

# The Business Basics of Building and Managing a Healthcare Practice

Neil Baum  
Marc J. Kahn  
*Editors*



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*To my loving wife, Linda  
To my children, Alisa, Lauren,  
and Craig  
To my three grandchildren,  
Ryan, Shelby, and Bennett  
You all make my world go round.*

*But most  
Of all  
To my patients  
Who have  
Been a source of  
Inspiration and joy  
I thank you  
For allowing me  
To serve you.*

Neil Baum

*To Chris, my loving wife  
and partner of 40 years  
And our children Abby and Ben*

*And to all of my teachers  
and students over many years  
You have taught me more than  
I could have ever asked for.*

Dr. Marc Kahn

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## Foreword

It is a privilege to be a physician. Every day, you will meet total strangers, who will share with you their deepest thoughts. Some of your patients you will cure. For others, you will alleviate their suffering so that they can live their lives and their potential. However, there will be some patients who will need you to hold their hand and comfort them as they let go. It is a privilege to live a life of such meaning.

We are drawn to the practice of medicine through a desire to help others. To achieve our passion to heal, we have had to make sacrifices of time, effort, and money. For new graduates, who have made these sacrifices, it is hard to now be required to navigate the turmoil in the US healthcare system. However, it is important to remember that in every generation, the medical profession has been challenged by external forces. Today, we are learning to deal with the “industrialization of medicine” and the related influences that are impacting on our professional lives. This book focuses on how to build and manage a medical practice. This is essential knowledge if we are to retake control of our professional lives and participate in a meaningful way in the national discourse on the future of the US healthcare system.

In 1970, the USA spent \$100B (\$380B constant dollars) on healthcare, which represented 7% of the gross domestic product (GDP). The cost per capita was \$400 (\$1800 constant dollars). By 1990, the USA spent 12% of the GDP, and the cost per capita was \$1200 (\$4800 constant dollars). Fast-forward to 2018, the USA spent 17.9% of the GDP. The total cost was in the trillions (\$3.5T) and the cost per capita \$10,700. In 2018, physicians and hospitals represented 50% of the cost [1].

In the USA, we spend more on healthcare than any other developed nation [1, 2] (Organisation for Economic Co-operation and Development (OECD)). Despite the trillions spent on healthcare, too many people have poor access to care. Prior to the full implementation of the Affordable Care Act (2013), 44 million Americans were uninsured. Today, approximately 27 million Americans are uninsured. However, in 2017 the number of people uninsured rose by 700,000 [3]. Sadly, the uninsured are just the tip of the iceberg. According to the Commonwealth Fund, in 2016, of the people *with* insurance, 28% (41 million) of working-age adults in the USA were underinsured. 52% of the underinsured reported problems paying their medical bills and 45% went without needed care because of the cost [4]. High-deductible insurance plans with lower premiums were a large part of the problem. For a

family of four earning \$50,000 per annum, a \$10,000 deductible plan is almost like having no insurance.

It would perhaps be appropriate if, as a result of spending 17.9% of the GDP on healthcare, the USA had the best healthcare system in the world. However, in nearly all measures of health, the USA ranks poorly. For example, in 1980, life expectancy at birth in the USA vs. the OECD average was 73.5 and 74.5, respectively. Yet, in 2017, it was 78.8 vs. 82.2, respectively. Another example is the risk of a pregnancy-related maternal death (maternal mortality ratio per 100,000 live births – MMR). In 1990, the MMR in the USA was 14 vs. 11 for the OECD average. By 2017, the maternal mortality ratio (MMR) in the USA dramatically rose to 30 vs. a decline to 7 in the OECD [2].

The US healthcare industry has responded to the rising costs and poor outcomes by merging hospitals, providers, insurers, etc. In 2017, a record was set of 115 mergers [4]. Eleven of these mergers involved institutions with net revenues of at least \$1B [4]. Clearly, institutions merge to protect themselves. In my opinion, there is little or no evidence that the creation of these large healthcare systems has resulted in lower costs and/or improved health outcomes, but they have certainly “industrialized medicine” to the detriment of the individual physician.

