories:

1. Organization and management;
2. Financial management;
3. Hiring staff and engaging external resources;
4. Ensuring the delivery of quality care and outcomes (including work flow process and information technology); and
5. Compliance.

#### 1. Organization and Management

Organization and management includes the services that you will provide, your office location(s), the legal way in which you set up your practice, the relationship(s) between you and other physicians in your practice (e.g., partners or employees), and the staff that you hire. It also includes the way in which you yourself participate in the management of your practice.

Many physicians start their own practices because they disliked the way in which their previous practices worked, and they want hands-on involvement in their new businesses. Others prefer intense involvement at the outset and eventual delegation of most of the management to a competent and experienced practice manager. A third group of physicians prefers ongoing sharing of administrative responsibilities. There's no right way; the decision is a matter of personal style.

An essential component of organization and management is development of your external advisory team. You'll need an attorney, an accountant, a banker, a practice management consultant, and probably an external information technology support company. These

people will not only help you start your practice, but will continue to help you make prudent business decisions. Check with your state medical society for reliable resources and be sure to ask about discounts for society members.

## **2. Financial Management**

Financial management begins with the development of financial statements (i.e., operating and capital budgets, balance sheet, profit and loss statement, and cash flow statement). Decide which codes you will use for billing and set your fees. Unlike other specialists who file most claims with insurance companies, many dermatologists send claims for some services to insurance companies and bill patients directly for other services. If you choose to participate in the provider networks of public (e.g., Medicare and Medicaid) and private payers (e.g., managed care companies), you must be properly credentialed. The process always takes longer than you'd like; the timing depends on each payer's internal approval process. The reimbursement for public payers is not negotiable. With respect to reimbursement by managed care plans, you need both contracts and reimbursement rates. Even if you have been in practice for many years and are leaving another practice to set up your own business, most managed care plans will not reimburse you at your previous rate. They ask you to accept low rates and suggest that you request higher reimbursement after your practice has been up and running for at least a year. If your practice is small and you want to minimize the costs of salary and benefits, you may want to consider outsourcing your billing and collections functions or selecting a practice management system vendor that handles revenue cycle management as well as claims submission.

## **3. Hiring Staff and Engaging External Resources**

With respect to staffing issues, hire carefully. Your employees are your most valuable asset. The practice manager (or practice administrator or office manager) will be your most important hire. Once you have decided on your practice manager, the two of you can jointly hire other administrative and clinical staff. Job candidates appreciate clarity of expectations and working conditions, so do your homework before you advertise or spread the word in the medical community. Develop job descriptions, a compensation package, and salary scales before you recruit. Before you interview qualified individuals, make sure you know what questions you can ask without violating employment laws. Ask all candidates for the same position the exact same questions so you can compare responses.

One question that's high on my list is comfort with information technology (IT). Smart practices rely heavily on IT, so make sure your employees like technology and are willing to learn new applications. Dr. Elizabeth Kanof, who practiced dermatology in Raleigh for 30 years, incorporated a spelling test into each interview. She comments, "If the candidate spells phonetically, he/she will learn the dermatology terminology easily." Dr. Kanof also offers advice on hiring spouses to work in the office. "Assuming the spouse is qualified to do the job, make sure to set professional ground rules." Still more advice comes from Dr. Virginia Lightner of Youngsville, NC. When Dr. Lightner set up her solo practice in 1998, she had no experience with staff recruitment and hiring and asked an external consultant for help.

## **4. Ensuring the Delivery of Quality Care and Outcomes**

The degree to which you can deliver quality care is related to your ability to create and maintain an efficient work flow process and to measure the results. Work with your new staff to develop operating policies and procedures. Put systems in place to measure both efficiency and patient feedback. The selection of information technology to support your practice will be one of the most important (and expensive) decisions that you make. You'll

need a practice management system for demographic information, scheduling, and billing, and an electronic health record (EHR) system for patient information. You can purchase both software applications from the same vendors or purchase them separately along with an interface. Take advantage of e-prescribing, an application that your EHR vendor may offer or that you can buy as a standalone product. You'll also want to set up a practice Web site.

## 5. Compliance

The final component of starting a new practice is compliance. Your attorney and practice manager can educate you about the Stark and anti-kickback statutes, OSHA, HIPAA, CLIA and other requirements that apply to your particular situation. For example, if you offer laser surgery, you should know your state rules regarding medical supervision. Similarly, if you employ physician extenders, check state requirements on scope of practice. Develop a compliance plan at the very outset to minimize your risk.

### The Most Critical Steps

Not long ago, a client asked me if I'd ever worked with a practice that eventually failed. I haven't, but the question was a sobering one. Which of the many steps necessary to start a practice are the most critical to long-term success? In my experience, locating your office in the right place, addressing managed care contracts and reimbursement early in the process, marketing, information technology, and taking the steps in the right order are the most important aspects of start-up.

With respect to office location, assess the market to determine the need for additional dermatology services. What practices already provide dermatology services, and is there enough patient demand to support a new physician? Dr. Lightner suggests calling existing practices to check on waiting times for an appointment. If the wait time is more than 2 weeks, there's room for another physician. Public demographic information can tell you about future growth in different communities. If you expect to attract patients from many different communities, look at traffic flow to make sure your practice is easily accessible. Be careful in your choice of office location. It's much easier to change the color of your waiting room than it is to relocate!

