Hi everyone,

Hope you all had a good start to the New Year. We will be having our next Western ACP Club meeting very soon.

**When:** Tuesday Feb. 11th at 7pm  
**Where:** Crossings Pub & Grill at 1269 Hyde Park Rd. (reservation under Amna’s name)

**Agenda:**

1) The theme for this meetings will be *Business of medicine.* With the guidance of our mentors we will discuss what it involves to start or set-up a practice and we will try to cover both academic and community perspectives. I have attached the 'Starting Practice' guide by ACP. The ACP website also has additional resources:  
http://www.acponline.org/running_practice/

2) **Doctor’s Dilemma:** Phil and Basil will be creating a medical trivia jeopardy that we can all participate in and have fun. We will have a projector etc. at our meeting.

3) **Updates** on other committees and plan for the next meeting.

4) **ACP Conference announcement**

Please RSVP to Amna Ahmed (aahmed25@uwo.ca) or to Jenny Shu (jshu2@uwo.ca), by Feb. 6th!

Thanks  
-Amna and Jenny
STARTING A PRACTICE
STARTING A PRACTICE

Whether you have years of experience working for a small group practice, are leaving a large clinic, or just finishing residency, opening your own practice is a challenging endeavor. Owning a private practice is not for everyone. While it affords a greater sense of control, it requires devoting substantial attention to the business aspects of running an office. The issues you face have tested the abilities of many trained management professionals. The good news is that you are following in the footsteps of the most successful group in managing medical practices: physicians themselves.

This Center for Practice Improvement & Innovation (CPII) guide provides an overview of what is involved in opening a new practice. It covers resources available to assist you along the way, including relevant ACP practical guides and management tools. You may also want to read the “Young Physician Practice Management Survival Handbook,” which offers a wealth of nuts-and-bolts information, including an outline of required business and licensure requirements, a basic practice shopping list, and extensive contact information, web sites and other resources. You do not have to be “young” or even a first time practice owner to find useful information in this handbook developed by ACP’s Council of Young Physicians (CYP) with CPII assistance.

As you consider opening your practice, the Center for Practice Improvement & Innovation is available to advise and assist you on the issues you may encounter. Visit the ACP web page at www.acponline.org/running_practice/.
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Introduction

Private practice offers a variety of career options – from becoming a physician employee to owning your own practice. If you have the guts to go it on your own, or with a partner, you can achieve a high level of autonomy in making your practice what you want it to be. Although establishing your own practice is not easy and not for everyone, many physicians have gone this route successfully. Doing so requires a special mix of superior clinician and driven entrepreneur.

While the guide attempts to be as thorough as possible in covering the issues you may encounter, your own circumstances should determine which steps you need to complete. For example, if you are going out on your own after practicing as a group employee, your startup may be easier and require fewer steps than this guide suggests.

Physicians who prefer less stress and financial risk may choose to join an existing practice as an employee with a future possibility of gaining partnership in that group. Even residents who are determined eventually to establish their own practices may benefit from working first for someone else. Doing so provides an opportunity to gain productivity as a physician, observe how others organize a practice, and learn about operations, billing, staffing, and just plain business before taking the plunge into practice ownership.

This guide focuses primarily on starting a practice from scratch, with only brief discussion of the equally valid career options of buying a practice or working as an employee. Two other CPII guides go into more depth on those subjects—“Buying and Selling Your Practice” and “Physician Employment Contracts.” Both are available for free download from the CPII web site www.acponline.org/running_practice/practice_management/.

The Make vs. Buy Decision

The first step towards owning a practice involves a classic “make vs. buy” business 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. While neither approach is categorically better than the other, and each has its pros and cons, there are important tradeoffs to consider.

Starting from “Scratch”

Let’s begin with the “make” option. You may prefer to start from scratch so you can make the practice exactly what you want it to be, can build a team of staff that works well with you, and can design an environment that works. You will need to research the best location for your practice, both regarding the geographical area (city or town) in which to practice and the specific building in which to sign a lease. (CPII’s “Marketing Manual for Internal Medicine Practices” can help you in this process.) Your decisions
concerning the physical layout and décor of your office space can greatly influence both its future functionality and its appeal to you and your staff. Once you have successfully gotten over these and other startup hurdles, you will have the satisfaction of knowing that you are building a practice to suit your own unique style and personality.

One of the downsides to starting a practice is that you must create your own entire patient base. Growing the practice will require time, patience, and a marketing strategy—no matter how great a physician you may be, patients will not magically appear on your door step when you first throw open the doors. You will not have a full schedule to begin generating the revenue needed to cover all of your expenses. And it will likely take longer to become fully self-supporting financially than you expect—you may well need supplemental financing for 12-24 months.

