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# Tips from the toolkit: 4 – starting a practice

Setting up a new practice, or starting in an existing practice, is a major decision. Becoming a practice owner needs careful consideration. This article looks at some of the aspects involved in starting a practice.

Like previous articles in this series, it is based on The Royal Australian College of General Practitioners' 'General practice management toolkit'.

**Keywords:** practice management; general practice; health services; commerce; general practice/manpower



Although all general practices will differ in their achievements and challenges, one thing is the same: the most important thing in general practices is the people working in that practice. Beyond this, the business structure, systems and processes will determine the operational efficiency of the practice, the effectiveness in providing health care, and financial performance.

## General practice – personal business

One characteristic of general practice is the personal nature of the service. Unlike most retail services, most primary health care is based on one-on-one relationships. There will be patients who want specifically to see you, and others who will come to see other health professionals at the practice. In each capacity, you are in a position to develop a unique personal practice.

Each practice has a unique climate – it is an expression of the sum of all the people working together and affects how the practice works. It is worth reflecting on how this develops and your ability to influence this through choice of staff, policies, procedures and activities.

## Economics of a new practice

The 'J curve' in economic theory refers to the situation when a new enterprise has more cash

going out than coming in during the start up period. It is in this phase of a business that it is most vulnerable. Essentially businesses can run out of cash before they can generate a consistent income to cover costs and return money to investors. In *Figure 1*, the business has borrowed money to set up the practice. This is money that at some stage needs to be repaid after tax income. It is shown as capital liabilities. For rented premises, this is for furnishings, equipment and fit out.

When you purchase commercial property, this creates an additional liability (and asset). It then becomes a property investment decision. As patient bookings increase, the practice starts to move out of a cash deficit by becoming cash flow positive. Despite a positive cash flow, the net cash position will remain in a deficit while operational costs are recovered.

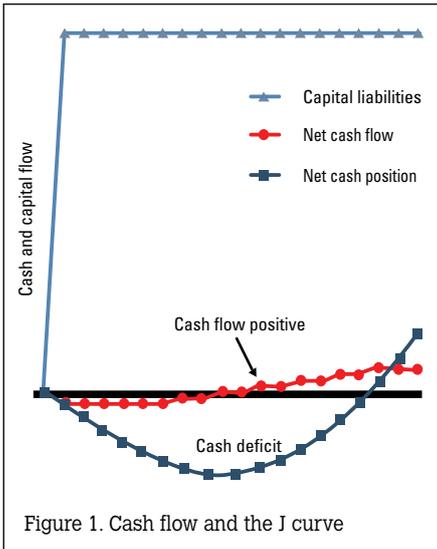
Professional advice is recommended in making business and property decisions to make sure you get an optimal outcome.

## Start a new practice or join an existing one?

When starting a practice you can work in a range of capacities: employee, associate, partner, independent contractor, or company shareholder or director.

If you choose to start a new practice it is important to consider your cash flow and financial resources.

The advantage of joining an existing practice that has a strong patient demand is that the time to be in a positive net cash position is shorter. Because the business has already invested in the enterprise, the owners will expect you to purchase equity or contribute to the costs in some way. Depending on the business relationship, it will often be in the form of a percentage of fees being retained or contributed toward the business operation, the



### Practice location

The real estate mantra ‘location, location, location’ applies to your choice in starting a practice. Consideration needs to be given to personal factors such as partner’s employment, proximity to extended family and key relationships, opportunities for professional development, and children’s education. Other issues of importance include the demographic profile of the area, economic and infrastructure development and the colocation of other health service facilities (Figure 2).

Careful consideration of these factors will help make a good fit between your professional and personal needs, the lifestyle you enjoy and a rewarding career.

The next article in this series will discuss using project management tools in starting a practice.

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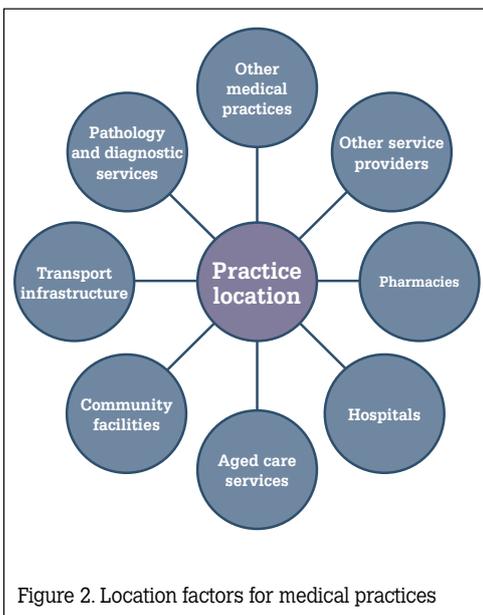
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purchase of ‘goodwill’ or sharing the liabilities of the entity.

Disadvantages in joining an existing practice include legacy systems and resistance to change. For example, a practice that still keeps a paper medical record system may be symptomatic of other issues within the group.

If you feel confident that you have the resources to manage a start up medical practice, then you may enjoy the opportunity to develop a practice that is unique and reflects your personal interests and style. However, starting a new business is a major undertaking and running your own business requires more work than most people realise.



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