The essentials of setting up, building and running your practice.

Episode 5:

Start Up Cash - Making Best Use of Your Start Up Capital

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Hi, I am your host Matthew Holmes and this is Episode 5 of Practice DNA, the podcast that helps you set up and run your own practice. Today we are going to look at the ways that you can fund your practice and how you can make sure that you don't run out of money when you are getting started.

I am sorry it has been a little while since we have brought up another episode, the reason for this is that we have been launching iconpractice. Iconpractice is a full features practice management system which has been built by me for small to medium size clinics of about one to five practitioners. It is a secure web based software that gives you access to your practice for a tiny fraction of the cost that traditional systems cost and this means low start up capital. This is particular relevant to what we are going to discuss today. So if you have got a chance pop over to *iconpractice.com* and take a look, that will be great.

What we are going to look at now is what are the funding options that are available to you when you first start your practice. Now, really you have kind of got two options. The first option really is what is referred to often as bootstrapping. This my favourite sort of model, I quite like this approach but with bootstrapping what you are trying to do is you are trying to keep your costs to a minimum and you are trying to fund the start up of your practice yourself, you are not seeking any outside funding for doing that. One of the real bonus for doing this is that you are going to retain a hundred percent ownership of the practice and you have got a hundred percent control as well whereas if you start giving away interest in the practice or you start taking on board funding, suddenly you have got a lot of external pressures that are going to start to apply to you which can start to become a problem and extra source of stress and so forth and starting a clinic is stressful enough as it is without bringing that in for the extra like that. The other good thing about it is that you can very easily do this if you are already working somewhere else.

The other option is really is that you can go for some sort of funded type of start up. Now, you can get some funding and still work somewhere else so that you are kind of doing a bit of a mixture of a bit of bootstrapping and the funded type of model or you can just go completely outright and give up any other work that you have got, get some money to start your practice and then go ahead and just devout a hundred percent of your time to it. There are a number of ways that you can go about getting that sort of money. You could be looking at things like personal loans, so that you can get personal loans from the bank. Strictly I believe you are not supposed to actually use personal loans for starting up a business but if it is quite a small business you may be able to sort of get away with doing that and sometimes the interest rates are preferential on a personal line as opposed to one coming as a business loan.

The other option is a business loan from a bank and like I said the interest rates are often a little bit higher. You need to submit things like business plans and so forth to be able to get access to the money but you may well be able to get a larger amount potentially than you otherwise would have to sort of personal loan but you would have to talk to a bank tell them about this.

Obviously, all of this information I am just giving out to you as one practitioner to another, I am not an accountant and I am not a lawyer so you need to bear that in mind while we are talking about this.

Apart from business loans or personal loans from the bank another option for funding is that you can do higher purchase for some of the equipment that you need to buy and that is for things like benches or ultrasound machines, computers, pretty much any sort of office type of equipment that you can get higher purchase agreements for these days. That can be one way of getting you business off the ground.

Another option and this is one that happens fairly often, is that you can borrow money from your friends and family. This can be potentially fraught with difficulties because sometimes with these type of things somebody expects one thing, another person expects another and you can end up with cross-purposes as to what actually was supposed to have gone on. So it is very important that you set up clear expectations and understandings before you start going borrowing money from family and friends and I would recommend to you that you really need to put something in writing with these family and friends. You don't necessarily have to go to a solicitor or something like that and get it drawn up, you may do it depending on your circumstances but some sort of just a short document saying, you know, this is how much I am borrowing, this is when you expect me to pay it back, this is how much interest if any I am going to be paying to you or these are what the repayment schedules are etc. That way it is there in black and white and if there is any misunderstanding later on you can always refer back to that and say "look I am, you know, I am sorry for this misunderstanding but this is what you agreed to and this is the arrangement that we had" and hopefully therefore you are less likely to end up in some difficult situations. One of the real bonuses about borrowing money from family and friends is obviously they are likely to be a bit more understanding and a bit more flexible than a bank. Banks are going to have very tight criteria as to how they are going to lend to you and so you would expect that your family would have slightly slacker criteria which can obviously be a good thing for most people.

The other possibility that you can do is you need to sort of define whether or not the person is going to be getting equity within your business or whether they are actually going to be getting repayments from you. So you may find that you have a family or friend of even some third party that is willing to fund your practice and they may to actually want to stake of the practice and so, you know, you may end up owning fifty percent of it and they end up owning fifty percent of it. That can become a quite sort of difficult situation particularly if you are the one that is actually in the business doing a lot of the work to actually get it running and so forth and "all they have done" is supply the money, you may end up feeling a bit resentful towards that person after a while. So my personal preference is that rather than giving away any ownership in your practice you should try and keep hold of it as much as you can and preferentially go for a more of a repayment type.