You and your staff will have a longer learning curve than if you had acquired an existing practice. You will all be learning a new environment, new systems, new processes, new relationships—this process can be very rewarding as things come together, but it takes time. You probably will have to start with “bare bones” equipment, furnishings and staff—perhaps an office manager, or even a spouse, who can cover several functions, such as billing and reception, and a clinical employee who can take patient histories, vital signs and draw blood. As time goes on and your patient base grows, you will be able to add staff, equipment and services. All in all, starting a practice from the ground usually requires more work than taking over a practice, but it can be done successfully.

**The Purchase Option**

The other option is to buy an established practice. Acquiring an existing practice from a retiring or departing physician can be a good way to cut the lead time, reduce the preliminary work to perform, and help jump start your practice. There are several advantages: You inherit a patient base that potentially can help you reach the financial breakeven point (become self-supporting) much sooner. You take over trained, existing staff—taking, of course, the good along with the bad—and a full set of equipment, furnishings, and operational processes. While these factors make buying a practice an easier path to ownership, they will also force you to invest extra time and effort in blending your style with that of your predecessor’s practice

The trickiest and most important aspect of buying a practice is finding one to buy, and then finding the *right* one to buy. Once you find an available practice, you will need to perform a certain amount of due diligence regarding the practice. Is it financially stable? Is it growing? Is the local economy healthy or not? How many active patients does it really have? What percent is Medicare? Are the managed care plans with which the practice has contracts taking new providers (i.e., you) into their networks? Are the current office space, furnishings, and equipment acceptable or will they need replacement soon?
Since the major benefit of buying a practice is its existing patient base, you should make every effort to determine in advance how many of the existing patients are likely to remain after the current physician owner departs. You might also be inheriting “deadwood” employees, staff turnover, or bad habits needing correction or new relationships. Don’t assume the worst, but also don’t fall into the “assumption temptation”— i.e. “It’s OK, I have someone to do it, so I don’t need to investigate and learn about it myself.” As with starting from scratch, you will need to invest time and effort in guiding the practice to become what you want it to be.

One of the most perplexing aspects of purchasing a practice is trying to determine its true value. No single, straightforward methodology is reliable for calculating the correct value. While a formula can be devised for calculating the value of a practice's "hard assets" (furniture, equipment, building, etc.) and even its accounts receivable, the joker in the deck is so called "goodwill equity.” No one can say for sure what the current reputation of a practice is worth in dollars or what its future earnings potential may be, particularly after a change in physicians. Unfortunately these "goodwill" factors tend to be even more important in determining a practice's overall value than the more easily calculated hard assets.

The accepted professional approach for valuing "goodwill" involves using multiple methodologies (three or more) to establish an overlapping range of value. Within that range a final price is then negotiated between the buyer and seller. These methodologies are technical procedures that require the expertise of an experienced valuator (usually a CPA with specialized medical valuation experience). Since such valuations can be expensive, buyer and seller may wish to share the cost by jointly selecting and hiring a neutral third party valuator. Hopefully the resulting objective valuation will provide a mutually acceptable range within which the two parties may begin their negotiations.

Very small practices sometimes feel that the cost of hiring an outside valuator represents a larger share of the practice’s worth than they are prepared to pay. Consequently informal, less technically reliable, valuation approaches are sometimes followed. These calculations are based on "rules of thumb," quick calculations, or "comparable sales" (similar practices recently sold in the area) data. An experienced management consultant with knowledge of the geographic area may be familiar with the prices being paid locally for practices or be able to help with one of the other informal approaches. The “Goodwill Registry,” published by the Health Care Group, Inc. and available for purchase, provides data on goodwill values paid in recent practice sales, by valuation methodology, and by region.

Advance Preparations

Adopt an Entrepreneurial Mind Set

Starting a small business requires an entrepreneurial spirit, the patience to persevere until you can break-even, and the tenacity to work hard. Adopting the right mind set at the
beginning is both critical to success and will influence all your subsequent decision-making.

Here are a few examples of what it takes to succeed in launching a practice:

- Market research – While some communities are underserved, others are over-doctorered, particularly those in desirable suburban areas. In the latter setting, you may need to be creative in finding a niche for yourself (e.g., by offering evening and weekend hours or providing specialized services) in order to build your practice more quickly. CPII’s “Marketing Manual for Internal Medicine Practices” discusses selecting a location and strategies to help get your new practice underway.

- Careful financial planning – It is critically important that you make a realistic projection of your productivity and income during the first year of operation and then plan your expenses accordingly. It is also essential to be as frugal as possible in spending your available startup dollars.