Physicians challenged by the cost and time spent managing their practices have sought employment. In 2016, physician-owned practices were no longer the majority. In 2018, *The Survey of America's Physicians* reported that just 31.4% of physicians were identified as independent practice owners [5].

The authors of this book have appropriately pointed out that US medical schools and graduate education programs produce well-trained physicians in all aspects except business and finance. Too few medical schools offer courses or advice on the business of medicine. The good news is that in 2017, there were over 70 medical schools that offered a combined MD/MBA program [5].

This book is written by two very experienced practicing physicians and covers the basics of business and finance. It is essential reading for every doctor, whether setting out to establish a private practice or wishing to negotiate an employment agreement. This book is, undoubtedly, as its title suggests, *The Best Book on Business Basics of Building and Managing a Medical Practice*. This book is divided into three sections. Section I deals with the basics of business, Section II covers starting a new practice and/or successful contract negotiations, and Section III discusses strategies for building and growing a successful practice.

The authors: Neil Baum, MD, is an Associate Clinical Professor of Urology at Tulane University School of Medicine and Louisiana State University School of Medicine, in New Orleans, LA. Dr. Baum is a Board-Certified Urologist with a successful practice for 30 years. Marc Kahn, MD, MBA, is the Peterman-Prosser Professor and Sr. Associate Dean at Tulane University School of Medicine. He is a Professor in the Department of Medicine with adjunct appointments in the Department of Pharmacology and the AB Freeman School of Business.

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Despite the current challenges facing the medical profession, I believe it is a privilege to be a doctor. The guidance and knowledge, provided by the authors, will help ensure that young physicians have meaningful and successful careers.

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## Introduction and Why Doctors Need to Read This Book

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### Why Doctors Need to Consider Medicine a Business

May you always have work for your hands to do. May your pockets hold always a coin or two. Irish Blessing

Physicians who aren't good at business won't survive. Russel J, *Washington Post*, May 10, 2010

The authors of this book have a combined 90+ years (NHB 50 and MK 40) as practicing medical doctors. We have seen tremendous changes not only in the clinical aspect of medical care but also tsunami-like changes on the business aspects of practicing medicine. A few examples include managed care (perhaps mis-managed care), capitation, the Congress passing of the Affordable (?) Care Act, the introduction of coding and relative value units to determine compensation, the concept of the employed physician, the implementation of the electronic medical record, and more recently the use of telemedicine to provide care for patients without being eyeball-to-eyeball with the patient.

Today nearly every doctor leaves medical school and their postgraduate training with excellent skills for diagnosing and treating medical illnesses. However, almost all physicians leave their training programs with no skills, or at most a few skills, to become successful businessmen and business-women. In fact, most physicians have earned a stigma and a reputation of being deficient in the business of medicine. Historically, doctors have a reputation for being good at caring for their patients but poor at managing the business aspect of their practices. There are numerous complaints in medical education from graduating students, residents, and fellows that the curriculum hasn't changed very much since 1910, when educator Abraham Flexner analyzed medical school curriculums across the country and proposed standardization of pre-clinical and clinical years in his groundbreaking Flexner Report [1].

Currently, few medical schools are offering courses or advice on the business of medicine. That's the bad news. The good news is that in 2017 there are 148 medical schools that offer a combined MD/MBA program [2]. However, you don't have to have an MBA to be able to grasp the basic con-

cepts of business that will affect your practice. Moreover, incorporating the principles of business into your knowledge base will serve both physicians and their patients as well.

Yes, we have heard that barriers and obstacles to educating students, residents, and fellows about the business of medicine are the time constraints in most educational and training programs. But let's be honest: do you need to know how many ATPs are created within the Krebs cycle to be a good clinician? There are things you learn in medical school that are not as relevant to the practice of medicine as basic accounting, creating a business plan, practice management, and leadership. These are the skills that you can be certain to use on a regular basis and far more than the names of the 12 cranial nerves and what they innervate....unless you are a neurologist or neurosurgeon!

