Writing a Business Plan
Road Map Needed for All Practices
By Bob Keaveney

After practicing for more than a decade, Hal Teitelbaum, MD, decided he had to take a different approach. It was the mid '90s, he recalls, and he began to take a long look at the way the modern healthcare environment was changing. Teitelbaum realized that if he wanted to continue to practice medicine the way he'd dreamed, he'd have to change, too. Increased economic pressures from payers that were getting larger and more bottom-line oriented were making it impossible for small, single-specialty groups like his to make decisions based purely on good patient care, while also making a living.

The reason: leverage -- or more precisely, the lack of it. Because large payers could cherry-pick which physicians they do business with, and which they lock out, they can dictate to doctors how to practice. As Teitelbaum sees it, the only practical response is for physicians to join together, and since antitrust law forbids competing practices from working in concert with respect to their business decisions, the logical thing to do is to stop competing.

"From 1982 to '94, I thought [having] a small practice, with one or two associates, was great -- just keep things simple," Teitelbaum says. "But after that, driven by the changes in healthcare and the loss of control by physicians in patient care, I felt that we needed to do something differently. I wanted to create a better healthcare system: the mission was to bring physician involvement back to patient care in this region. Our hypothesis was that if we created an extremely high-quality system, in terms of both care and patient service and access, and combined that with good branding and marketing, that people would embrace the concept that we were a better brand of healthcare."

That's how Crystal Run Healthcare, Teitelbaum's group of 120 doctors in seven locations in Orange and Sullivan counties, N.Y., was conceived. How was it delivered? Through years of labor -- long hours of work that began, as almost all successful businesses do, with a meticulous business plan.

A road map
You may not agree with Teitelbaum's vision that big multispecialty groups are best for patient care -- or for you. But whatever your vision, whether you want to add a new service, open a new office, or just keep doing things the way you've always done them, you'll need a well-crafted business plan.

"A business plan explains where you want to go and how you think you'll get there. It defines key performance variables that you control that will affect your progress, and that you can check yourself against," says Lynn Hill Spragens, a consultant who helps
companies write plans. A good plan, she adds, also "explains how you'll know when you arrive where you're going."

Many experts aptly describe good business plans as road maps; Spragens says it is "a story" that tells the tale of your practice. Except unlike most stories, a business plan should examine the present landscape, then tell a forward-looking story. Its function is to describe where you're headed, not where you've been, and its purpose is to focus you and your staff on your practice's big picture goals.

Don't think you need a business plan? You're mistaken, says Spragens and others. You should have a plan, despite your practice's size and goals, and even if you don't intend to add a new service, or hire new physicians or staff, or open a new location. A business plan will force you, if nothing else, to think about what you're trying to accomplish in healthcare, and understand the community you serve, and that will make your practice more patient-oriented, more efficient, and more profitable.

"A healthy business is a growing business," says Peter Lucash, MBA, MPH, founder of Digital CPE, a Charleston, S.C.-based consulting firm and author of Medical Practice Business Plan Workbook, and a medical practice can't grow if its physician partners don't have a plan.

As for the notion that you only need a business plan if you're planning to borrow money? Forget it. It's true that you'll need a plan if you intend to borrow a significant sum of money or are looking for investors. But even then, your plan should be written to put your own mind at ease first, the bankers' and investors' second. "The business plan should be for your benefit," says Teitelbaum.

"My experience has been that plans written for bankers or other investors don't tend to be very thoughtful plans, because they tend to have a little too much descriptive puffery, and not enough [fiscal] analysis." In other words, he adds, "with most physicians, they're trying to talk themselves into the feasibility of whatever it is they're trying to do."

**Start with a vision**

The business plan's essential components represent a well thought-out understanding of your goals; solid, unbiased research into the demographics of your community, including population and payer mix; an understanding of the competitive landscape; and detailed, dispassionate financial projections.

The first step in writing a business plan is to define what you're hoping to accomplish. "What do you want to do?" Lucash says. "What kind of practice do you want to have?" Teitelbaum says the business plan process begins with "what a particular practice sees as its mission and vision. Even before the business plan comes [the question] 'what do I, as
the practice leader feel that our role is, and what's our goal? What will I be happy with at the end of the day? Do I want to be in a solo or two-physician practice with relatively few issues ... or do I see my role more broadly? Am I happy providing a basic level medical care and referring more complex issues, or do I want to bring these things into my practice?"

