Need a Satellite Office?
How and When to Open a New Site
By Bob Keaveney

The process Tennessee Urgent Care Associates followed in opening its fourth site was hardly conventional - and perhaps unwise, by some standards. On Dec. 19, while the group was winding down the year and preparing for what they expected to be a conservative 2003, a competitor suddenly closed. Twelve days later, Tennessee Urgent Care, located in the Nashville area, reopened the office with its own staff and equipment.

"Even by our own standards, we did this differently from what we would normally recommend," says Diana Revell, the group's chief operating officer. "We had anticipated [the competitor's closure] ... but we hadn't formed any activity plan at all, and in fact, it wasn't part of our strategic plan for 2003. But there was an opportunity, and we had to very quickly say, 'Is this something that we can support? Is it something that, for this kind of opportunity, we should change our strategic plan?' And that's what we did."

In fact, the practice acted hastily, but not recklessly. For one thing, it had good reason to believe that the facility would be a success, given the dense population of the surrounding area. And because it was taking over a business that provided services in common with its own, the practice was able to acquire some of the previous occupant's equipment, quickly negotiate a lease, and benefit from nearby patients' loyalty to the location.

Perhaps most importantly, the group's managers have had plenty of experience opening new facilities, and they had a pre-existing blueprint for doing it right. They knew, for instance, that the opening might create a cash-flow problem, so they went to their vendors - with whom they had longstanding relationships - and asked them to negotiate special payment arrangements.

"They said, 'Sure, we can partner with you on this,'" says Revell, who credits the practice's longstanding strategy of developing close bonds with a handful of vendors. "It was definitely a leap of faith. It's not the way we'd recommend doing it, but on the other hand, one of the things we can do in our company is act very quickly."

Opening a new satellite is one of the bigger financial risks your practice is likely to take. Some have gone bankrupt trying. Those who have done it successfully - even Revell - are universal in their advice: Never take such a huge gamble strictly on a hunch or without a detailed strategy. Before committing to real estate or equipment leases, and long before moving in, make sure you've planned every step of the process, especially the financial aspects, before proceeding.

Basic guidelines
First, decide whether you really need a new site at all. "I ask [practices] whether they are responding to an existing demand that's going to fill up the office from the outset," says healthcare attorney Thomas Driscoll, managing partner of Foley & Lardners in San Francisco.

How can you be sure there's really a need in the area you're considering? Scrutinizing the ZIP codes of your existing patients, which will tell you how far they are traveling to see you, is a good start. If many are driving more than, say, 10 miles, perhaps a case for a new site is justified. It will also help you decide where to locate it.

Of course, you need new patients to make a new site work, so you'll also want to gather demographic information about your target area and compare that against the number of providers in your specialty already there.

Next, develop your financial projections. Using your current expenses as a guide, account for all expected overhead in the new facility. Then use the data you've collected on patients to help you make conservative estimates on patient volumes and revenue flow. One rule of thumb: Assume it will take a year to build each physician's patient load to half that of a typical full-time physician in your specialty.

"You may beat that," says consultant Paul Angotti, president of Management Design, LLC, in Denver, "but it's a reasonably conservative approach, so that you don't overestimate and get in trouble. If you can make it work financially by ramping up to half your regular patient load within a year, you're probably going to be OK."

It might take two or three years to ramp up to full capacity. How can you survive in the meantime? One way is to hold down cash flow by maintaining fiscal austerity.

"I see so many doctors, who, when opening a new office, say, 'Give me this, this, and this, and I want this fancy phone system, and I want a fancy computer system.' You can ring up the bills real quick that way," says Angotti. Do you really need to furnish all the exam rooms right away? You can save thousands in the early months by furnishing one or two and waiting until the patient load justifies the others. Do you need a full-time medical assistant from day one, or can the physician, seeing half a normal patient load, take vitals?

You'll probably need to finance the startup through a business loan, special arrangements with vendors, or other debt-incurring agreements. Pay special attention to how deeply you dig your hole. Within about nine months of your satellite's opening, you should be able to begin paying off the debt at a healthy clip - say, 10 percent of the principal each month, or more.

