

# HOW MUCH TO Grow

Determining the ideal size of your practice—and how to increase or control growth—isn't an easy task. Here are some tips to keep you on track.

**I**N A MEDICAL PRACTICE, ONE SIZE DOES not fit all. The question, “How large should you grow your practice?” is a personal one.

To get the answer, ask more questions, says Anette Mnabhi, DO, a family physician in Montgomery, Illinois, who began a small practice with her husband, a chiropractor, in 2001. What services do you want to offer? Does administrative work interest you? Do you want to supervise employees? Or is a practice with minimal staff, less overhead, and contained growth more your speed? How many hours per week can you effectively provide direct care? What are your and your family's needs and requirements?

The last question was probably the most important to Mnabhi. While she and her husband wanted to increase their income, maintaining a personal life was a top priority. They wanted time away from the office for vacations, medical mission trips, and seminars.

“We sent letters to patients explaining our activities and they were excited for us,” Mnabhi says. “They said they wanted us to take care of ourselves so we could be there to take care of them. With a smaller practice, I can see extra patients before and after trips.”

The Mnabhis developed a sound business plan they refer to when making decisions regarding growth. It calls for growing at a slow, controlled pace. “We do not want to overextend ourselves,” says Mnabhi, who notes that a year after opening their practice, they generated enough revenue to begin paying debts. “We want to have a stable financial base before adding staff.”

Because Mnabhi handles most of the administrative work, she prefers to maintain a part-time patient load while her husband increases his patient time. They plan to add a part-time osteopathic family physician and grow from 400 patients to approximately 1,000 pa-



tients per practitioner. This will cap clinical patient contact hours at 30 hours per week per practitioner and allow adequate time for paperwork and phone calls.

#### THE DANGERS OF TOO LITTLE GROWTH...

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## Is Bigger Better?

### Advantages of a small practice:

- > Fewer staffing headaches
- > Ability to make decisions quickly and implement new strategies and modalities almost immediately
- > More personal relationships with patients can result in fewer mistakes
- > Ability to limit hours
- > Controlled growth and quality
- > Fewer administrative errors
- > Greater control
- > More flexibility due to less bureaucracy
- > Personal freedoms
- > Ability to recover faster if collections become problematic

### Advantages of a large practice:

- > Greater potential income
- > More experience gained with a variety of patients
- > Economies of scale (full use of personnel)
- > Ability to add another physician or physician extender who is available to cover during vacations
- > Per doctor salary is higher than a solo physician, resulting in more time off with less cut in pay
- > Ability to serve more patients and generate more revenue
- > More support so critical decisions (and work) don't rest solely on you
- > More revenue to purchase advanced testing equipment, computerized systems and marketing programs
- > More clout with suppliers
- > Easier to sell the business

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plateau and then have another growth spurt,” says Jeffrey D. Logan, a financial adviser with Jeffrey D. Logan and Company in Columbus, Ohio. Logan’s company assists physicians transitioning from training into practices.

An investment of \$500,000 into a practice for equipment, supplies, marketing, start-up expenses, and working capital must yield at least what an investment account would return on the same amount or it isn’t worthwhile to operate. “Therefore, a double digit return on investment is the barometer for a business that is succeeding,” according to Logan.

Growing a practice at the appropriate rate will not only enable you to live your desired lifestyle, it’s essential to your practice’s survival. Without enough growth, sufficient revenue won’t be generated, says Robert J. Reby, a

certified financial planner and the president of the Danbury, Connecticut-based Robert J. Reby and Company. If a practice doesn’t generate enough revenue, it can’t sustain itself. Ultimately service will suffer and patients will leave.

Another serious problem associated with too little growth is the inability to keep pace with inflation. If a business does not continue to increase revenue, then it cannot maintain employee and owner income as well as meet other expenses. If this occurs, employees will be forced to find better paying positions.

The demands of growth and the reality of natural patient attrition are ongoing factors, says John Reddish, the president of Advent Management International, Ltd. of Drexel Hill, Pennsylvania. If a practice grows too little or too slowly, then patients who are dying, moving, or leaving the practice can deplete the economic base. Practices that fail to keep pace with an annual marginal increase face smaller profits and thinner reserves.