- Versatility – Since you will not be able to afford specialized staff in the beginning, you will need to be willing to take on some of the office chores yourself while the patient workload is still light. Hiring versatile staff will also help hold down overhead expenses. Later, as the number of patients grow, your productivity as a physician will be critical to success and it will be necessary to add staff so that you can focus on patient care.

- Ability to take risks – You will have no safety net to cushion your mistakes and your fluctuations in income. Unless you have a partner or two, you will face coverage problems unless and until you can establish relationships with other physicians to share coverage. Good physician relationships are essential to call coverage and referrals. Take time to visit the hospital staff lounge and chat with colleagues.

- Be forceful, persistent and patient -- It is tough for small start-up practices to negotiate managed care contracts and other essential business relationships. Payers may already have sufficient providers in their network or prefer to contract with larger groups in order to hold down their own overhead. Other organizations important to your practice may treat you the same way. The added paperwork and hoops you will need to jump through can be frustrating and even costly.

Believe it or not, despite all the effort, lots of physicians do take the plunge into private practice. It may not be as “easy” as it was in years past due to lower reimbursement and higher costs, but there are many very successful solo and small practices with very fulfilled owners, even in the 21st century.

**Solo or Group?**

You can either choose to go it entirely alone or to accept one or more partners to join you in launching your practice.
A desire for independence is the motive most often cited by solo practitioners. You are your own boss and can do things your own way. There is no question that you will get the most autonomy by practicing alone—no one with whom to share income, to debate hiring decisions, or to argue about practice style, space, or financial values. But independence also adds to the burdens you must shoulder.

Instead, if one or more physician partners join you in your new practice, you can share expenses, income, patients, hospital duties, and call coverage. Partners make the prospects for taking vacations and going home at a reasonable hour more feasible. They can share in tough business decisions (two heads are sometimes better than one) and potentially reduce the emotional stress and workload of constantly having to manage practice problems. But all these potential benefits can become illusory, or even a nightmare, if you and your partner(s) do not share a close personal and professional compatibility plus a nearly identical vision for the practice.

While the choice between going it alone and accepting partners will be heavily influenced by your personality, professional objectives, operational needs, and compatibility with partners, practice economics ultimately may be the deciding factor. Unless you can clearly identify a sufficient source of patients to support more than one physician within a reasonable time frame, there may be no prudent choice but to go solo. Sharing expenses may seem to ease the initial financial burdens, but the necessity of then having to grow a sufficient patient base to support multiple physicians can substantially extend the time before the owners can pay themselves acceptable personal incomes.

Choosing Advisors

In most cases, one of the earliest things you need to do is find qualified professional advisors to assist you. While the order in which advisors are selected is not critical, you probably will need to choose an attorney and an accountant early because you will need their services most often, and they will need to work together. Selecting a competent attorney and accountant at the very beginning of the process will help ensure that your practice benefits from the best tax advantages and flexibility while also establishing tight financial controls. If however you plan to use a management consultant, you may wish to select that person first, so he or she can help select other advisors. Otherwise, seek advisor recommendations from other physicians, your state or local medical society, or resources available on various web sites, such as the American Medical Association (www.ama-assn.org).

Interview each advisor. Once you are satisfied that they are competent, ask yourself if you can work with these people frequently and on a long-term basis and whether they can work with each other. Good communication is absolutely critical; otherwise there could be very costly misunderstandings.

- Your accountant is likely to become the most important and most influential professional with whom you work over the long term. The accountant will
provide business advice and referrals to other professionals as well as perform your business accounting. It is important that your accountant have experience working with physicians, because medical practice economics and accounting differ significantly from the usual patterns of other businesses. You or your office manager will have frequent (monthly if not weekly) contact with your accountant regarding monthly reports, bookkeeping, banking, payroll, taxes, accounts payable, and other issues related to financial management. Even if you use your own accounting software (which your accountant can help you set up), your office will provide the accountant with a significant amount of financial information. Thus your bookkeeping systems and procedures will play an integral role in the day-to-day business operations of the office.

- **Your attorney** will be needed to review contracts (employee/employer, insurance, and business), review and/or negotiate lease agreements, consult on employment law and regulatory issues, help deal with difficult patients, employees, or liability issues, and draft important corporate documents, such as buy-sell agreements, articles of incorporation, employment contracts. Your attorney should be familiar with state tax, employment, and corporate laws, as well as the unique health care regulatory environment, such as HIPAA, fraud and abuse, and Stark. Once your practice is established, the frequency of contact with your attorney will decline, but each contact is likely to be an important one.

