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

Episode 6:

Your Practice Business Plan

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Hi, I am Matthew Holmes and this is Episode 6 of Practice DNA, the Podcast that helps you set up and run your own practice. Today we are going to look at business plans. Now I might as well get is out of the way right now, most of the time I tend to think that business plans are a lot of tosh. They are barely worth the paper that they are written on. Rather than devoting a lot of time to make your detailed plan for most people you should be building awareness of your practice in the community. Now there are two main reasons I feel this way, the first is that the business plan really contains a lot of speculative data particularly with regard to projective revenue. Getting projected expenditure costs can be a lot easier using other data from an existing clinic that you have or from another practice that you work in, with the owner's permission of course, or you can actually get quotes but revenue projections are often at best a guess, which really makes them quite inaccurate and can make the business plan, as I said, quite speculative and really can have little value actually in the here and now. The second is that the operating environment can change rapidly in the new business and this can mean that most or many of the projections that you make in your business plan end up being obsolete.

So you might ask why am I doing an episode on business plans. The main reason is that if you are applying for funding you are going to need a business plan. All lenders need some sort of data upon which to make a decision and generally your business plan is the thing that is actually going to provide this data. In that case you are going to need to spend quite a bit of time on the plan ensuring it is as accurate as possible and as detailed as possible and as well as supplying data, the thoroughness of the plan is going to convey an impression about your thoroughness and your attention to detail and as you would expect, people lending money tend to prefer thoroughness and attention to detail in their borrowers.

Secondly, even if you aren't applying for funding, producing a small business plan can be a good idea for your own benefit. Now I emphasise the word "small", it can help clarify your thoughts and expectations about business and can uncover whether those ideas are as realistic as you think they are. I certainly wouldn't spend days on doing it but spending a few hours putting together some sort of plan is a good idea.

Much of what we are going to discuss is based upon on the business plan that I produced for one of my practices. I was applying for funding therefore it included much more data but I will try not to go overboard and I have included a link to the plan and the accompanying spreadsheet on the transcript page of practicedna. Our email subscribers get access to that page, so if you aren't a subscribers pop along now to practicedna.com and sign up and as well as access to the subscriber only resources you get early notification of new episodes and any special events that we have. If are a subscriber I recommend you pose this recording and go and download the samples now and have them in front of you as we talk and things will be much clearer for you as we go along.

The sample plan is for a chiropractic clinic but most of the information will apply to other professions as well. Now we will discuss the plan as we are going through as though you were going to use it for funding. If it is just for your use then you can forego some of the niceties and decorations and so on off the plan.

Your front page should obviously explain what the document is, who it is written by, date of production, who you are seeking funding from, if it is your bank, you want to include your current banking details as well on that. You should also include your contact details so that they are readily available for the lender.

Next on the second page should be an outline of the business idea. Hopefully you would have clarified your practice's focus as we discussed in episode 4, if not, listen to that episode before doing this section though in a nutshell what you have to do is you really have to determine who your target market is and how you are best going to reach them. Underneath all that, you want to list your proposed practice name then describe your business idea in a few sentences. You want to describe what the factors are that contribute to the success of the business, either there are no similar clinics in the area, you have particular expertise or experience, there is increasing public awareness of your therapy, your incredible good looks and your magnetic personality, of course just joking about that one, don't put that in there. But things like that, that is what you want to be emphasising and one of the factors that are going to make your business a success because obviously lenders don't want to lend to somebody who is going to lose money and go out of business because then their chances of actually getting their capital back are slim and they are not going to get the interest payments and so forth that they wanted to get. So obviously you want to be emphasising how you are going to make this thing a success.

You also then want to describe the factors that may jeopardise the business idea as well as how you plan to overcome these. Now you might sort of think that why should I be discussing the negative things but discussing your action plan to these negative factors is just as important as your success factors and showing that you have a realistic approach to the practice will help reassure investors that you are not just charging blindly ahead with some crazy idea. So some factors that you may want to be looking at are competition from other practices, any other regulatory limitations and advertising restrictions, the declining market share of the particular therapy etc. So those are the top things you want to look at in the negative factors.