If you plan to be part of the managed care networks, begin the credentialing and contracting processes as far in advance of your opening date as you can. If you are already credentialed and are only changing your practice name and tax ID number within a short time after leaving your previous practice, credentialing is easy. Starting from scratch is more complicated because each plan has its own process and timetable. With respect to reimbursement, first determine the CPT codes you will use and the fees you will charge. Then ask each plan what it will pay. A new practice has less negotiating leverage than a practice with a significant volume of business. After you begin seeing patients, you will have the opportunity to return to the plans and request higher rates.

Marketing is also important for a start-up practice. Building patient volume takes time. Start with your services. What makes your practice unique? In challenging economic times, how can you position medical dermatology and cosmetic procedures? Refine the message that you want to communicate on printed materials such as business cards and brochures and on your Web site. The amount of money that you spend on marketing is small relative to other start-up expenses. Avoid the temptation to do it yourself; get professional advice. Review different options for your message, your colors and your type font. Don't rush to make a decision. These days, more and more people use the Internet to find information,

so the look, content, and functionality of your Web site are very important. I highly recommend a Web site that goes beyond the provision of basic information and includes a patient portal. Let patients use the Internet to request appointments, provide demographic information, handle prescription requests, get lab and other test results, pay bills on-line and perform other administrative functions. Also, look for opportunities to talk about skin care. Chambers of Commerce, the American Cancer Society, health clubs and spas are often looking for speakers.

Selection of information technology that supports your practice is one of the most important decisions you will make. Most practices need a practice management system for scheduling and billing, an electronic health record system and a Web site. There's no right solution for every practice, but there's definitely a correct decision-making process. Start with your needs, not with vendor bells and whistles, and identify which vendors offer what you want. Address the selection of an on-site server or a cloud-based solution. There is a significant difference in cost between these two options. Most practices and many vendors are leaning toward the cloud-based approach. Understand the implications of purchasing multiple applications from the same vendor vs. applications from different vendors. Just a few years ago, many practices purchased software applications from different vendors and paid one or both vendors to build an interface between them. Today, more vendors offer and more practices purchase integrated solutions, where one vendor builds all the software off the same operating platform. For example, many but not all vendors offer an integrated practice management system and electronic health record. They may also offer a patient portal feature that can be linked to the practice Web site. Check references carefully, and make site visits to practices that already use the technology that you are considering. Remember that everything is negotiable — provided you know how to ask. Ask a qualified attorney to review your IT vendor contracts. Finally, make sure you have good IT support to help you set up and maintain all of your systems.

Taking the steps in the right order is as important as any category of tasks or single step. It's impossible to work on just one category of tasks at a time; the tasks are interdependent. Here are several examples. You need a license to practice medicine, proof of malpractice coverage, a NPI number for yourself and your group, an office location, and hospital privileges (if relevant) before you apply to be credentialed with public and private payers. If you want to request a bank loan, you need a financial plan before you ask for money. You get the idea; don't put the proverbial cart before the horse.

### **What's a Reasonable Timeline?**

On average, it takes 9 months to set up a new practice. At the request of several physicians who wanted an abbreviated timetable, I've accomplished the job in as short a time as 4 months, but I don't recommend an accelerated process. There's much about timing that you can't control. Examples are the length of time it takes to find space, sign an agreement and upfit your office to meet your specifications. Similarly, you can't control the speed with which the managed care companies credential you and your partners and provide contract and rate information. Once you decide about information technology, each vendor will put your account into its implementation queue. Just because you want things done yesterday does not mean everybody will rearrange schedules to accommodate you. If your IT strategy requires one or more interfaces between/among vendors, timing will depend on whether or not there is a pre-existing vendor relationship. Allow enough time to work through each decision carefully. Don't be so rushed that you alienate the many people with whom you are working and who know how much time it takes to do their jobs well.

A physician who is in the process of setting up a new dermatology practice in Raleigh, NC,

comments: "The most surprising aspect of the entire process of setting up my practice was the number of tasks that I juggled simultaneously. Some events occurred with unexpected speed. For example, I received the architectural plans and bids much more quickly than I anticipated because the architect and I agreed about my vision. Other events such as credentialing with managed care plans and selection of information technology to support my practice moved more slowly."

### **What Does it Cost?**

There's no quick answer to the question about the cost of starting a new dermatology practice. There is, however, a methodical way to determine your revenue and expenses. Focus on the assumptions before you or your accountant run the numbers. Here's my list of topics for which you need to make assumptions and estimate dollars:

1. General Information: legal issues, timing, anticipated start date, depreciation.
2. Revenue from Patient Care: days revenue outstanding, days payable outstanding, units of service, payers, estimated gross/net revenue, contractual allowance and allowance for bad debts, other sources of revenue.
3. Expenses: accounting, contributions and public relations, consulting fees, continuing medical education, dues/subscriptions/books, capital equipment, equipment rental, general insurance, information technology support (both for start-up and for ongoing support), malpractice insurance, lab fees, legal services, maintenance/repairs/cleaning, marketing and advertising, medical supplies, office supplies, postage, rental/lease expense, salary/wages/benefits, taxes, telephone/telecommunications, travel, interest, depreciation, physician monthly draw, professional services, Web site, other expenses.

Once you have a good sense of your direction in each of the categories listed above, ask your accountant to run numbers for a 5-year period. If your break-even point comes later than you want it to occur, adjust the assumptions. Go back and forth between assumptions and numbers until you are comfortable with the expectations for your practice as well as with the amount you will have to borrow from the bank.

### **Conclusion**

Now that you know what it takes to start your own practice, you decide what's best for you. Best of luck!

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