Money and Practice

MJA *Careers* looks at issues that affect the bottom line of your practice

Your practice as an investment

Shares? Super? Your own home? Your best investment may be your own medical practice.

What's the best investment a doctor can make? His or her own home? A share portfolio? Superannuation?

In fact, by far the best investment is to invest in your own medical practice. Why? Because you not only get a return for your personal exertions, such as a salary or income, but also business income generated by the practice at the same time.

If the practice is well managed, financial returns from a medical practice are strong, says David Dahm, chief executive of Health and Life, a national practice management, taxation and accounting service for doctors.

"The annual return on capital for an investment in a medical practice should be about 30%", he says. This is a better return than that for any other type of asset (see table).

Return on investment asset classes

Investment class	Return % p.a. pre-tax
Cash (under the pillow)	0%
Fixed Term/Bond	8%
Property	10%
Shares (listed)	14%
Business eg medical practice	30%

Source: Health and Life

This higher return is within the typical risk/return range of a small business which is, of course, what a medical practice is.

But a medical practice has the edge on many other types of businesses.

Start-up costs are low compared to many other types of businesses. So-called "goodwill" payments for a practice are low, usually between zero and $150,000, and often below $50,000, especially in rural areas. (Specialists usually don't pay any goodwill at all.)

Also, business risks are low in medicine. There's a shortage of general practitioners around Australia, which means that demand is strong everywhere, a situation that is likely to continue, regardless of how the economy is performing. Also, barriers to entry are high, being limited to restricted numbers of new medical graduates (and overseas-trained doctors).

What, then, do doctors need to know to become good business people? It's extremely important to get specialist advice from accountants, solicitors and business advisers when commencing or buying a practice, Dahm says. But here are some basic rules of thumb.

Bill appropriately. Some practices bulk-bill most or all of their patients and still have good profitability, if patient numbers are high and costs are well controlled. But practices which charge fees for most of their patients are usually more profitable. So the more patients you charge and the fewer exceptions there are, the better, since about 85% of your costs are fixed, Dahm says.

As long as patients feel they are getting value for money, they will be prepared to pay the additional margin.

Adding value could mean providing extra services such as reminders of appointments and due dates for tests such as Pap smears. Providing fresh water dispensers, children's play areas, up-to-date magazines, pleasant music and leaflets on health information in the waiting room are some of the ways to make patients feel they are getting value for money.

Amalgamate services. This can be a significant generator of extra revenue. You may decide, for example, to bring in other doctors, physiotherapists, pathologists, radiologists and even alternative medical practitioners into the practice. You gain financially in two ways: first, by spreading costs and thereby reducing costs per practitioner; and second, by charging these other practitioners a margin on the services provided by the centre — which may be rent, or the provision of accounting, business and receptionist services — or simply a margin on their professional billings. More practitioners also means an increase in overall patient numbers, as patients are attracted by the idea of a "one-stop shop".

Increase patient throughput. As most of your practice costs are fixed, the more patients you see, the greater your billings and the higher your profits. But you must be careful; if consultations become so short that they might compromise patient care, patients won't return (and you may risk the scrutiny of Medicare or litigation). But you may be able to streamline your appointment system, for example. Employing a practice nurse to do some procedures, such as blood pressure or weight measurements or administering some treatments, may free up your time to see more patients. A good practice nurse will more than pay his or her wages in saved time.

Spend money on the practice. There's a misconception among some doctors that cutting costs will improve profits. In fact, it may make sense to spend more on the practice, if it enhances care, as this means more satisfied patients and repeat visits. You should be able to recover the costs of some consumables such as bandages, or even charge a mark-up for them. "Good equipment is always good investment", Dahm says. Borrowing to add facilities such as extra rooms makes sense if you can lease them out for more than the interest rates you are paying on the loan needed to finance them.

Location. Practices in areas where is little or no competition are often the most profitable, as doctors have a guaranteed patient base, and more freedom to set fees. Outer metropolitan, rural and semi-rural areas have the least competition, and are among the most profitable areas to practice in. Fashionable inner and middle-ring metropolitan suburbs have plenty of doctors and are the most competitive and least profitable, unless you're offering a niche service.

Plan for the future. Ideally, your personal exertion component becomes less important over time. You may eventually be able to reduce your hours of practise, and concentrate on running the business instead. Your final goal should be to sell the practice for a capital gain, which then becomes part of your retirement nest egg.

Dahm says a well managed 10-person multidisciplinary medical practice, generating a 30% per annum return on equity, with transparent accounts, can sell for about $300,000 in most city or rural areas.

By Dr Peter Lavelle