

Setting up shop

Building a new practice from the ground up

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Setting up a new medical 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 good resources. This article covers these topics.

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 five categories: organization and management, financial management, hiring staff and engaging external resources, ensuring the delivery of quality care and outcomes (including work flow process and information technology) and compliance.



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Organization and management includes the services that you will provide, your office location(s), the legal structure of 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 deciding how you will participate in the management of your practice. Many physicians strike out on their own because they disliked the way their previous practice worked, and they want hands on involvement in their new business. Others prefer intense involvement at the outset, but eventually delegate most of the management to a competent and experienced practice manager. A third group of physicians prefer to share administrative responsibilities. There's no right way; the decision is a matter of personal style.

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An essential component of organization and management is development of your advisory team. You'll need an attorney, an accountant, a banker, a practice management consultant and possibly 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.

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 what codes you will use for billing and set your fees. If you want to receive reimbursement from public payers (e.g. Medicare and Medicaid) and from private managed care companies, you must be properly credentialed. In order to participate in the

managed care networks, you'll need reimbursement rates and contracts. Regardless of your past experience in other practice settings, as a start-up practice, you usually lack negotiating leverage. Financial management also involves selection of a practice management system. Some practices outsource their billing and collections.

With respect to staff, your most important hire will be your practice manager. Together you can hire other administrative and clinical staff. Job candidates like 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. When you interview qualified individuals, know what questions you can ask or not ask. Your attorney or practice management consultant can provide guidance. 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.

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 of what you do. Work with your new staff to develop and document operating policies and procedures. Put systems in place to measure both the efficiency of your practice (e.g. waiting time for an appointment, waiting time to go to into an exam room, no-shows) and patient satisfaction. If your practice has the capability to measure such parameters electronically, so much the better.

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 existing requirements, as well as about newer Medicare programs such as recovery audits. Develop a compliance plan at the outset to minimize your risk.

Which Steps Are the Most Critical?

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, managed care contracts/reimbursement, marketing, information technology, and taking the steps in the right order are the most important aspects of start-up.

If you plan to be part of the managed care networks, you must begin the credentialing and contracting processes as far in advance of your opening date as you can. If you are already credentialed and are changing just 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, smaller practice has less negotiating leverage than an established practice with a significant volume of business. As you build a stable panel of patients, you will have the opportunity to go back to the plans and ask for higher rates.

Marketing also is important for a start-up practice. Building patient volume takes time. What makes your practice unique? Refine the message that you want to communicate on printed material such as business cards and brochures and on your Web site. Get professional help and remember that the design process takes time. You'll want to review different options, so allow time for give and take. The look and content of your Web site is also important. I highly recommend a site that goes beyond the provision of basic information and includes a patient portal. This extra feature allows patients to use your Web site to request appointments, provide demographic information, request prescription requests, get lab and other test results, pay bills and perform other administrative functions.

Choosing information technology that supports your practice is another critical decision. Most practices need a practice management system (PMS) for scheduling and billing, an electronic health record system (EHR), as well as 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. Address the issue of an on-site server or an Application Service Provider (ASP) model where you "rent" space on an off-site secure server. There is a significant up-front cost difference in these two options. Understand the implications of purchasing multiple applications from the same vendor vs. applications from different vendors. There are advantages and disadvantages to selecting what are called "integrated" solutions from one vendor so you don't have to pay for the "interface" between vendors. 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 what to ask. Finally, make sure that a qualified attorney reviews your contracts with IT vendors. Just like a marriage,

you may enter into business relationships with the best of intentions only to find that you want to change partners several years down the road.

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. For example, apply for an NPI number for yourself and your group before you begin to fill out any paperwork. If you are moving to North Carolina from another state, contact the managed care companies after you have a license to practice, malpractice coverage, hospital privileges (if relevant) and an office address. If you need a bank loan, prepare a financial plan before you ask for money. You get the idea; don't put the proverbial cart before the horse!

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What's a Reasonable Timeline?

On average, it takes nine 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 four months. I don't recommend an accelerated process. There's much about timing that you can't control. You have no say when it comes to how quickly managed care companies credential you and your partners and provide contract and rate information. Nor do you have control over the lead time that your information technology vendors require for set up and implementation. 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.

What Does it Cost?

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

- **General Information:** This category should include legal issues, timing, anticipated start date, and real estate (purchase or rent).
- **Revenue from Patient Care:** This section should factor in 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
- **Expenses:** This wide category should include ac-

Practice start-up resources

- Satinsky and Curnow (2007). *Handbook for Medical Practice in the 21st Century*
Appendix A identifies the specific tasks that are required for practice start-up and lists them in the appropriate order.
- Early (2007). *Rx for Business Success: Starting a Medical Practice*
- North Carolina Medical Society *PractEssentials. Opening a Medical Practice.*

counting, contributions and public relations, consulting fees, continuing medical education, dues/subscriptions/books, capital equipment, equipment rental, general insurance, information technology, 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 five-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.

Conclusion

Now that you know what it takes to start your own practice, you decide. The start-up process is long, chal-

lenging, and at times tedious. If it feels like the wrong strategy for you, move forward in a different direction. If you decide to go ahead, best of luck!

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What Have Other Physicians Experienced?

- A young internal medicine physician in Raleigh completed his training and bought a practice from a well-respected physician who planned to retire. The average age of the retiring physician's patients was 60 and older, and his successor was determined not only to change the age mix in the current office, but to open three more locations in the eastern part of the state. The current office location was close to many high tech companies and to several universities. By creating a Web site with comprehensive content and a patient portal, this young physician created a real name for himself in his community and quickly achieved his ambitious goals.
- A medical specialist in the western part of the state had been practicing with a mid-size medical specialty group before deciding to open her own practice. She had an aggressive four-month timetable. She engaged a support team to help her. Although everyone did his/her best, the physician was dissatisfied. Nothing moved fast enough. In the course of practice start-up, this physician alienated many people who might otherwise have been good referral sources.
- An orthopaedic surgeon in Winston-Salem planned to set up a new orthopaedic and sports medicine clinic. When he first began his exploration of practice start-up, he described himself as "not a detail man." When he opened his doors nine months later, he was a changed person. He knew every detail about his new practice, and although he planned to turn the daily operating responsibility over to a very well-qualified practice manager, he was clearly in charge.

Which comes first? Accomplish tasks in the order listed to ensure a smooth launch

1. Assemble your advisory team (attorney, CPA, banker, practice management consultant, IT consultant)
2. Decide on the legal structure for your practice and ask your attorney to assist with the appropriate steps
3. Determine your office location and decide if you will purchase or lease
4. Develop a business plan and supporting budget
5. Begin credentialing with all payers and contract negotiation with private payers
6. Initiate research on IT systems and applications (practice management system, electronic health records, Web Site) that will support your practice
7. Begin preparation of marketing materials
8. Begin Web site development
9. Develop job descriptions and a compensation package in order to recruit and hire staff
10. Develop a compliance plan