- **An insurance agent/broker** can help arrange business, workman’s compensation, employee, general liability, and health insurance. Some also help with life and disability coverage, although you may need separate agents for these services. Professional liability insurance may be obtained directly from a malpractice carrier, and discounts are available through ACP with The Doctor’s Company (in most states). The Medical Group Management Association and state medical societies often have affiliations as well. Be sure to ask about new physician discounts (for physicians just starting out) and discounts for attending certain risk management seminars. For more information on the malpractice insurance program offered through ACP, visit the College web site or go directly to [http://www.thedoctors.com](http://www.thedoctors.com).

- **Choose a bank and banker.** It is important that your bank have a branch that is convenient to your office so that daily deposits are not a burden for you and/or your staff. Your banker should be someone you trust because you will be opening your personal books almost as often as you open your corporate books. Many banks offer online banking, credit and debit card programs, commercial teller lines, and direct deposit for employees. A lockbox service, whereby patient and insurance payments come directly to a secure location where bank employees deposit the checks and send copies of everything to the practice for posting, is well worth consideration both because the money gets deposited more quickly and reduces your risk of employee theft. Often a bank that handles your personal account will be ideal for your office account, because they know you and want your business for the long term. Business deposit charges are often waived and a
line of credit is more readily available. Banks charge fees for almost everything — be sure to determine the fees for wire transfers, returned checks, and other unavoidable incidental charges. You will need to keep separate credit cards, phone cards, and bank accounts for your office and personal expenses.

- If you need to find office space, you may want the help of a commercial realtor. Realtors can help you find appropriate space and may offer help in negotiating a lease. Realtors may prefer to be engaged on an exclusive retainer basis, but for most small practices a non-exclusive, commission based relationship is normally sufficient. Be sure your attorney reviews your lease carefully before you sign it.

- You may also need an architect to help with build-out of your new space. Your realtor can probably recommend someone, or ask a colleague with a nice office who designed his or her space. If you are going into a medical office building, the landlord may have someone to help with the space design.

- A management consultant can help you set up the practice. “The devil is in the details,” and the details of opening a practice may move more quickly and efficiently with a consultant. The do-it-yourself, learn-as-you-go method of starting a practice sometimes can be costly in terms of time spent and mistakes made. Experienced consultants should also have resources such as policy and procedure manuals, fee schedules, job descriptions, and software that you will need. (Remember, however, that these manuals and forms are available for separate purchase from a variety of sources.) The disadvantages of hiring a consultant include not only the extra expense but your own tendency to rely too heavily on the consultant and thus not “learn the ropes” as well as you might on your own. After a consultant finishes the assignment you are the one who has to run the practice. Therefore always use consultants as aids to learning, not as substitutes for it. Before selecting a consultant, get references from similar assignments the consultant has previously performed. Ask them about the consultant’s knowledge, compatibility, and success in achieving the desired outcome. Before engaging any consultant insist on having a written agreement outlining the scope of work to be performed, the price, the conditions and the exit strategy once you are ready to go it alone.

**Financing the New Practice**

Once the practice is launched you will go through distinct stages in reaching financial break-even. At first, lacking revenue, you will pay practice expenses out of the supplementary financing you have arranged. Gradually you must attract enough patients to reach the next stage where revenue will be sufficient to cover operating expenses (e.g. rent, payroll, supplies & equipment). Only later will you grow to the point of being able to pay yourself a living income. With a start-up practice and no patient base, it can take 2 or more years before you have a full schedule and comfortable income. If previously employed in another practice and a restrictive covenant in your employment contract does not preclude you from taking patients with you, the deficit period for your new
practice could be reduced. Or, as indicated above, buying an existing practice may help compress that time line significantly – assuming you can find the right practice.

Clearly you are also going to need a significant amount of start up capital for the practice. Although starting a practice from scratch eliminates any front-end purchase price, you will still need funds to set up the practice and cover operating expenses during the extended deficit period before the practice becomes self-supporting. The amount will vary depending on the size and locale of the practice, whether you purchase it or start from scratch, how much you spend on facility build out, furnishings, equipment, and supplies, the operating expense level, and whether your personal finances permit you to survive without drawing an income from the practice during the initial operating period.

To provide an order of magnitude for such financing, some crude estimates suggest that a solo practice might need upwards of $100,000 for set-up costs -- to build out the facility space and purchase furniture, equipment, and supplies. This ball-park figure assumes you handle the set up yourself and are conservative in your purchase decisions. Depending on circumstances and practice growth, a roughly comparable amount might also be required to help cover operating expenses until the practice becomes self-supporting. If you can find good used furnishings and equipment and/or facility space was previously built out for a medical practice, you should be able to reduce your capital investment. Usually a bank loan and/or line of credit can be arranged to spend down as needed for these purposes.

