

The Village Doctor Business Plan

Prepared by
John E. Brady, MD

Note1: This is a sample business plan based on my original plan and modified with the actual numbers I have obtained over the past 18 months or so. Please realize that I do not have an MBA nor have I ever written business plans before, so I welcome any and all additions/corrections which might make this more helpful. My hope is simply that it can be used as a template for others to make the process of starting a low overhead office easier. I would encourage others who have gone through the process to post their plans as well so comparisons can be made.

Note2: Information in parentheses is for descriptive purposes only.

Note3: Yes, the bottom line is scary, but life changing decisions should be. Any and all of the numbers can and should be altered to adapt to the desires of the physician opening the practice.

Executive Summary

(General overview of what, why and how)

Recently, the business of medicine has seen a combination of increasing expenses and decreasing reimbursements. To compensate for this, physicians are usually forced to practice "more efficient," assembly-line medicine where patients are churned out in 15 minute (or less) increments. Although this process may work for cars, it fails when applied to people. The industrialization of medicine has led to decreasing quality, poor patient satisfaction, poor physician satisfaction and many medical offices struggling financially.

In response to this trend, Dr. Gordon Moore developed a concept based on four principles: access, interaction, reliability, and vitality. In it, he showed by greatly reducing overhead, a family physician can provide higher quality medicine while experiencing greater personal and professional satisfaction. As overhead (particularly rent and staffing) is slashed, the line between profitability and bankruptcy widens, allowing the physician to see 1/2 to 1/3 the number of patients in a day that the typical medical office would need to see. Although this concept may seem too idealistic to work, variations of this practice model have been successfully implemented in over 100 offices across the nation (www.idealhealthnetwork.com), and it represents one of the largest trends in primary care today.

(Tell about you and your practice here)

EXAMPLE: I would like to open the office in the Hilton Village area. The reason is that I live there. This would create a rural family practice in the midst of a city. Patients could walk to my office during the day and I would be available to do home visits in the area at a moments notice day or night. I would not carry a beeper, but have a cell phone for all my patients to have direct access after hours or for an emergency.

The office would be open 5 days a week, and would see about 15 patients a day. Overhead would be kept low as there will be only have one employee other than the physician. Electronic medical records will be used to ensure proper documentation, maximize collections, and greatly enhance overall quality. To further decrease costs, all billing will be done through the billing portion of the EHR by the physician and filed electronically. Financials will be done on Quickbooks Pro which will be set up in conjunction with an accountant.

The practice should flourish financially. Usually, these practices reach financial stability in 9 months or less and, due to the many advantages over the traditional model, close to new patients in less than a year. Approximation of the financials after the practice reaches maturity shows that if 18 patients are seen a day at \$65 per encounter, 47 weeks a year, the practice should gross \$274,950/year. If overhead (minus the doctor's salary) is kept to approximately \$8000/month, net profit per year (doctor's salary) should be around \$178,950.

Company Overview

(Needs to be changed to fit your values, goals and objectives)

Mission Statement

The Village Doctor's mission is to deliver superior outpatient medical care to the Hilton area of Newport News by focusing on the four principles of access, interaction, reliability and vitality.

Corporate Goals and Objectives

To carry out the business mission, The Village Doctor will pursue the following goals:

Set-up an independent doctor's office in the Hilton area and have it running at full capacity in 12 months.

Focus marketing strategies to attract residents of Hilton Village and areas immediately surrounding it.

Structure the business to be as patient-oriented as possible.

Utilize technology to keep overhead as low as possible.

Utilize technology to have immediate access to the latest evidence-based information and treatment protocols.

Provide generous benefits and continuing education to increase employee satisfaction and competence.

Remain in close contact with referral specialists and provide them with as much information as needed.

Improve community health through lectures/programs.

Specific objectives to meet these goals include:

Provide an attractive office setting in Hilton Village to which patients can walk or drive.

Offer home visits for any patients living in the area encompassed by Center Street, Warwick Blvd and James River Drive.