What we then really need to look at is what you do with the money once you actually have it. Now, your job as your practice's "CEO" is to decide how to best allocate any money that you have got. By that, I mean, you need to put it into the area of practice that is going to generate the best return on investment for that money. For example, if you are starting out, it is very tempting to go out and buy the best treatment bench or the best ultrasound machine or get a complete pharmacy of herbs or whatever that you can possibly get for your money. However you really need to look and see whether that is going to make a good return on the money that you invest. For example would a basic treatment bench may still be used to treat eighty to ninety percent of the patients that are going to come into your practice without any problems and I would expect that for most practitioners that is actually going to be the case. So that potentially could mean that you could spend a couple of a thousand dollars on a bench rather than seven to ten thousand dollars and that is going to save you at least sort of five thousand dollars that you can spend on marketing your practice and marketing is something that can bring you a very miserable return on your investment and it is going to bring some cash into the business which is what you need. As an extension of that, you also need to sort of consider the premises that you rent, it may be lovely to have a nice big office with lords of consulting rooms and one day you may actually need that but you need to look at, is it likely that you are going to be able to afford such rent on premises you need when you are just starting, you may be better off starting small and then move to larger offices as you get busier. Obviously it can be a bit of a pain to move to larger offices but that is better than going broke when you are trying to start out.

The other thing you are going to do when you have got your money and you are trying to work out your practices, you need to budget for your cash flow, what do we mean by that? Now, when you start a practice you obviously have certain start up costs like equipment, furniture, IT, software etc and all that takes a certain amount of capital or money to purchase and that is one of the things you really need to decide on so that you get the best return on investment like we just discussed a minute ago but in addition to that you also have things like running costs which are going to be your on going monthly expenses and so on. That is stuff like rent, rates, telephone, gas, water, electricity, stationary etc. When you are starting out, these things have to be paid but you may not have much or any money actually coming in to the practice from consultations at that stage therefore you have to budget for these expenses out of your start up capital. That means you have to really work out how much those expenses are going to be, whether that be by making an estimate or even better getting some actual figures to work with and if you work out that it is going to cost you three thousand dollars a month to run your practice then you need to work out how long you think it is going to take for you to see enough patients a month to cover that amount. Now, if it is going to take you six months to get to the point where you are going to bring in enough money to cover those three thousand dollars in expenses then you are going to factor in eighteen thousand dollars into your start up capital to cover your running costs for the first six months. If you reckon that you can do that in three months then you are going to factor in nine thousand dollars to your running costs and I really would suggest to you that you be conservative with that figure. It is better to get to three months and discover that you are suddenly up to enough to cover your expenses and have another nine thousand dollars sitting there spare than it is to get to three months and not have any money to carry on even though you still actually haven't met your running costs. So you are going to need to bare that in mind and as I said, be extra conservative with that.

You also need to remember that you need to have some money to pay your living expenses as well on top of your practice expenses. Now, if you are living with mum and dad and they feed you and everything like that then your living expenses are obviously going to be pretty small but if you have a mortgage and kids then these living costs are going to be considerably higher and you are going to need to bare that in mind.

These initial starting costs or running costs are one of the reasons that I really like the bootstrapping model so much. When you are working in another practice you are going to have some money coming in to cover your ongoing expenses and if you are busy enough in your job, you may make enough to cover all of your expenses and that means that you can afford to be going longer before your patient numbers have to cover your practice costs. The downside of bootstrapping in this situation though is that if you don't get to devout a hundred percent or you definitely don't get to devout a hundred percent of your energies to your new practice therefore it is likely to take longer to build up but the risks are going to be less. If you run out of cash with a totally funded start up you will go broke, you will have to close down and in the worst case you may have to end up filing for bankruptcy. A bootstrapped start up can take its time and potentially do a better though it may be slower job.

So these are some of the factors that you need to consider when you are starting your practice. Like we said, you need to look at what type of model you prefer, whether that is sort of a bootstrapping model where you are just going to try and fund things yourself and you are going to do it and you are going to do it on very low costs or whether you go for more of a funded type of practice where you are going to go whole hog on it and potentially be using other people's money, giving away equity in your practice and so forth. You also, as we said, need to look at how you can best allocate your capital so that you are going to get maximum return on investment which you are going to make within the practice, can you potentially get away with using cheaper equipment or smaller premises to start with and putting the money into actually getting patients into your practice through things like marketing? And you obviously need to budget for your start up cash flow so that you have got enough money set by to pay your running expenses until you are going to be able to cover those running expenses through the profit from the business.

So bear those things in mind when you are starting out. Hopefully you found that information useful and if you have got any questions or any comments please leave them below this episode or pop over to our facebook page which is facebook.com/practicedna leave us a comment there or a question, we would love to hear from you. Thanks again for listening and we will see you next time.

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