To borrow money from a bank or other lender, you may be asked to present a business plan outlining your short-term and long-term goals and objectives for your practice, plus information about the expected sources and uses of funds. It is a valuable mental exercise to go through whether or not you are required to present a formal written plan. Your accountant can help you develop a business plan, the main elements of which often will include:

- Executive summary
- Mission statement
- Description of the business
- Market analysis
- Furniture, equipment, and supply needs (see sample list in the Young Physician Practice Management Survival Handbook), insurance and other expenses
- Practice pro forma and cash flow projections
- Copy of office lease, location of the building and any renovation plans
- Marketing strategies
- Curriculum vitae

The most obvious source of funding is a bank. Hospitals and health systems may be another source either directly or indirectly through subsidies such as for staff, office space, or technology purchases. There are a variety of other lenders involved in providing financing to medical practices; however before making a decision, you should
carefully evaluate how favorably their rates, terms, and requirements compare to conventional financing available from a local bank.

**Choosing a Corporate Structure**

The way your practice is legally set up can determine not only your personal financial exposure but also how the IRS, your state, your malpractice carrier, and your partners (or co-owners) view it. Types of business organizations vary by state, but the basic structures are similar nationwide. The most common legal forms for practices are sole proprietorships, partnerships, corporations, and limited liability corporations. The key differences among them lie in how each is taxed, sued, and owned. It boils down to whether the owners are personally liable for taxes, business debts, and legal risks. In all cases, profits end up on the owner’s personal income tax return one way or another, and none of these structures can protect you from personal liability for your professional activities.

There are essentially six options, three unincorporated and three incorporated. Needless to say, there are trade-offs for each choice, but your attorney and accountant can help you find the best form for you and your practice. Table 1 provides brief pros and cons of each structure. While state laws govern business structures, federal law governs the federal taxes on those structures. To set up the legal entity, you definitely should engage a competent attorney familiar with the tax and liability issues particular to your situation and your state.
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<th>Type</th>
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<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>Sole Proprietorship (unincorporated)</td>
<td>One physician only</td>
<td>• Most autonomy</td>
<td>• You = practice for liability and debt</td>
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<td></td>
<td></td>
<td>• Simple tax status</td>
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<tr>
<td>General Partnership (unincorporated)</td>
<td>Two or more physicians</td>
<td>• Profits distributed according to agreement</td>
<td>• Liabilities can be joint or separate but either way you can be personally liable for your partners’ acts.</td>
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<td></td>
<td></td>
<td>• Partners have equal rights and responsibilities in management and conduct</td>
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<td>• Financial benefits/risks are shared.</td>
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<tr>
<td>Limited Liability Partnership</td>
<td>Two or more physicians</td>
<td>• Partners are protected from personal liability for partners’ acts.</td>
<td>• Your investment in the business is still at risk if practice is named in lawsuit.</td>
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<tr>
<td>Partnership (unincorporated)</td>
<td></td>
<td>• Partners have equal rights and responsibilities in management and conduct.</td>
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<td></td>
<td></td>
<td>• Financial benefits/risks are shared.</td>
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<tr>
<td>Professional Corporation (C Corp)</td>
<td>One or more physicians</td>
<td>• Autonomy (for the solo practitioner)</td>
<td>• Double taxation on profits (corporation pays tax as well as individual), although can be avoided by distributing profit as bonus at year-end.</td>
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<td>• Flexible as to number of owners, shares, and kinds of shares</td>
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<td>• More retirement plan options available.</td>
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<td></td>
<td></td>
<td>• Not personally liable for professional activities of your co-owners, or not personally liable for business debt.</td>
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<td></td>
<td></td>
<td>• Fringe benefits fully deductible.</td>
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<tr>
<td>Professional Corporation (S Corp)</td>
<td>One or more physicians</td>
<td>• Profits are passed through the owners’ personal income tax returns, thus avoiding the double taxation issue.</td>
<td>• Limitations placed on types of businesses that practice can invest in.</td>
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<td></td>
<td></td>
<td>• Owner can deduct own pension contributions.</td>
<td>• Can deduct only part of fringe benefits from the business’s profits.</td>
</tr>
<tr>
<td>Limited Liability Corporation</td>
<td>One or more physicians</td>
<td>• Owners not personally liable for business debts OR co-owners’ professional actions.</td>
<td>• Not available in all states.</td>
</tr>
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<td></td>
<td></td>
<td>• Like S corporation, taxes on profits and benefits passed through to owners’ personal tax returns.</td>
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<td></td>
<td>• Unlimited number of shareholders and more than one kind of stock.</td>
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<tr>
<td></td>
<td></td>
<td>• Who can own stock is less restrictive (e.g., another corporation can own stock)</td>
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Setting Up—Making Your Practice What You Want It To Be

