Writing a Group Practice Business Plan

BY J. MAX REIBOLDT, CPA

A business plan offers group practices a blueprint to accomplish a variety of goals, such as securing capital, marketing the practice’s services, recruiting new employees, developing a strategic plan or a budget, or planning for growth. A business plan should be informative, specific, and visionary. Elements that every business plan should address are a mission statement, strategy, planning, management information, and action scheme. A business plan should include certain information in a prescribed order. By writing a realistic business plan, group practices can work more efficiently and minimize the risk of not meeting their financial projections.

Group practices can use a business plan for many reasons, such as planning for a new practice start-up, introducing a new product line, developing specialty-specific recruitment profiles, and devising a strategic plan for growth and expansion. How a business plan is used is key to its value. A business plan can be used internally to give direction to the entire organization. Decisions and consensus are derived from the formal document that states the group practice’s mission, plans, financial projections, and action scheme. The plan can be used externally to inform lenders, partners, and suppliers about the practice’s plans for achieving growth and other goals. The business plan should be written to be suitable for both internal and external use.

Business plans often are used for securing capital, marketing, recruiting, planning and budgeting, and expanding services and products. Serving as a road map for the future, business plans include both financial and operational outlooks. A typical business plan includes the completion of pro forma financial statements to project income, cash flow, and balance sheet performance for long-term (multiple years) and short-term (month-to-month) projections.

Securing capital. Securing capital generally is necessary for buying or merging practices. The business plan should specify how much capital is needed over a specific period to accomplish these goals.

Marketing. As a marketing tool, the business plan highlights the group practice’s strengths and weaknesses and designates strategies that will benefit both internal and external marketing initiatives.

Recruiting. The business plan provides information about the practice as a place to work.

Planning and budgeting. A primary use for a business plan is budgeting and forecasting. The budget, as an express component of the business plan, charts specific line-by-line goals (ie, budgeted numbers) to project the revenue goals and forecast the financial requirements (ie, cash, capital, debt) that are necessary for achieving the business plan.

Expanding services or products. Deciding whether to merge or acquire other group practices or to offer additional services or products is made easier using a business plan that recaps the history and projects the future of a group practice.

A business plan should provide adequate information in a concise and accurate form. As a rule of thumb, the plan should be no longer than 50 pages. To be an effective tool, a business plan should be visionary rather than prescriptive. It should provide useful information that will generate interaction within the organization. Because of the difficulty of projecting finances in the healthcare industry, a group practice’s business plan should cover no more than a two-year span and should be revised during that time only if market pressures signal a need to do so.

Elements

The business plan should state its purpose in the introduction, summarizing the ideas that are developed in the plan and specifying the expected accomplishments. A group practice’s business plan typically describes the mission, strategy, planning, management information, and action that will occur because of the plan.

Mission statement. The mission statement should summarize the group practice’s goals, values, and obligations; identify key objectives; and specify the service that the group practice provides. Stating the reasons for writing the plan and the goals it is trying to accomplish while tying those reasons to a mission is an appropriate foundation for the plan.

Strategy. Strategy explains how the group practice will accomplish its objectives. Strategy should conform
to the group practice’s mission.

Planning. A business plan specifies what it expects to accomplish and offers suitable responses to challenges to achieving its objectives. Planning at this stage is identifying the actions that will be taken to carry out or accomplish the mission. Unlike the mission statement or strategy (or other plan components), the planning element is a specific list of tasks that will be established to get the job done. It also may include assignments or appointments for certain tasks and time lines. The project time line is a vital component of an effective business plan and trends that can affect the practice’s future, either positively or negatively. The action scheme section often empowers individuals to make decisions and delineates the levels of authority. Business plans that empower staff, particularly managers, to act quickly allow group practices to take advantage of business opportunities as they arise.

Content

A business plan should include sufficient detail to provide direction. It should begin with financial projections, including how much working capital the practice will require, how many patients the physicians anticipate seeing, and how much revenue will be collected over a specific period.

An initial pro forma financial projection will show how much start-up capital is required. If necessary, the pro forma statement can be used to secure a loan for the necessary working capital.

Typically, a group practice business plan includes information in the following areas:

- Clinical/professional profiles, including personal information, education, training, licensure, certifications and registrations, academic accomplishments, healthcare affiliations, and other professional work history;
- External influences on the practice, such as competition, managed care contracting, Medicare and Medicaid population, hospital integration initiatives, physician relations, physician practice management companies, managed care penetration, or any players other than physicians in private practice and the hospital the group is affiliated with (assuming that most practices do not consider their private practice or local hospital an “external influence”) that have a presence in the marketplace;
- Demographic factors, such as patient mix, stability of the patient mix, and group practice growth opportunities;
- Marketing initiatives, including advertising and promotion options, networking opportunities, new market identification, and ancillary ventures and professional services not performed in the office;
- Financial analyses/pro forma income statements, including revenue/contracts, contractual adjustments/write-offs, direct and indirect expenses, provider income, profitability potential, tangible assets, debt, and five-year projections for growth and income potential/provider compensation (see sidebar, page 60);
- Administrative overview, including personnel, insurance coverage, benefits, accounts receivable management, cash management, and third-party reimbursement procedures;
- Capital improvement needs, physical facilities, and equipment;
- Medical records protocol; and
- Summary and goals.