Forward the office phone number to a cell phone so all patients can have direct access to the physician in the case of an emergency (day or night).

Utilize flexible scheduling to allow same day appointments as well as routine follow-ups and new patient appointments.

Try to accept as many of the different insurances held by the people of Hilton Village as possible; without compromising the financial stability of the practice.

Develop a web site which will not only serve to inform the patients about the practice, but also serve as a template to ask the physician nonurgent questions and provide links to reputable medical information

Employ electronic medical records which will assist in HIPPA compliance as well as improving documentation, coding and billing.

Develop a close rapport with the referral specialists and have policies in place to provide the specialists with pertinent information about all referrals.

Initially have only one non-physician employee, a Receptionist/Nurse. Attempt to keep additional positions to a minimum.

Always be ready to offer assistance in providing diabetic education, smoking cessation classes, weight reduction counseling or meeting any other need the community has for improving its medical knowledge.

Strive to achieve the minimum of 50 hours of continuing medical education for both the doctor and the nurse/receptionist per year.

Maintain a sound financial plan thus keeping the practice financially healthy.

Values Statement (What values does your business represent)

The village doctor desires to provide a safe pleasant work environment that fosters health for both employees and patients. Simply put, to treat others as we ourselves would like to be treated.

Vision Statement (Ultimate picture of what you want to accomplish)

Our vision is to capture a small town doctor's office feel in the midst of an urban community. This should lead to less patient confusion, more confidence in the medicine practiced and a healthier community.

Business Environment

(basic marketing research about the area where your office will be)

Example: Hilton Village was developed as the first war housing project in the United States in 1919-1920. The initial design was to create a community which was essentially self-sufficient. Churches were built on the corners, a school was built near the river, and businesses were opened along Warwick Boulevard. There are 375 single family homes and duplexes in the village itself, and an additional 200-300 homes in the surrounding areas.

A physician did occupy a facility on Warwick, but as medicine changed and he grew older, his office was closed. Over the last 20-30 years, with the increasing mobility of the population, doctors moved their offices into and around medical facilities, and expected their patients to follow. Unfortunately, this has led to a patchwork kind of care where one person is seeing one doctor and his neighbor is seeing another. Although this can lead to excellent individual care, it does not address the bigger issue of community health.

Currently, the closest primary care sites to the Hilton area are Hilton Family Practice located at 314 Main Street (Hospital owned family practice with 2 doctors and a nurse practitioner), The Children's Clinic at 321 Main Street (pediatric group with 9 doctors and 2 NPs), Tidewater Multispecialty Group's Hidenwood office, and Dr. Hoyt at 7320 Warwick Blvd. Although all provide excellent individual care, none of these clinics offer the convenience of being within walking distance of the Hilton nor do they focus their marketing specifically on the Hilton area. The community is the perfect location to attempt a reintroduction of the original Family Practice model.

Physician Background (Info on the people who would run your organization)

EX (my background): Dr. Brady is a graduate of the Medical University of South Carolina in 1992. While there, he was awarded the Ralph R. Coleman Award for "integrating medical care in considering the human and emotional aspects of the patient while demonstrating a sound knowledge in scientific medicine." During residency, at Greenville Memorial Hospital in Greenville, S.C., he was honored by being awarded the Lily M. Jackson Award for "extraordinary ability to care for patients," and the Mead Johnson Award which is presented to "20 second year residents nationwide for excellence in graduate education." He completed residency in 1995 with the distinction of being named the South Carolina Academy of Family Physicians' Resident of the Year.

After residency, he joined the United States Air Force and was stationed at Langley AFB, VA. While there, he was able to be the medical director of a small satellite clinic, which quickly became the most efficient and highly rated clinics in the Air Force. For his duty, he was rewarded with the Meritorious Service Medal upon separation.

Since separation, he has been working at Family Medicine Associates of Suffolk, VA. There, he sees 30 plus patients a day (the most in a day was 63), and provides the best care he can. He has developed a very loyal patient base and works well with all staff members.