Now that you are ready to start the practice, you have your work cut out for you. The Young Physician Practice Management Survival Handbook includes a time line and check list for starting a new practice. This list outlines the start to finish steps you will need to go through, from now until your practice opens for patients and begins receiving payment for services. Most of these steps are fairly straightforward, and a detailed discussion of each of them would be beyond the scope of this guide. However, brief comments are provided below on some issues with which new owner physicians are least likely to be familiar.

Office Facility Selection and Design

In selecting space for your office, think first of your patients’ needs: proximity to their homes or places of work; visibility and signage to help them find you; convenience so they can reach you, park, and gain easy access to your suite; and safety and esthetics to make them feel comfortable coming to see you. Sufficient parking, cost per square foot, any build out allowance, and availability of public transportation are all-important considerations. CPII’s benchmark for space requirements in normal operations is roughly 1,250 square feet and 3.25 exam rooms per provider. While the amount of space you actually lease should make some allowance for possible growth, deciding how much is not easy. If you underestimate, you will find yourself forced to spend money later to renegotiate the lease, move, or add space when you grow. On the other hand, if you overestimate, you will end up carrying unnecessary overhead expenses during the difficult startup years. Unless you have a specific plan to add other providers within a year or so, your safest bet may be to lease the amount of space you need now plus enough extra to accommodate one or two additional staff in case they are needed to help you in the future. Given the possibility that your space requirements might significantly change in the future, consider the length of the lease, the conditions under which you are allowed to break it, and whether you can negotiate a right of first refusal to lease adjacent space if and when it becomes available. You may also consider a shorter lease with guaranteed renewal options.

Plan to take a very active role in designing the layout of your future office space. You will need the assistance of an architect or space planner with extensive experience in designing small medical practices. Keep in mind that “form follows function” applies to medical practices even more than to other facilities, and no one knows better how you want to operate than you. Decide what you are going to do, how you want to do it, and then insist that the space be designed to meet those needs. For example, you might want separate check-in and check-out desks but also need them to be adjacent since initially the same staff person may have to man both. You may also want your nursing station centrally located to all the exam rooms. All these objectives can be achieved with a U-shaped space, but only if the suite is deep enough to accommodate such a design. You may or may not need to hire an
architect but if you are going into a medical office building, the landlord may have space designers to help you plan the space.

**Insurance Basics—What Needs to Be Insured**

In the beginning, you and your insurance agent will be in frequent contact. Here is a list of the insurance options you will need to consider:

- Professional liability or malpractice (required)
- Commercial multi-peril or general liability (usually includes fire, flood, accidents in the office, employee theft, computers and equipment, etc.)
- Workman’s compensation (required in most states)
- Disability
- Life (and officers’ life for groups)
- Health
- Dental
- Employment (e.g., discrimination or harassment)

While some of these are optional for anyone, some are optional for employees, and some are required, all deserve fair consideration. Often, you can use one agent for many of these types of insurance. However, malpractice insurance frequently is obtained directly from the insurance company itself.

The most complicated decision probably will involve choosing professional liability insurance. It is provided through a variety of sources. There are many factors to weigh and alternative methods of insuring yourself and your practice. Both regional differences and state laws will greatly affect the level of your premiums. Traditional insurance companies, self-insured companies, group purchasing programs and risk retention groups are some examples of the sources for malpractice insurance. Malpractice premiums in recent years have skyrocketed in some states due to tort reform, insurance rules and other factors. For instance, the rules (and therefore the premiums) within the Washington metropolitan area vary greatly between the District of Columbia, Virginia, and Maryland. Thus you should investigate malpractice insurance availability and rates before deciding in which jurisdiction to locate your practice.

To find a malpractice carrier offering coverage in your area, ask the local hospital or other physicians. ACP, the AMA, and the Medical Group Management Association (MGMA) all have insurance programs that offer member discounts. State ACP chapters and state and local medical societies may also sponsor programs, or can at least serve as resources for determining which carriers to approach. Definitely get multiple bids, as premiums can vary from one company to the next. Ask each carrier about other available discount programs, such as new physician or participating in certain risk management activities or CME to get additional discounts. Again, for more information on ACP’s insurance programs, go to the [College web site](http://www.acponline.org).
There are several factors that will affect the premiums that you receive. First is the method of coverage—claims made vs. occurrence. Second are the per occurrence and aggregate limits (minimums are often mandated by state law). The aggregate is usually three times the occurrence. Another key factor is who will be covered -- you should include your practice, since any legal actions may name the practice along with you, and/or your employees. Also include coverage for nurses, medical assistants, physician extenders and other clinical employees.