You should then describe your target market, your approximate size of that market and how you plan to reach them. Explore why patients would chose your practice over other practices out there. You may want to discuss whether the market is relatively mature which means that people already have a preferred provider and you are going to need extra compelling reasons why people should change to your service or if the markets are relatively young and undeveloped, in which case you may have difficulties convincing people to try your service in the first place. So you should reflect on the market stage and whether it is going to help or hinder your practice and how plan to overcome or rather maximise on this.

You should also give some background information on yourself, what are your qualifications, what is your business experience, if you don't have much business experience, do you have access to a mentor that does and if so list their experience also, list the qualifications and experience of other people that maybe involved in the project. I would also give some idea of the number, if any, of the staff required to actually run the practice.

So having clarified your business idea, to give an idea of the financial resources you have available to the project you sort of run through the index section. These include things like your savings, projected incomes, any grants and government support that are available for the practice and security that you may have to offer against any loans such as your home etc, but you be careful with this, and any required capital that you may need from the lender. You should then get on and summarise your expenditure and costs. I have included a detailed spreadsheet breaking down the costs in sample plans but this section should provide a summary for easy reading for the person who is reading the plan. On the sample plan I have broken it down into the initial start up costs then the first six months running and then the second six months running costs. You should also summarise any expenses that you are going to need to live and whether if this need to be drawn from the business revenue or not because obviously if you have other sources of income and you don't need to draw down from the business revenue that is going to mean that you are potentially going to become sort of cash flow positive sooner rather than later.

Lastly in the business plan you should give your cash flow projections and describe your assumptions that you have made in preparing them. Obviously whenever you are producing something like a business plan like we said at the start it is going to contain projections which are really a best guess estimate. So you need to explain what assumptions that you have actually made in preparing this. So if you are having a look at the sample you will see that I have given a full sort of detailed breakdown of the particular expenditures and so forth that I have put in and that references the spreadsheet which we are going to switch across to now. So if you are doing this the sample plan in front of you have a look at the spreadsheet now and if you are not doing it without the plan, what I am doing here is I am describing an excel spreadsheet and we are going to talk what is in individual columns and rows and so forth. So you will probably be able to get a bit of an idea if you are visualising it as you are driving along or whatever but as I said it would be best if you could be looking at the sample plan.

My spreadsheet has two tabs, the first tab gives a twenty four months projective cash flow. The first row obviously lists the months and in the first months I have actually in this plan allocated to setting up and sort of refurbishing the practice. So if you have any start up process that you have got to go through before you can actually start to see patients you really need to include that within your projected cash flows because that is going to eat into your start up and so forth. So that needs to be covered.

The second sort of six rows are the income figures, in this business plan that I was doing I was actually running another practice at the time so I have actually included that practice's revenue as an income source, I have called it sample clinic in this particular thing. So you could also do the same if you have another practice or if you have another job in another practice you may want to include it as well because it is going to give the lenders some information as to what your overall financial position is as you are doing this. And then the fourth row from in this gives some projective income from the new practice which would be explained in the second tab on the spreadsheet in more detail. Underneath that you should itemise different expenditures such as personal drawings, phone costs, rent, interest payments etc giving a total at the bottom. And then finally in each column you need to subtract the expenses from the income to give either a profit or a loss for that particular month. Then below that particular row you would want to put accumulative profit or loss to that date. So obviously if we have month six then the cumulative profit or loss at month six is going to be dependent on the previous five months, the addition of those in addition to the income from month six, if you hopefully can get what I mean by that. This will obviously tell you when you are likely to break even. This ties up with what we discussed in episode five of Practice DNA with regard to working out how much you are likely to need in the way of start up capital to cover your start up costs. And like we said each column in this spreadsheet is a separate month.

