

The Business of Starting a Medical Practice



By Ed Rabinowitz

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Why does a highly successful and well-respected defensive coordinator in pro football aspire to become a head coach? Because, despite the inherent headaches, he wants to run his own show; to be his own boss.

It's the same with physicians, from primary care to specialty medicine. Starting your own practice is the chance to do things your way. But, starting that practice is much more complicated than simply hanging a shingle on the front door and welcoming in patients. The decision-making process seems endless, and daunting.

Making a Move

"I can't do this alone," is what Charles Crutchfield III, MD, thought when he began taking steps to open his Minnesota-based dermatology practice (www.crutchfielddermatology.com) just over five years ago. So, he sought help. "I found a company that specializes in helping physicians start their own practice," the doctor recalled. "I thought, people come to me for my professional help. Let me enlist help."

The company, Healthcare Management Resources (www.hmr.net), helped Dr. Crutchfield with everything from credentialing to ordering supplies and setting up a business plan. They gave the doctor a complete road map of everything that needed to be done, and when it needed to be done. They guided him through the process.

But there was still a lot for Dr. Crutchfield himself to do. A partner in an existing practice, he had to let his patients and referring physicians know that he was about to launch his own business—not an easy task, since he was not able to disturb or copy any patient records because those belonged to the existing practice.

On the advice of his brother, an attorney, Dr. Crutchfield purchased a stack of note cards with his own money, and over a period of four months, told patients he was seeing that he was going to be sending out a newsletter. If they wanted a copy, they should please write their name and address on one of the cards.

"It was my paper, completely separate from the patient records," Dr. Crutchfield remembered. "By the time I left, I had 1,700 note cards. And the newsletter was the announcement that I have a new practice." The doctor, a 1994 graduate of the Mayo Clinic Graduate School of Medicine, now has 42 employees and services the needs of 25,000 patients.

Compensation Concerns

Lester Baskin, MD, an internist formerly with a large HMO in Portland, Oregon, faced a different set of challenges when he prepared to open his retainer medical practice (www.baskinclinic.com) a dozen years ago. His biggest issue? Determining where to set his fees.

"Are you going to charge a very high fee and provide services that you think will distinguish you from other retainer practices in the region?" Dr. Baskin asked, rhetorically. "Or, are you going to charge a very modest fee with the idea that you're going to provide limited services and try to make up the difference through volume?"

Dr. Baskin, who received his medical degree from Oregon Health and Science University, acknowledged that some research and legwork is involved to compare what other practices in the area are charging. But he added that, as with any entrepreneurial undertaking, there's some degree of guesswork involved.

"A lot of times people can get bogged down in market research and overanalyze their prospects," the doctor explained. "When Starbucks started, no one dreamed that people would ever pay \$3 for a cup of coffee. Quite frankly, you just don't know until you open your door and see if people are going to join."

Dr. Baskin explained that a key element when starting a new practice is keeping costs in line. He recalled a quote he'd heard: "You can't control your sales but you can control your costs." The doctor says he kept that in mind, and recommends caution before investing in a lot of office management technology.

"The benefits of an information system are scalable," he said. "When I first started my practice, I could have managed with paper alone. Now, I wouldn't think of trying to manage my practice without an electronic medical record system. Next to rent and salaries, your information systems are going to be your third biggest cost."

Get Out the Word

Dr. Crutchfield said he used to hear the same cost-control mantra from his father, who was also a physician. You have to keep your overhead down, was what his father would remind him. But costs, said Dr. Crutchfield, are not the bottom line when establishing a practice. That was his approach when he decided to place an ad in the Yellow Pages.

"I thought, part of my practice is going to be cosmetic dermatology," Dr. Crutchfield explained. "And if I'm going to compete against other cosmetic dermatologists, I've got to be the first and the biggest in the Yellow Pages."

He purchased a full-page, four-color ad that, indeed, was the first ad in the section. It also cost \$6,000 a month. Dr. Crutchfield had an answer for those who questioned his judgment. "The question is not how much something costs, but how much will it make for you?" he explained. "If the ad costs \$6,000 and generates \$20,000 a month in patient visits, "I'll take that deal every day. If you're a business, you have to think like that."

Ed Rabinowitz is a veteran healthcare reporter and writer. He welcomes comments at edwardr@ptd.net.

"The secret of success is to do the common things uncommonly well."

—John D. Rockefeller

The Haul

\$571,733—Median annual gross changes for a primary care medical practice.

\$1,038,395—Median annual gross changes for a specialty care medical practice.

(Medical Group Management Association, 2007)



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