Commercial multi-peril, or general liability, insurance usually includes property and casualty, computer and equipment coverage, employee theft, business income (or business interruption), fire and flood, and accidents, e.g. patients or visitors who might “slip and fall” in your office. Deductibles will have an effect on your premiums. You may want to include coverage for your employees who use personal vehicles to go to the bank or the post office on office business.

Workman’s compensation insurance is required in most states; therefore rates tend to vary less from one carrier to the next. Premiums are based on annual payroll estimates. Your agent should provide you with tips on how to minimize your risk of workman’s comp claims through education and risk management.

You will also need to consider health insurance for yourself and your family as well as your employees. Life insurance for yourself and officer’s life for practice owners may be appropriate. Disability insurance, particularly long-term disability is also important to consider. There are other types of insurance, such as employment and fidelity bonds, which are optional but should be seriously considered.

Office Technology

Technology is an integral part of the modern medical office -- computers, laptops, notebooks, PDA’s, phone systems, fax machines or fax servers, digital dictation, and more. Your computer and phone system will be the lifeblood of your practice so it is important to think carefully through all the options. These days, the Internet is important for insurance billing and verification, so having high speed access, such as cable or DSL, will be necessary if available. Depending on your location, the type and cost of Internet access must be factored into your technology decisions. Similarly, the type of phone system – analog, PBX, VoIP, DSL, cable, and so on – will vary in cost and availability. Suffice it to say that technology is expensive; therefore the challenge of making cost effective choices can be intimidating.

The computer system(s) (both hardware and software) that you purchase will be important to the efficiency and profitability of your practice. Because of regulations such as HIPAA, e-prescribing and reporting incentives, and the coming of ICD10, it would be prudent to start off with interoperable practice management and electronic health record systems. CPII’s Health Information Technology web
The telephone system you choose will be as important as your computer system. If patients cannot reach you, they will go elsewhere, and your business will suffer. The cost of telephone systems is affected by the number of incoming and outgoing lines required, the number of stations you need, and the type of service you get (PBX, VoIP, digital, T1, etc.). Using an automated attendant and forwarding to cell phones and/or voice mail boxes with paging capability may be less expensive than using an answering service. As you set up your telecommunication system, be sure and allow for the expansion capacity you will need later as you grow. To make sure you know what all your available options are in your area, talk to your colleagues but you may also want to talk to local vendors or IT specialists who understand the pros and cons of each option.

Other office equipment, such as scanners, copiers, fax machines, and dictation equipment, can be a headache to acquire, but often now are part of the overall hardware purchase when buying an integrated practice management and electronic health record system. Sometimes one multifunction device can meet all the needs of a small office whereas others may need additional capacity. If you are getting an integrated practice management system/EHR, some things, such as fax servers, printers, and scanners, may be part of the total hardware purchase. Whether you buy locally, online, or through a vendor, don’t forget a maintenance agreement, since even a few hours without your phone, Internet, or computer system will cost your practice money.

Lead Times for “Credentialing”

One of the real shockers for many physicians starting practices for the first time is how long it can take to obtain privileges at a hospital or provider agreements with health plans. Without these in place you won’t be able to see patients in the local hospital or get reimbursed by most insurance plans. Early on, contact the hospital to find out the process, requirements and committee meeting schedule for obtaining hospital privileges. Contact all the health plans with which you wish to sign provider agreements, submit the paperwork accurately and months before you expect to begin seeing patients. The various plans may have very different rules for this process. Follow each of them carefully, and keep copies. Follow up with the plans constantly. Don’t be surprised if they lose your application or key documents. Just keep resubmitting until you get what you want. The only thing that matters is getting a signed provider agreement in place before you see your first patient, so you can get paid. If you are leaving a group, you should be careful that your new employer identification number and payment address are clear to the payor, or your payments may end up with your former employer!

An alternative to tracking each payor individually is to use the Universal Provider Datasource, which was developed by the Council for Affordable Quality.
Healthcare (CAQH) with the support of ACP. This service is a single, national process that reduces the need for multiple credentialing applications. Through this innovative, online service, physicians complete one standardized application to meet the needs of all participating health plans and other health care organizations. Periodic electronic updates raise the bar on quality and timeliness of data. The service is simple, convenient, and secure, but it does still require participation from the practice.