Dr. Brady has a background in traditional family practice, socialized medicine, and management, and he has a great desire to provide medical care which is up to date and patient friendly. Combining his qualities and drive with the model of the Village Doctor should allow for superior patient-oriented care to be delivered in a financially desirable manner.

Financial Information

Fee Schedule and Income for the Village Doctor (See addendum 1)

New Patients	Code	Fee
Basic	99201	\$50.00
Problem Focused	99202	\$83.00
Expanded Problem	99203	\$125.00
Detailed	99204	\$175.00
Comprehensive	99205	\$225.00
Established Patients		
Nurse (basic)	99211	\$30.00
Problem Focused	99212	\$50.00
Expanded Problem	99213	\$70.00
Detailed	99214	\$110.00
Comprehensive	99215	\$140.00

The practice will utilize some CLIA -waived labs and do some minor procedures, but these are not calculated in income projections.

Start-up Schedule:

The practice will open with normal hours of 8am to 5pm with an hour for lunch. This allows for 8 hours of patient care. Based on other offices which have opened using this practice model, the practice should start with about 30 new patients the first month, 45 the second, 60 the third, and 70 new patients every subsequent month until reaching full capacity. As the total number of patients grows, the established patients will be returning and so the number of patients seen per month will continue to increase.

Invoice amount for new patients is based on the average of a 99203 and a 99204 visit (\$150) and income for establish patients is based on the average of 99213 and a 99214 (\$90). Payment reflects the delay in processing the invoice at the insurance level and a 30% reduction from the invoice which is typical for reimbursement in this area. Using the fee schedule and the above assumptions, income should look as follows:

Month	New pts	Total seen	Invoice \$	Payments received
-------	---------	------------	------------	-------------------

1	30	35	\$4950	\$1000
2	45	60	\$8100	\$3500
3	60	90	\$11700	\$6000
4	70	120	\$15000	\$8300
5	70	150	\$17700	\$10700
6	70	180	\$20400	\$12500
7	70	200	\$22200	\$14500
8	70	220	\$24000	\$15600
9	70	240	\$25800	\$17000
10	70	260	\$27600	\$18500
11	70	280	\$29400	\$19500
12	70	300	\$31200	\$20600

At the one year mark, the practice will need to slow down in taking new patients, but should compensate for this by having more return visits. The income should remain constant at about \$20600/month, approximating 18 patients a day.

Expenses (See Addendum 2)

Start-Up Expenses:

Build Out	\$20,000
Computers/EMR/Networking	\$30,000
Initial Marketing	\$2000
Initial Supplies	\$500
Deposits	\$1500
Office Equipment	
Copier	\$600
Fax machine	\$120
Telephones (3) w/answering	\$500
File cabinets (2)	\$160
Examination Tables (2)	\$1000
Exam Room Chairs (4)	\$200
Waiting Room Furniture	\$300
Exam Room Stool (1)	\$100
Exam Room Desks (2)	\$200
Office Desk (1)	\$200
Otoscope/ophthalmoscope	\$300
Trash cans with lid (2)	\$60
Trash Can without lid (2)	\$20
Small Refrigerator (2)	\$250
Bookcases (2)	\$200
End tables (2)	\$90
Coffee Table (1)	\$85

Wheelchair (1)	\$315	
Microscope (1)	\$300	
EKG Machine	\$3000	
Nebulizer Machine	\$84	
Instrument Tray	\$90	
Lamps (4)	\$100	
Medical Scale (1)	\$245	
Shredder	\$80	
Lock box	\$40	
Stethoscope	\$100	
Electronic Thermometer	\$245	
Total Equipment		\$8984
Total Start-Up Expenses		\$62984

Monthly Expenses (see Addendum 3)

Salaries:

Physician	\$8333/month	
FICA/Medfica	\$1600/month	
Nurse (\$13/hr)	\$2253/month	
FICA/Medfica	\$400/month	
Total Salaries		\$12,586/month

Benefits:

Retirement (Simple Plan)	\$250/month	
Dental Insurance	\$77/month	
Health Insurance		
Doctor and family	\$600/month	
LPN	\$200/month	
Disability Insurance (LPN)	\$76/month	
Continuing Medical Education		
Doctor	\$2000/year or \$167/month	
LPN	\$500/year or \$42/month	
Societal Membership	\$1200/year or \$100/month	
Total Benefits:		\$1512/month

Building Costs:

Rent	\$900/month	
Utilities		
Phone	\$150/month	
Internet	\$50/month	
Gas	\$50/month	
Electricity	\$90/month	
Landscaping	\$50/month	
Security	\$28/month	

Sanitation/biohazard	\$35/month	
Total Building:		\$1353/month
Insurance:		
Malpractice	\$10000/year or \$833/month	
Building/Liability	\$450/yr or \$38/month	
Business Overhead Expense	\$76/month	
Worker's Comp	\$400/year or \$34/month	
Total Insurance:		\$981/month
Marketing		\$50/month
Supplies (office)		\$100/month
Accounting Fees	\$1800/yr or	\$150/month
Start-up loan (\$60,000 at 7% over 5 years)		\$1188/month
Total Monthly Expenses		\$17,920
Total Yearly Expenses		\$215,040

Calculating month by month analysis:

	Income	Expenses	Difference
Month 1:	\$1000	\$17920	<\$16920>
Month 2:	\$3500	\$17920	<\$31340>
Month 3:	\$6000	\$17920	<\$43260>
Month 4:	\$8300	\$17920	<\$52880>
Month 5:	\$10700	\$17920	<\$60100>
Month 6:	\$12500	\$17920	<\$65520>
Month 7:	\$14500	\$17920	<\$68940>
Month 8:	\$15600	\$17920	<\$71260>
Month 9:	\$17000	\$17920	<\$72180>
Month 10:	\$18500	\$17920	<\$71600>
Month 11:	\$19500	\$17920	<\$70020>
Month 12:	\$20600	\$17920	<\$67340>
Month 24:	\$20600	\$17920	<\$35180>
Month 36:	\$20600	\$17920	<\$3020>
Month 48:	\$20600	\$17920	\$29140

Lowest financial point is at Month 9 with net worth of approx <\$132180>

Addendum 1

A. Fee Schedule: My numbers are rounded off but represent the highest level of payment for the E&M code from the highest payer in the area (ex. the best BCBS plan). Most insurances run 25%-30% below this in their reimbursement. Although insurance negotiation is a different topic entirely, suffice it to say some insurances reimburse much lower than this, and you should always know what insurances pay before going into a contract with them. Over the past year and a half, my reimbursement has averaged 77% of billed.

B. Start-up numbers: This is an area of much variation and a potentially fabulous way of breaking even much faster. I opened an office in a city with a lot of other primary care doctors, and I also brought very few patients with me from my old practice. This combination caused a slow rate of growth as shown in the calculation. Again, these numbers are rounded off. Ex: my practice growth was hurt by a hurricane hitting in the 4th month (it seems people are not interested in their BS when they have a tree in their bedroom), but the rate of growth presented generally mirrors the rate of growth experienced by my practice.

If you are opening in a shortage area or if you are bringing patients with you, the practice should grow much faster. Also, spending more on marketing (or just marketing more wisely than I did) can have a huge impact on growth. One thing to be wary of, however, don't think just because you are offering a better mouse trap, people will be beating down your door. I have learned the hard way that even if the relationship is dysfunctional, patients do not readily change physicians.

Note on coding: Although I figured 50% expanded problem and 50% detailed visits, I did this for simplicity. The actual numbers from my office are closer to 60% 99203/40% 99204 for new patients and 25% 99213/75% 99214 for established visits. Yes, this represents a variation from typical coding patterns, but I find I am spending the amount of time necessary and my EMR provides the documentation necessary to code at these levels.

Addendum 2

Initial expense is another area of huge variation. Some comments:

A: I had to try and make a 1918 house handicapped accessible, which cost \$20,000. I did this because I figured it would save me on the monthly rent (as opposed to paying for a prefab office) and this would lead to lower costs over time.