We advocate that learning the basics of business with its application to healthcare is also important in the creation of a doctor who will have a profitable and ultimately an enjoyable and possibly longer and more productive career.

Why is understanding the basics of business important for the practice of medicine? If you don't understand the business component of your practice, you may not be able to survive in today's marketplace where profit margins are going to be razor-thin. The reality is if you don't understand business practices, you can't survive in today's market. You will no longer be practicing medicine and providing the care to the patient that you went to medical school to treat. American healthcare is different than every other profession or business. Healthcare is the largest and most regulated industry in the US economy, and because of excessive regulation, it doesn't follow the basic laws of supply and demand.

This book is intended to be a roadmap or GPS for doctors, regardless of whether they are employed, join a small group, or, for those rare doctors, who decide to start their own practice, to follow in order to not only be good clinical physicians but also good businessmen and businesswomen. We deem that this book will help doctors make a difference in the lives of their patients but also help them make good financial decisions.

What's the bottom line? If the contemporary physician doesn't understand the business of medicine, you won't be able to survive in today's market. And it would be very sad if you couldn't provide care to the patient(s) you went to medical school to treat! Having a basic understanding of business will enable you to be a good doctor and also a good businessman or businesswoman. It is our hope that this book will provide you with the basics of business that were omitted in your medical school training.

New Orleans, LA, USA

Marc J. Kahn  
Niel Baum

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**Part I**

**Basic Business Concepts and Principles**



# Why Doctors Need to Consider Medicine a Business

1

Marc J. Kahn and Neil Baum

## Case: Sally

Sally is a PG-3 and spent a rotation with an internist in private practice. She often accompanied him to the doctor's dining room and heard many of the doctors complain about decreasing reimbursements, rising overhead, additional government regulations, increasing paperwork, learning to use another electronic medical record program, the issue of burnout, and a host of other complaints. She seldom heard any of the older doctors talk about the joys and benefits of becoming a doctor. Furthermore, she started second guessing her decision to become a physician. Was she mislead or misguided?

This chapter is not meant to discourage you but to reassure you that you have made a good decision to join one of the greatest and most enjoyable professions on this planet. However, in order to have that enjoyment, it will be necessary

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to have a modicum of business skills that you probably did not receive as a medical student.

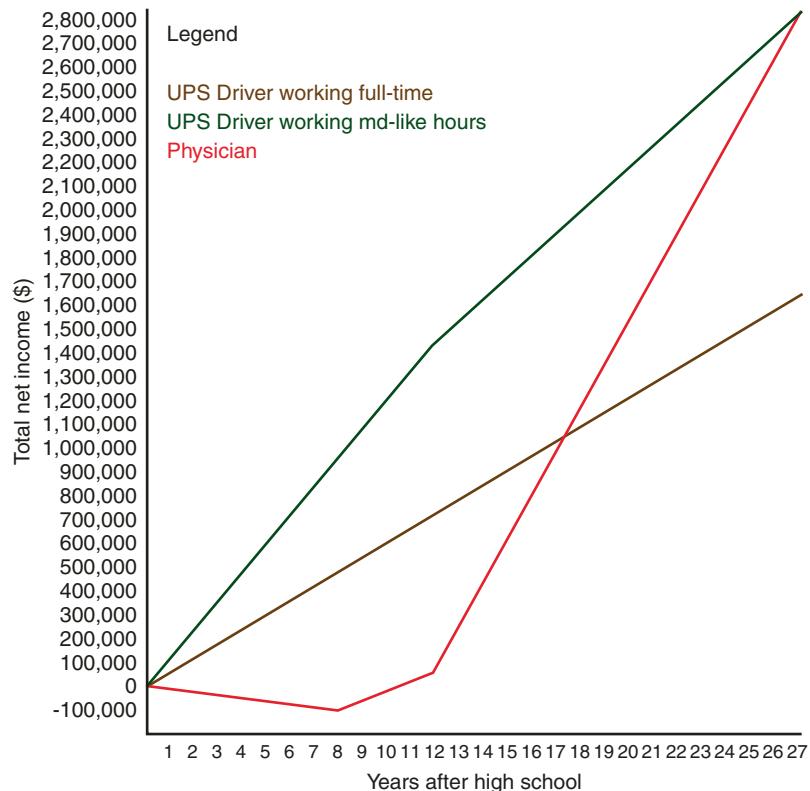
Let us begin with the topic of becoming a doctor to achieve wealth. This is probably the worst reason to select medicine as an occupation. A comparison was made between the incomes of a UPS truck drivers and physicians. This very revealing graph (Fig. 1.1) shows that a UPS truck driver enters the workforce and begins to earn money at age 18. However, a physician usually is incurring debt for 8–10 years and only enters the workforce around age 30. Therefore, it takes a physician nearly 17 years to equal the accumulated wealth of a UPS truck driver.

