Should You Buy Your Practice from Yourself?

Understanding the economics will help guide decisions that affect your profitability.

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The best day to think about your exit plan is the day you open your practice. The second-best day is today. Most doctors are flummoxed by the many forces operating in practice acquisition currently and are concerned that they might not only make a poor decision, but also might miss an opportunity that will only be available for a specific window of time.

Consolidation by hospital systems, large "super" groups, and now private equity has changed the narrative which was traditionally for podiatrists to sell their practice to one or more associate doctors when the time was right for all. Hospital system acquisitions have proven to be problematic. The differences in hospital system operations and private practice have been great, and frequently they need to part ways—this can be chaotic and financially difficult for the doctors who leave. Supergroups have varying degrees of success and the doctors in them have to hope their leadership maximizes the benefits with very differing results. Like the hospital option, the individual doctor has very little control over the process or decision-making.

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Private Equity purchasers of practices are very active currently and the

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impact and sustainability of this strategy in ambulatory care remains to be seen. And most private practices won't be invited to this party before it ends.

What Are the Options for Solo or Small Practices?

What is a private practitioner with a solo or small practice to do? There is still the traditional method of hiring, mentoring, and eventually partnering with an associate doctor. The pandemic has upended many things, one them being a renewed interest by younger doctors in opening their own practice or buying an existing practice. This has the complication of differing goals and life views that multi-generational partnerships have always had. And many doctors find trying to partner with a potential purchaser extremely frustrating. The author Dave Ramsey is quoted as saying, "The only ship that won't sail is a partnership." There are exceptions that prove the rule but navigating the turbulent waters of a career alone is complicated enough; add to it differing views about money, time, investments, and more, and it leads to many partnerships ending before they even begin.

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Another exit plan you may wish to consider is the idea that you can buy your practice from yourself. In this scenario, the doctor makes the decision to no longer do the associate doctor "should I, shouldn't I?" dance and makes a clear decision to practice as a solo practitioner and exit as one. The cost savings in recruiting, evaluating, hiring, training, supporting, managing, and possibly replacing an associate doctor can instead be redirected to a new strategy of marketing and managing the solo practice in such a way that the profitability of the practice significantly increases and that savings and profits are banked by the owner.

Let's assume that your current practice value is $1M. If everything went perfectly, you could realize a check of $1M for your practice. Let's also assume you have some time left before you actually do plan to exit, say in 10 years. If you are able to increase your practice's profits by $200K/year for the next 10 years, adjusting for inflation, and continue to pay yourself what you pay yourself now from the practice, in 10 years you will have banked or paid yourself $1M for your practice; in essence, buying your practice from yourself.

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You will still own the asset of your practice which may well be worth even more than $1M (in today's dollars) at that time. If it is able to throw off that much cash, it likely would be worth at least that much. If the market doesn't bear that amount—anything above zero is added to your existing (and already working for you) $1M.

Following this exit strategy requires a focus and commitment to significantly increase the practice's profitability, something many solo practitioners struggle with and may have never learned how to accomplish.

You Start by Knowing Your Numbers

It starts with a clear understanding of the practice's finances. This is not as daunting as it may at first appear. Every practice produces a profit and loss statement (P&L) every month. Learning to read a P&L is a simple business activity that anyone who has earned a DPM can learn. This tool is the doorway to understanding what the practice is earning, what it is spending, and what it is keeping in profits each month. Many doctors avoid looking at their P&L for the same reason they don't get annual physicals—they'd rather not know. No matter what your current situation is, knowing the numbers is powerful because you can do something to change them positively, increase your profits, and begin the process of buying your practice from yourself. Knowing your numbers, your Key Performance Indicators (KPI) every month is the starting point to increasing your practice's profitability. Consider taking an online course to learn how to do this or have a consultant teach you. Knowledge is power and profits.

Regardless of what you learn from your numbers, there are only two top strategies you can use to improve your numbers and your profits:

- First, you can increase your patient volume, or improve your patient mix, and
- Second, you can reduce or change your costs.

That's all you can or need to do. Let's consider each in turn.

Increase Your Patient Volume or Improve Your Patient Mix

This is marketing. There are only four places that patients can come to you from and they are:

- The Internet
- Medical and non-medical referral sources that surround your practice
- Your own list (database) of peo-

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ple who know you, like you, and trust you

• The community, through advertising or other marketing efforts you undertake.

Building the profitable practice you wish to build requires keen attention to the marketing your practice is employing every day to fill your treatment rooms with the number and quality of patients you wish to see. You can sculpt your practice patient mix by sculpting the messages you are putting out both online and offline.

You should be seeing exactly the number of patients you wish to see every day your doors are open.

This Is Marketing and Customer Service

The first point of leverage that deserves your intense focus is the number and quality of patients who come to your reception room each and every day. You should be seeing exactly the number of patients you wish to see every day your doors are open. Too few and your practice will suffer, too many and you will suffer. Every doctor is different; some thrive on seeing a large number of patients and prefer high volume, some simply run out of energy after seeing a certain number of patients in a day.

You must decide what number you and your staff prefer to see every day. There is no correct number, but a good "rule of thumb" is 32 patients per day. You will discover what level you and your staff achieve optimal results at but 32 is a good benchmark to work from. A key strategy is to increase the number you and your team can handle so that you can increase the profitability of your practice every hour it is open. That means maximizing your treatment rooms, your people, and your time to generate the highest revenue you can every hour you are open while not only maintaining but enhancing patient outcomes.

New patients are essential for success. They are often your highest profit patients and they build your pipeline of quality referrals and reactivations for the future. You should aim for 20% new patients each week.