Now the second tab of this spreadsheet leads us to an important part of the business plan and this is a document I would recommend that you produce even if you don't actually produce a formal business plan and it is what I refer to as the patient number scheme and it is the projective number of new patients that you think you are likely to see. Now, to generate it you are going to need two particular things. The first thing you are going to need is the number of new patients that you think is likely to come into your practice each week and the second thing is your typical visit schedule. The number of new patients that you are likely to see is obviously going to be a guess and I really would recommend that you be conservative in these estimates and it is going to obviously be affected by number of factors including the amount of advertising that you do, awareness of your clinic, the local demand, local competition etc. Now, you may have a bit of experience with some of these stuff if you are working in another practice and so on but really it is always going to be a guess but like I said try and be as accurate as you possibly can. And your typical visit schedule is obviously also an average as well. We all understand as practitioners that patient requirement vary but if you have been in practice for a while you are going to know that generally you have a schedule that works well for most patients that you see and if you haven't been in practice all that long, either make a best guess or seek advice from somebody who has. For example, for an average back pain patient that I would see, I would generally see them two visits per week for two weeks and then you drop back to one visit per week for two weeks and then drop back to fortnightly twice and then you check them in a month and that would obviously give you a total of nine visits.

Now for the purposes of this table that we are going to produce we are going to ignore any visits beyond this time so obviously some patients continue on and have extended care beyond that. Some people will drop out, we are going to ignore the people that continue beyond and we are also going to assume that all people continue their course of care, which we know isn't the case but this as we said is an estimate. So in the example that I have provided I am expecting to see four new patients a week. This means eight visits in the first week, so for example, four lots of two visits a week gives you a total of eight visits in the first week. In the second week, I see the patients from the first week which gives me another eight visits because they are still coming in twice a week and they are four of them so that gives eight visits. And then you have another four new patients that are coming in that week giving you eight visits, producing sixteen visits in total in the second week. So we have had eight visits in our first week, sixteen visits in our second week. In the third week, the first week's new patient are now down to one visit per week giving four visits that week, the second week's patients are still coming in twice a week so that gives you eight visits and there is another lot of patients coming in giving you eight visits. So you have a total of twenty visits in week three. In the fourth week the first and second week's patients are now down to one visit per week giving each four visits so that gives you eight visits in total for the first and second week's patients, the third week's patients are still coming in twice a week giving it eight visits and another lot of patients coming in giving eight weeks as well which gives you a total of twenty four visits.

So if you look at my example you can see that we repeat this process to make projections as to how many visits you have in a given in a week and then in four months you can add up the total number of patients that you will see per month. Using these numbers you can take your charges and calculate your revenue. Now the easiest way to work out your average fees is to take your revenue per patient which in this case a new patient visit is eighty dollars for example and then eight further visits at fifty dollars a visit. So this gives a total of four hundred and eighty dollars per patient which you divide by nine which is the number of visits that they come in which gives you an average visit charge of fifty three dollars.

Hopefully I am not boring you to tears or confusing you too much but what we have is that we have fifty three dollars on average per visit per patient. So thus in my first month I am going to have sixty eight patient visits according to the projections and at fifty three dollars that is going to mean that I am going to earn three thousand six hundred and four dollars in revenue in the first month. And then what you can do is you can calculate the total number of visits in the second month and then you multiply that number by fifty three which is your average visit value and you can work out what your income is likely to be in the second month and so on and you can repeat that process as you go along. So that is how you make revenue projections at least in a chiropractic clinic. In other professions you may need to factor in profit margins for supplement sales etc but hopefully you can get average values for these, either from your figures or from somebody else and then you need to transfer this to your cash flow forecast.

Obviously all of what we have talked about today is quite heavy going especially when you are listening to it rather than looking at the examples at the same time. However once you have done that I am sure that you will find that it is a good idea just to even do a rough one of this just to get the practice going, even if you don't do that you at least want to be able to have a bit of a rough idea overall where you are coming from but if you are going to produce one of these for a lender you definitely are going to need to go through this in great detail. So pop along if you haven't already and subscribe to our newsletter so that we can get this information to you, otherwise that is all we have got this week.

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