

Physicians and the Business of Private Practice

Medical students learn to be doctors, not business owners. In private practice, physicians must be both.

BY ELLE KAPLAN

Medical students graduate medical school with an elite education and highly specialized skills. Typically, new physicians sign with a major hospital or open a private practice. In the latter situation, doctors have to fill the demanding dual roles of physician and entrepreneur.

LAYING THE GROUNDWORK: HOW TO SET UP A BUSINESS

As an investment expert and entrepreneur who built her asset management firm from the ground up, I understand the challenge of establishing a strong foundation for a thriving private practice: you have to work on the practice in order to work in the practice. In addition to practicing medicine, physicians who own a private practice must learn how to manage cash flow, a staff, and business operations. Medical school, despite being the most intense and lengthy training process of any profession, lacks business training.

Time Is Money

All too often, physicians who are new business owners underestimate startup costs. To avoid this error, create an expense plan and a structured budget ahead of time, and build in room for unforeseen overhead costs, including everything from rent and office supplies to staff salaries, and business taxes. Doing so will eliminate the added stress of running short on resources.

On average, start-up businesses take 3 to 5 years to stabilize. An initial business plan should always include a "runway," which is a projection based on the time and money you can allow to get the business up and running. If the practice has not taken off by the end of

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the runway, do not continue to drive. When I left a successful Wall Street career to found Lexion Capital, my runway was 3 years. Luckily, Lexion has evolved into a thriving, growing firm, but I had an exit strategy in case things had turned out differently.

Calculate the length of your runway by looking closely at the burn rate. How much cash do you expect to burn through in 1 month, and how long is that sustainable, given your savings and capital? A plan that prepares for multiple contingencies is ideal. These projections are crucial, which is why I always create a detailed forecasting analysis for clients that takes a wide variety of market scenarios into account.

The Nuts and Bolts

Private practitioners leave behind an established facility, complete with equipment, office supplies, support staff, and many other resources. Building a business from the ground up takes detailed planning. Answer these questions to assist with the planning. First, what kind of initial outlay is needed for medical and imaging equipment as well as information technology systems

and phones? How much is needed for supplies such as filing cabinets, desks, computers, and furniture, because these items are all critical overhead costs that must be included in the burn-rate analysis.

Rent or Buy? The Million-Dollar Question

The tax benefits of owning a building are not enough reason to buy instead of rent. The purchase has to make good financial and business sense. Based on my professional experience, ownership is becoming a liability: the costs generally outweigh the benefits. For one thing, ownership significantly reduces flexibility. I constantly remind my clients that, unlike their portfolios, property is an illiquid investment. If relocation or a move to a larger facility is required, the building will need to be sold. Since the housing bubble burst, that process could take years, forcing the business' needs to the back burner in the meantime. My advice is to exercise extreme caution before placing a long-term bet on building ownership.

A Partner Is Forever?

I advise all my clients to seek proper legal counsel when creating partnership contracts. Partners are more than coworkers; they are also business partners. In some cases, physicians are more permanently tied to business partners than to a spouse, because legally and financially, partnerships can be harder to dissolve than a marriage. Involving a legal expert is a necessary investment in the future safety and stability of a practice as well as a protective measure. Physicians frequently make key business decisions without legal counsel to save money on lawyer's fees. Unfortunately, many of them end up paying those same fees many times over when trying to disentangle themselves from an unhealthy business situation.

A SOUND FOUNDATION EQUALS A HEALTHY PRACTICE

Having the right framework in place—from a burn rate and runway to office space—is what will ultimately give you the freedom to pursue the goals that led you to practice medicine in the first place. It is impossible to devote yourself to patients if the day-to-day operations monopolize all of the hours in your day. A financially healthy practice is one that is poised to flourish and grow. ■

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