Marketing your practice online is a fantastic opportunity that didn't exist 15 years ago. The investments you make in a quality website and ensuring that your practice is active, informative and fun on all the online platforms is an extremely cost-effective way to find people in your market who need help with their lower extremities. The most successful practices do not "farm out" their online engagement on social media platforms to companies. They and their staff, some of whom are talented online users, schedule and post this content themselves. With a little focus and full team involvement, this can become a fun and lucrative team building exercise.

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Marketing your practice to referral sources through regular, consistent, and persistent outreach from a representative of your practice who enjoys making friends and helping people is also an essential activity that most practices forgo that can dramatically increase your new patient numbers. Referral marketing is as vital and important today as the day it was you first opened your practice and it was the only thing you did.

Marketing also requires that you and your staff becoming obsessed with providing exceptional customer service. The bar here is, unfortunately, very low. When you experience great customer service yourself, you know it. It's unusual these days, often in medical offices, and you usually tell your friends and family when it happens. Become obsessed with creating raving fans every time a patient walks into your office. Blow them away. Make them glad they came and not just for the care you provide. It will make them and you and your staff happier. And it will help your profits soar.

Marketing your practice is not an afterthought. It's not something to scrimp on. It is an essential part of being successful in private practice. After the care you give your patients, it is the most important part of running a successful practice because a pipeline of quality patients filling your reception room every day will make everything else possible. If you get this right, it will solve a myriad of other "lesser" problems. It is a true point of maximum leverage.

Reduce or Change Your Costs

Patients always come first. That's indisputable. But to produce good patient outcomes, you MUST be profitable and therefore must understand the economics of your practice. To enable you to buy your practice from yourself there are multiple ways to accomplish this, such as being comprehensive and seeing beyond just the chief complaint, utilizing ancillary care to enhance outcomes, establishing and implementing clinical and non-clinical protocols, training your staff to follow these protocols, and using systems to make your practice much more efficient. All will work for you to reduce your costs and increase your profits. You must also clearly understand a basic business concept about your practice that can have a dramatic impact on your profits: costs.

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Costs

There are several different types of costs that a business incurs—fixed, variable, mixed, stepped, and opportunity. This article will focus only on fixed and variable costs. In economics, there's a simple formula that explains costs. Your total costs (TC) are as a result of the sum of your fixed costs (FC) plus your variable cost per patient x the total number of patients:

TC = FC + (VC/patient x Volume)

Variable costs are those costs that vary depending upon patient volume. Fixed costs remain the same despite your patient volume. Your most prevalent variable costs are your payroll and benefits (exclusive of set salaries), administrative and medical supplies, durable medical equipment costs, and OTC sales.

Your practice's P&L lists all of your expenses. A typical P&L doesn't identify each cost as either fixed or variable, unfortunately. Yet, you need to know the total of your variable costs so that you can ultimately divide that by your total patient visits (derived from your practice software) to arrive at your variable cost per patient. This key benchmark is important to compare to your average reimbursement rate for select CPT codes, also hopefully derived from your practice software.

The difference between your average reimbursement for any CPT code (or the sum of CPT codes that are ordinarily used together, such as x-rays and E/Ms), and an amount GREATER than your variable cost per patient is frequently referred to as your Contribution Margin (CM). An amount of reimbursement greater than your variable cost per patient "contributes" to either paying your fixed costs, or goes towards your profitability if your fixed costs are already covered by the nature of your patient volume. Your variable cost per patient is therefore crucial to understand and compare to your average reimbursement across your top CPT codes. You might find that you are doing way too many things that are actually below your variable cost per patient and therefore, every time you perform those procedures, you are actually in a profit-consuming mode (you are actually losing money.) This exercise might result in your taking a critical look, for instance, at a third-party payer and deciding if you should genuinely be participating.

Never let economics guide your patient care.

In this example, there are a few things you need to think about before you would take that action:

1) If you are in the early stages of practice development and in a phase where your fixed costs are not yet covered by your patient volume (critical mass), your practice development and referral pattern may be dependent upon taking some small economic losses to achieve more significant gains elsewhere.

2) Are the rates for any losing payer negotiable? Sometimes, having hard data like this is what payers will respond to.

3) While some CPT codes may be reimbursed by a payer below your variable cost per patient, is that made up for by other CPT code reimbursements from the same payer, resulting in more significant economic gains?

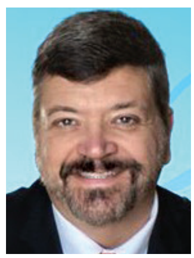
This is only one example used to illustrate the power of knowing your total, fixed, and variable costs. When you look at your practice in this way, the aggregate of the changes you can make over time can significantly increase your margins and, by extension, your profits.

Never let economics guide your patient care. But understanding your economics will help guide you in decisions that affect your profitability.

Should You Buy Your Practice from Yourself?

Nobody ever said it would be easy. But because you made the decision to earn a DPM, you gave yourself the opportunity to be your own boss and control your own destiny. Sometimes, it doesn't feel that way, but the gifts of entrepreneurship (and if you own your own practice you are an entrepreneur) can be great and many.

You may make the decision to sell or merge your practice. You may find the perfect doctor who will work shoulder to shoulder with you and build both of your futures together brilliantly. Or you may decide to market and manage your practice so well that even though all options are always open to you, you decide to "buy your practice from yourself." As you pursue this strategy you are concurrently making your practice an even more attractive candidate for a buyer because acquisitions are entirely rooted in the profits, salary, and perks the owner takes home. You can sell it when you are ready to exit and you can sell it on your terms. **PM**



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