Don't duplicate administrative functions that can be easily performed centrally. "We
centralize as much of the administration as we can," says Jim Olver, administrator for 12-site Horizon Family Medical Group in Orange County, N.Y. "Billing, credentialing, charge entry, payroll, accounts payable, human resources - all of it and more are done centrally. All they need in each office is someone to answer the phones and greet patients, someone to handle referrals, and someone to make sure that the physicians are getting the support they need. We try to take all the business out of the satellite offices, and just leave the medicine."

You'll also have to balance the need for a competent, independent office manager on site with the need for uniform policies and standards throughout your organization. "From a day-to-day perspective, each office is responsible for its own budget and its own management," says Elizabeth Wertz, executive director of 12-site Pediatric Alliance in Pittsburgh. "But we have policies and procedures that are the same throughout the practice. For instance, we have a sliding scale for staff salaries, and all of our billing policies are the same throughout the organization - everyone uses the same fee schedule, and everyone treats collections the same way." Still, satellites don't manage themselves, and unless you want to spend all of your time fielding phone calls from the new office, you'll need to hire a competent go-to person.

Most satellite offices need a marketing strategy. Specialists must market to primary-care physicians, who must market to patients. The strategies you may have employed when your current practice launched - such as open houses, free cholesterol screenings, and handing out pamphlets - apply when opening a satellite office, too. It's best to start implementing your marketing plan a few weeks before you open, not after.

Common mistakes

Perhaps the most common mistake in opening satellite offices is failing to articulate a reasonable justification beforehand. Some clients have told Angotti that they want another office "because everyone else is doing it." Others do it because they are running out of space in the main office, without considering whether it would be wiser to move to bigger space than to add a second site. Still others simply want to add a physician who happens to live elsewhere.

The other big mistake is plowing ahead without thinking through major business ramifications. Tom Driscoll's client did pretty much everything right when it decided to open a satellite office to its successful practice. The group made only one mistake: without asking, it just assumed that its most important payer would continue reimbursing for patients served at the new location, and under the same terms. Oops.

"The payer just said, 'We don't need you over there; we have enough providers in that area,'" recalls Driscoll. "Well, they had to scramble for a while to find other business. Not easy."
Then there was the client who took a big gamble by committing to far more new space than it needed, figuring it wouldn't take long to occupy it all at the rate its practice was booming. But it didn't grow fast enough, and when the recession hit, business began to shrink. The result: bankruptcy.

Both practices could have saved themselves a lot of trouble - and a lot of money - merely by planning more carefully before making any commitments. A few phone calls would have alerted the first group that its site location needed rethinking, and the second might have avoided disaster by following a more conservative growth plan. As it stands, their stories serve as cautionary tales for how not to open a satellite office.

And don't forget ...

"There's no single magic formula for opening a new office," says Olver. Some new ways to think about it: When Wertz's Pediatric Alliance opens a new site, it follows a blueprint not unlike a retail franchise. It provides its name brand, marketing power, and a variety of administrative services to physician groups, who take the financial risk of opening the new practice. In that way, the practice gains the broad geographic coverage insurers crave while protecting itself financially.

Crystal Run Healthcare opened a sprawling, 72,000-square-foot-facility last year in Middletown, N.Y., offering multiple services, and will open a similar-sized office this year. "We assume that ultimately, our practice should be able to provide 95 percent of all the healthcare services the average person will need during his lifetime," says Hal Teitelbaum, MD, the group's founder and president.

Whatever your plans, Teitelbaum and others suggest you get help before expanding, especially if you've never done it before. Consider hiring a consultant with experience in launching satellites; the financial projections alone can be daunting. You might also consult an attorney to make sure your plans don't run afoul of the Stark self-referral laws, and for ideas on how to design the facility to comply with HIPAA's privacy rules. Finally, your relationships with lenders, vendors, and your landlord are crucial - make sure you're all on the same page before committing to a loan, a lease, or a purchase.

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