Preparation for Personnel

To become an employer the first step is to obtain employer identification numbers from the federal and state governments. The Young Physician Practice Management Survival Handbook can help you through this fairly simple process.

The most challenging aspect of management for most physicians is the management of people. As a practice owner, you will manage a small business and will be highly dependent on the people you hire to help you, both clinical and administrative. You will not be successful without a competent, dependable, and hard-working staff; so put into place now everything you can to facilitate that kind of performance. You will be viewed as an authority figure; therefore employees will count on you to understand, enforce, and follow the rules you set. Creating such documents as an employee handbook, job descriptions, and policies and procedures manuals will make personnel management a little easier. These tools will help you remain consistent and fair in dealing with the myriad of situations that arise. They also help give employees a clear understanding of what is expected of them.

There are a variety of sources for sample job descriptions and policy and procedure manuals. An employee handbook explaining your leave policies, benefits, dress code, and other relevant policies will also be needed. Ideally, you should work with an employment attorney to write one, but that may not be practical at this stage of your business. As your business grows, make sure that your policies are updated regularly, that they comply with state and federal law, and that you apply them consistently. The MGMA has samples of all of these documents (www.mgma.com), as do many consultants. CPII can help identify commercial sources for good examples of personnel related documents that you might need.

Billing and collection protocols are particularly important to have in place from the beginning. These directives can make or break you in terms of financial management. Again, there are a variety of outside reference sources for information on accounts receivable management.

When you are ready to hire staff, you should allow 1-2 months to complete the process, depending on the level of the position. In general, the more professional the individual, the longer lead time for recruitment you will need. For most clinical or administrative staff, classified ads in the local newspaper are the tried and true method of recruitment and many newspapers now offer automatic
online as well as printed employment ads. Other recruitment sources include the
Internet, hospital newsletters or bulletin boards, and other media that go to the
general public or to the healthcare community.

Invest the time to select the right staff to make your practice a success. Inadequate training can result in staff turnover and frustration for you and the staff. Train them carefully before you open the doors, and then continue to provide guidance and support thereafter. Try to have a policy and procedures manual available for new staff to review immediately upon hire.

**Ready? Set? Go!**

**Growing Your Practice**

Now that you are open, you need to build your practice. While CPII’s guide “Marketing Manual for Internal Medicine Practices” can provide you with more detailed suggestions, here are a few tips to get you started.

- Join and become active in civic and social groups, a place of worship, and other community activities that make you visible and accessible to people who, through word of mouth, will encourage potential patients to see you.
- Put the word out (send a card or, better yet, pay a personal visit) to all employer occupants of your own and neighboring office buildings. Be sure to talk to the human resources staff, as they are the ones who often suggest provider names to employees.
- Contact and visit potential referring physicians and their staff—leave them contact information to reach you.
- Offer to lecture at local hospitals.
- Give talks at local community groups, such as the Rotary club, church, or senior citizen groups.
- Put the word out to nurses at the hospitals where you will have admitting privileges. Nurses are a good source of patients.
- Introduce yourself at local emergency rooms on various shifts, especially the attending physicians, triage nurses, and charge nurses.
- Contact local newspapers, TV, and radio stations to offer yourself as an “expert” resource on any disease, condition, or other area of expertise that you feel comfortable discussing. Offer to write articles or a column on healthcare topics for the local press.
- Introduce yourself to local pharmacists.

**Operating Help**

A discussion of the myriad details of operating a practice is beyond the scope of this guide. However the Center for Practice Improvement and Innovation offers a wide selection of publications to educate you about various practice management issues, including coding and reimbursement, regulatory and Medicare requirements,
computer systems, practice operations, patient care, and managed care. There are also a variety of forms and signs that will be needed in your office, whether you go paper or electronic. In addition, CPII offers three management tools to help you make sound business decisions.

- **Practice Management Check Up** compares your practice to key general internal medicine benchmarks and quickly checks the “vital signs” of your practice’s business performance.
- **Office Laboratory Check Up** provides a manual on office lab economics and software to determine a lab’s actual or potential profitability.
- **Patient Satisfaction Check Up** assesses your patients’ perceptions of the overall office visit and provides a tip book for planning improvements.

ACP members may download all CPII guides and products free of charge at [www.acponline.org/running_practice/](http://www.acponline.org/running_practice/). If you need advice or assistance at any point in establishing, or later in operating your practice, visit CPII’s web page. If our guides and FAQ’s do not sufficiently address your specific needs, the web page also provides a means for you to email your question to the appropriate CPII specialist, who will provide personalized help. Or, you may call 800-338-2746, option 6, for such assistance.

Good luck in starting your new practice!