### ...AND TOO MUCH GROWTH

On the other hand, too much growth is the inability to maintain the service model you established when you set up your practice. In medical practices, like many other businesses, if professionals are stretched too thin, service suffers and the business loses paying customers.

Although the intimate nature of the doctor/patient relationship prevents physicians from losing patients as easily as other businesses for basic service lapses, Reby points out that there is always a breaking point.

Signs that a practice is saturated and growth



PHOTO ©2005 / ANDREA MANDEL

Anette Mnabhi, DO, began a small practice with her husband in Montgomery, Illinois in 2001 with the goal of increasing their income as well as maintaining a personal life. They wanted time away from the office for vacations, medical mission trips, and seminars. “We sent letters to patients explaining our activities and they were excited for us. They said they wanted us to take care of ourselves so we could be there to take care of them.”

should be controlled include patients waiting weeks for an appointment or the average office wait time exceeding 30 minutes. If your practice is showing these warning signs, Reby advises hiring additional staff or temporarily closing to new patients.

Action may also be necessary if a business is growing too quickly. Physicians not keeping up with paperwork, working longer hours than desired, or taking longer than 24 hours to return patient phone calls are all signs. Other indicators include employees expressing increased stress or negative patient feedback.

Regardless of the reason for saturation, adding another physician may be unnecessary. Decide whether a physician's assistant (PA) or nurse practitioner could perform some of your services, Reby says. Also examine physicians' non-medical duties to determine if an office manager or assistant could handle these tasks.

When PAs and office personnel are maxed out, complain about feeling overwhelmed, or office efficiency decreases, then it's time to consider hiring another physician, says Gary Gerber, OD, founder of The Power Practice in Franklin Lakes, New Jersey. You may also want to expand the current office to add more space or open an additional location.

Another way to control growth is to drop the least profitable managed care plans before refusing patients. Prioritize and balance access and availability.

Remember to continue referring to your personal and business



James Hubbard, MD, MPH, a family physician in Colorado Springs, Colorado, says he targeted the industrial workers' compensation business to grow his practice.

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goals. If you do not want to become involved in a group situation or adopt additional management roles, Gerber advises limiting new patients. If you are ready to adopt supervisory relationships and additional responsibilities or want to form a larger practice, consider increasing the number of physicians.

In a group practice, make sure that each physician is using his skills the most effective way, Logan says. This could be according to medical specialty, procedure, or personality. Similar to a football team, have your best players on the field at all times doing what they do best.

Logan advises using patient and

referral source satisfaction surveys at regular intervals to determine how patients and other physicians perceive your practice's growth. It's simple to see growth by dollars on a balance sheet, but measuring sustained growth according to how you rate with customers or referral sources is crucial.

#### **STARTING OUT**

Keep in mind the dangers of too little or too much growth, particularly in the early stages of your practice. Begin with modest patient goals, says James Hubbard, MD, MPH, a family physician in Colorado Springs, Colorado, and

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the publisher of *My Family Doctor: The Magazine That Makes Housecalls*. Hubbard, who started an outpatient family practice and occupational care clinic in northern Mississippi in the 1990s, moved to Colorado in 2002 for the climate, and now works part-time at area clinics.

Examine your strong points and interests. Ask yourself whether you want to focus on medically complicated patients who require extensive histories, physicals, work-ups, and follow-ups or would you prefer acute-care type patients who are less time-consuming? Will you have a hospital practice? Does a particular procedure pique your interest?

Hubbard suggests hiring at least one highly qualified, experienced, motivated individual—usually an office manager—who will help your practice grow from the onset. This employee may cost a little more, but she will contribute to your practice's success by providing professional contacts, training, and running the practice smoothly.

"I've had it both ways—trying to hire and train all new, inexperienced employees myself and having an employee whom I could depend on to help me," Hubbard says, "and by far I received greater efficiency and provided better quality of care by doing it the latter way."

### GROWING YOUR PRACTICE

In addition to evaluating your goals and developing a business plan, educate yourself on how to achieve your aspirations. Physicians as entrepreneurs should seek advice from qualified financial planners, accountants, and attorneys. Consult a trusted mentor who has been successful at

his own practice, says Reby.