Format

A group practice business plan should follow the format listed below:

- Introduction;
- Historical information—a brief history of the business, including its founders, growth, services, and organizational makeup;
- Ownership structure—the legal and tax structure, identity of the owners, and description of the management arrangement;
- Physician information—names of physician owners, employed physicians, and physicians who are independent contractors; benefits and perquisites; incentive pay plans and bonus structure; and services (e.g., specialty and practice facility locations);
- Organizational structure—organization chart, leaders, and directors;
- Financial statements—combined income statement for the previous three years, balance sheet for the previous three years, a year-to-date income statement for the current year, a year-to-date balance sheet for the current year, and financial information summarized by provider or specialty for the previous year and current year to date, if available;
- Practice administration—staff positions, management, and policies and procedures;
- Marketing—survey results and advertising and promotion plans;
- Competition—report on other private and hospital-owned centers, such as group practices or other competitors in the service area, and a summary description of other practitioners in the service area;
- Market analysis—description of the practice’s growth potential;

### Pro Forma Income Statement Assumptions for a Hypothetical Pediatric Group Practice

Assumptions about revenue, refund adjustments, depreciation, insurance, laboratory expenses, medical supplies, office supplies, rent, salaries and wages, and telephone and miscellaneous expenses were used to compile a hypothetical pediatric group practice’s pro forma financial statement.

**Revenue.** A pediatrician can generate approximately $215,000 to $275,000 per year in revenue. A new pediatric practice in the Anytown Regional Health System can realize approximately $215,000 in fees in year one. With conservative increases, revenue should reach $275,000 in year five.

For the pro forma statement, the net receipts are the actual cash realized after consideration of all contractual allowances, including Medicaid fee adjustments. Although few managed care fee allowances currently apply to this practice, the situation probably will change in the future. Initially, pressures on this practice’s ability to optimize its income will come from the 75 to 90 percent of its patient base that receives Medicaid. Contractual fee allowances will be considerable because at least 50 percent of the practice’s revenue comes from Medicaid payers. Consequently, physicians will be required to see many patients during each workday, possibly working extended office hours. As the practice becomes established in the community, and with the system’s assistance, the practice should develop a more favorable payer-patient mix.

Within these parameters, a possible first-year scenario is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total nonmedical billings</td>
<td>$40,000</td>
</tr>
<tr>
<td>Less contractual allowance (15%)</td>
<td>($6,000)</td>
</tr>
<tr>
<td>Total Medicaid billings</td>
<td>$360,000</td>
</tr>
<tr>
<td>Less discount (50%)</td>
<td>($180,000)</td>
</tr>
<tr>
<td>Total estimated cash receipts (revenues)</td>
<td>$214,000</td>
</tr>
</tbody>
</table>

Total gross billings/production of $400,000 ($40,000 + $360,000) per year equal $333,333 per month, or $1,667 per day, and result in an average hourly rate of approximately $278. To achieve these results requires each physician’s full commitment.

**Refund adjustments.** These adjustments are cash refunds of overpayments to patients and insurers. These refunds are not related to fee allowances or contractual discounts.

**Depreciation.** This represents a projected $5,000 per year in depreciation, assuming a depreciation write-off period of at least 10 years on an initial purchase total of $50,000.

**Insurance.** Group health, disability, and life insurance are costly in a pediatric practice with a small staff, costing an estimated 4 to 5 percent of total fees realized. Malpractice insurance is relatively inexpensive compared with other specialties, averaging from 2.5 to 3 percent of total realized fees.

**Laboratory expenses.** Laboratory expenses will average about 1.5 percent of fees per year.

**Medical supplies.** Medical supplies expense is high in a pediatric practice compared with other specialties, costing a projected 3 to 3.5 percent of fees realized.

**Office supplies.** Office supplies, postage, and similar overhead will average 3 to 4 percent of fees realized. Although these expenses may vary from year to year, the estimated range is $7,000 to $9,000.

**Rent.** Due to the fair market value of the space they will occupy, this group practice expects to attain a favorable rental rate of 2.5 to 3.5 percent of fees realized per year compared with the national average of 6 percent.

**Salaries and wages.** Spending approximately 20 percent of fees realized on salaries and wages is a reasonable expectation for a pediatric group practice. Payroll taxes are expected to range from 10 to 12 percent of salary and wage expenses.

**Telephone and miscellaneous expenses.** Telephone and miscellaneous expenses are projected to cost approximately $5,000 to $6,000 per year.
Business Plan

- Financial projections—revenue capacity and current and future patient base;
- Revenue sources and payer mix—performance reports for managed care plans for the previous three years and current year to date; gross and net revenue; revenue by major procedure; expenses; number of patients per encounter; and payer mix percentage by specialty; contracted (e.g., HMO and PPO), commercial indemnity, self-pay, Medicare, and Medicaid populations;
- Patient demographic profiles—designated by age and zip code of residence;
- Fee schedules—by specialty;
- Patient visits/services—number of current and new patients seen, total number of office visits, and which ancillary services are provided;
- Managed care contracts—summary of existing contracts;
- Operating and capital budgets—current year’s operating budget, current year’s trend for actual results relative to budget, and current year’s capital budget (equipment, furniture, fixtures, real estate, renovations).

Conclusion

A business plan summarizes the past, reports on the present, and projects for the future. By carefully reviewing a group practice’s strengths and weaknesses, management can use the plan to improve administrative procedures and achieve the practice’s goals. Using the business plan can minimize risk and influence efficiency and success in group practices.

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