B: An EMR is absolutely necessary in a low overhead office. I feel it pays for itself in less than 2 years just by allowing appropriate billing. The fact that it saves staff (I can do my own billing, no med records person) only adds to its worth. The question is which one do you need and how much are you going to spend. I spent \$30000 (The license for e-mds was \$7500, hardware for the office was \$12000 (I needed a server which backs to a tape drive and 4 hard drives in addition to the desktops), training was \$1500/day, networking was \$2000, the rest varying other costs). Upkeep of the system (support and upgrades) costs about \$4000/year as well. Other systems on the list serve (Amazing charts, e-CW, Alter) all seem to have their supporters as well and certainly deserve evaluating before spending this huge amount of money.

C: Marketing is essential, but is way more complex than I ever thought it could be. The problem with spending money on marketing is that the money seems like it could always be better spent on something else (like paying for the electric bill). But even if a newspaper add brings in only 2-3 people, it has paid for itself (after all, the patients continue to come in and then they serve to spread the word about the practice as well). I did not spend much money on marketing up front (<\$500) because I did not allocate the money, and I think my practice growth was slowed because of this.

D: Initial supplies include paper, pens, etc, etc.

E: Deposits: One month rent, electricity, gas, etc.

F: Other equipment: Will vary from one office to another. After all, the more rooms in the office, the more equipment is necessary. Note that not everything on the list is necessary (ex. fax machine if the computer has that capability, ?need for an EKG machine) nor is this list exhaustive (?need more cabinets), but it is a general list of what might be necessary and the general costs. Special note: If you plan to give the Varivax immunization, a separate freezer is necessary, so don't do as I did and purchase a dorm room size refrigerator and expect it will work for all immunizations--it won't.

Addendum 3

A. Salaries: This is the most expensive part of any business, and the low-overhead model is no different. Ex: Just by going from a truly solo/solo practice to adding a nurse, costs soar. Besides salary and benefits (\$30000/year), (s)he has to have room (100sqft @\$10sq ft=\$1000/year) a computer (now would need a server (\$7500), networking (\$2000), training (\$1500) and the computer itself (\$1500)), and an additional phone line (150/month=\$1800/year) . Although many of these costs are a one time cost, the true first year cost of the nurse in my practice was about \$45,000. I certainly feel she is worth it, but this simple example shows how costly adding even one person can be.

The most expensive part of any practice, however, is the physician salary. Unfortunately, this is also the last thing paid when a practice is starting. Eliminating this salary from the monthly figure would make the biggest difference in how soon the

practice becomes profitable. Moonlighting for alternative money for the first 2 months or so may save a year's worth of indebtedness. I salaried myself \$100,000/year (which is the minimum amount we could live on without pushing us into personal bankruptcy) and that is approximately what is quoted.

B. Benefits: I actually curtailed starting a Simple plan until the practice was on a firmer financial footing. I also have not yet been to a conference (although I will this year). In terms of benefits to my nurse, I do pay for her health insurance, dental insurance, and a disability policy (\$1000/month starting at day 90). I realize this is not necessary, but I do it because it is the right thing to do.

C. Insurance: Some comments on the different insurances:

- 1) Malpractice-Mature premium in Virginia with no claims
- 2) Building/Liability-Protects the corporation if someone trips and decides to sue. It also replaces for fire loss, electrical surges, employee theft, etc. Note: if you plan on doing immunizations, get a spoilage clause (usually reserved for restaurants) so when you lose \$1500 in immunizations due to a power outage, its covered.
- 3) Business overhead--Pays the office bills (up to \$9000/month for 12 months) if I become disabled and unable to work.
- 4) Worker's Comp-Not necessary for less than 4 employees (at least in Virginia), but I felt it was probably a good thing to have.

D. Accounting Fees: I do all the practice management stuff on Quickbooks Pro and the accountant only does the taxes at the end of the year. The amount mentioned is for a one hour visit in October in addition to the corp taxes.