At [www.cfp-board.org](http://www.cfp-board.org), you can find a certified financial planner (CFP) and check his background. For a record of complaints or disciplinary action against a CFP, visit the National Association of Securities Dealers' Web site at [www.nasd.com](http://www.nasd.com).

Additional ways to locate professionals are:

- Network locally through chambers of commerce, civic associations, and community service groups. Many organizations list members on their Web sites.
- Check with your local SCORE chapter, where professional volunteers advise start-up and existing businesses. Visit [www.score.org](http://www.score.org) for more information.
- Visit [www.aafp.org](http://www.aafp.org), the Web site for The American Academy of Family Physicians, which posts information for starting and growing a practice.
- Ask a local banker for data from the Risk Management Association (a bank trade association). Knowing how similar practices have performed financially can provide insight on how much you should spend in certain categories.

Consultants are another option. Gerber's clients sign a three-year agreement with The Power Practice, and in exchange, Gerber and his associates visit the client's practice for two days, observing the physicians with both patients and staff. Then they compose an extensive growth plan for clients, based on the physicians' goals, with specific steps and timeframes. The team helps to identify a niche for the practice and works with a client to develop it. Other services include monthly conference calls with Gerber and other experts, the

opportunity to e-mail or call any time, and access to an on-line chatroom to speak with other clients.

### LOCATION, LOCATION, LOCATION

It may be a cliché, but it's true: A practice's location will play a huge role in its growth, even its very survival. If your practice is located in a rural area or small town, for instance, geography may limit your growth potential as much as your genetics limit your height.

Hubbard located his practice close to an industrial area and a comfortable distance from competition. "Consider how much competition an area has and where patients are concentrated," he says. "I located as close to patients as possible to make it convenient for them."

Hubbard targeted the industrial workers' compensation business, an underserved area. "I went to companies and talked to the people in charge of workers' compensation," he says. "I asked how I could serve their needs and communicated with them often. Later, as I became busier, I hired someone to do this, but I still tried to communicate by phone." It was also a good marketing move, because those same patients returned for private care.

In Mnabhi's experience, if you share a building with other practitioners, the reputation of those other physicians can affect you, even if you are not affiliated. Assess the traffic of a site at various times, and look up practitioners on the Web site of your state's agency that regulates licensed and registered professionals (which should be listed on your state

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government's Web pages) to see if they have been fined or disciplined. Call their offices and note how staff members answer the phone. Do they project an image you would want associated with you?

Because they wanted to practice independently, the Mnabhis required a growing area so new arrivals could be potential patients. To determine this, they asked real estate agents how many houses were on the market and if new developments and schools were under construction. They called similar practices and asked how long it would take to schedule an appointment. If the answer was weeks or months, then they decided room for a new practice existed.

"In our case, Montgomery's population was about 9,500 and only one other primary care office was there," Mnabhi says. "We knew there was room to grow because housing developments were springing up within several miles."

### THE BOTTOM LINE

Ultimately, a practice's growth is measured by its revenue. Managed care and third-party payers control most of the revenue in today's medical practices. The trend is to reduce, or at least level reimbursements compared to past years. Logan advises maximizing contract benefits with an outside payer. Determine which procedures can be performed in the office and which ones should be outsourced to maintain efficiency and profitability. For this reason alone, a single payer can be risky for a practice if that organization or plan's rules change. Growing with the main players in a given market and not be-

coming dependent on any single provider is essential.

Any form of a third party payee situation will affect cash flow and growth. If your "cash to cash," (i.e., the time between when you spend to when you get paid), is a long period, it limits growth and can force borrowing. Location in a litigious state can also play havoc with models, as contingent liabilities can be enormous, Reddish says.

In addition to considering income in relation to business growth, expect to make decisions regarding expenses. Invest in your business by buying new technology, upgrading your facility, training and educating staff, and marketing your practice. Otherwise, it will stagnate and become less competitive.

However, Reddish cautions, "Unless you want to borrow or seek investors, limit growth to what you can finance from operational profits and cash flows. If you borrow, leverage only amounts you are prepared to lose and target borrowings to conservative projections."

Deciding the size of your practice can be difficult. Determine what you can handle in terms of patient care and management of staff and the hours you wish to work, then consult professionals for advice on how to accomplish your dreams. Growth will inevitably fluctuate, but stick to your plans and enjoy the ride. ■

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