Your answer to those questions will help you with the next step in the process: defining your product or service, and explaining its relevance to your customers. In her "Thumbnail Business Plan," a free online resource, Francine Gaillour, MD, advises describing your product or service in two sentences or fewer, and asking a series of questions, among them: "Who is going to use it? Why will they use it? What 'pain' will the product relieve, or what inconvenience will it solve?"

Next, you'll need to describe the market in which you operate. That means doing research into the demographics of your community: How many potential customers are there in your region? How far will they travel to see you? Whom do you envision paying for the service -- the patient himself, insurance companies, or some combination -- and what makes you think they will?

You can't simply pull the answers to those questions out of your hat, because they will form the basis of the revenue projections you'll need to make later on. How do you get good data? From a variety of sources: the local government or even the library should be able to help you with some of the demographic data, especially useful if you're planning to open a new office.

Simple population size probably isn't enough -- if yours is a pediatric practice, for instance, you'll want information about the number of children and young families. You'll also want information about the competitive landscape -- how many physicians in your specialty are already in your target area. Meanwhile, if you're simply thinking of adding a new service to your existing practice, you'll want to cull data from your own files -- how often are you referring the service out?

When Crystal Run Healthcare was considering opening its large new facility, "We looked at the growth rate, year-round population and seasonal population, the age of the population, the payer mix of the people who live here, the number of physicians in different specialties, and physician-to-patient ratios," says Teitelbaum. "So we looked at the entire demographic situation here."

Because Crystal Run's project would cost about $25 million, it spared no expense in market research. The practice hired a firm to do a telephone survey gauging the public's awareness of the practice and their interest in going to a large new office near them. You probably needn't do that, but the more accurate information you have about your customers and potential customers, the better.
Making assumptions

Use your demographic data to build assumptions about volume, but err on the side of caution because your volume assumptions will drive your revenue projections. And your revenue projections, when combined with costs, amounts to your budget -- and that will determine how feasible your plan is.

"And your business plan may or may not confirm your hypothesis," says Teitelbaum. "If it doesn't, you either [need to] change the plan ... or drop it. Because at the end of the day, however noble your intentions, you need to pay the bills. It's very important that your assumptions be reasonably accurate, because if your assumptions are wrong, chances are your results will not be very good."

What are the most common mistakes physicians make when it comes to making such assumptions?

"They overestimate volume," says Spragens, "and sometimes you just shake your head about where they get their projections." This often happens when physicians fail to account for competitors or miscalculate the potential market size. Other big mistakes, she says: overestimating new revenue by failing to accurately calculate the expected average revenue per visit, or underestimating costs by forgetting to include things like equipment maintenance or the additional personnel costs associated with the new service.

How will you know whether you're getting the results you want? By building in realistic benchmarks, then measuring yourself against them on a regular basis. A well-crafted business plan requires a lot of work to complete; don't let it collect dust on a bookshelf, and don't let it go the way of your New Year's resolutions.

Get them on board

Strictly speaking, though, a business plan is not a budget; it is an articulation of a vision and a strategy. To make it work, you'll need to do more than crunch numbers; you'll need to get the stakeholders in your organization -- staff, partners, and some outsiders, especially your accountant and probably your lawyer -- on board.

The business plan process should be driven by one physician leader, but should involve everyone. Your referral clerk shouldn't be making the decision about whether to add bone-density scanning, but she might be able to give you a pretty good idea of how often you're referring the service. Use all the information resources around -- including staff.

Meanwhile, all physician partners should be fully informed, and their consent acquired, each step of the way. This is never more important than at the beginning of the process,
when you're defining your practice's goals; the last thing you want is an argument over big-picture issues when you're getting close to the finish line. "You don't want to get six months into something, build up $100,000 in debt, and then find out there's something you didn't know," says Spragens. "Smart people ask for help. They don't have to give up control, but they ask for help. Thoughtfulness is an insurance policy against disaster."

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