Now consider if the UPS truck driver worked the same hours as a physician, 60–70 hours a week, and received overtime pay, then it would take nearly 24 years for the physician to equal the income of a UPS truck driver.

## Downsides to Becoming a Physician

It is unlikely that the UPS driver gets complimented about the great delivery he just completed! Whereas the physician is likely to receive multiple warm fuzzies or compliments nearly every day in practice. Most physicians state that it is the gratitude and relationships with patients as being the most rewarding factor in being a physician.

**Fig. 1.1** Salaries of UPS driver versus physician



The UPS driver who drives and delivers packages 6–8 hours a day is probably bored after a few hours in the truck. However, a physician has such a variety of activities, and no day or patient is ever the same. Boredom is never an option or a complaint in healthcare.

The UPS driver is lifting heavy boxes all day long and is probably at risk for early onset chronic back pain. Back pain is usually not considered an occupational hazard for physicians. (Exceptions are cardiologists, radiologists, and cardiovascular surgeons who wear heavy lead vests and are bending over patients for many hours a day.)

Anyone who even alludes to the notion that men and women decide to become doctors is primarily motivated by avarice and money needs to refer to Fig. 1.1. The reality is that if doctors want to achieve wealth quickly, they just might consider becoming a UPS truck driver!

Nearly every physician who decides to become a doctor knows fully well that they will probably have on average \$250,000 of debt that will have to be repaid with interest, that they will have to

get up in the middle of the night to go to work to care for the sick and ill patients, that they risk litigation and lawsuits during their career, and that will defer gratification and accumulation of wealth for many years.

Yet, thousands of bright, talented young men and women will enter the healthcare profession and that applications to medical schools are at an all-time high. We become doctors because we truly have a calling. We want to help people not only get well but now we are interested in helping patients and the public stay well and avoid getting sick and needing to see the doctor. We become physicians because we enjoy the gratification from patients who thank us every day for all that we do to make them better or keep them well. We do not believe there is another profession that offers the kind of daily feedback from their customers or clients that physicians so often receive and enjoy.

For the most part, physicians love what they do, and money is not the primary driver for joining the exclusive club of health-care providers.

However, this choice of profession does not negate the fact that we are small business men and women and have to be concerned with the business aspect of our practices in addition to being good clinical doctors.

You will seldom ever find a doctor who went into medicine to practice “business.” But nearly all doctors say that they need practical, real-world guidance to run the business side of their practice. This book is written for medical students, residents, fellows, and newly minted doctors to fill the void from most medical training programs that void of providing business skills necessary to become complete doctors.

## Why Do We Become Physicians?

Doctors are in a field where there is growing demand, a declining supply of physicians, and formidable barriers to entry with more applicants to medical school every year. In 2017 there were more than 20,000 new enrollees which is 1.5% greater than the previous year [1]. Every other industry or profession would kill for this type of economic advantage. If you believe that the healthcare industry is tough, imagine working in an industry such as digital cameras or print newspapers. Can you imagine working in an industry or profession for which demand is declining, or where there is an oversupply of competitors who can provide the same services that you do at a much cheaper price or send it to India and China to produce at a fraction of the cost, or if almost anyone can quickly gain access to the field with minimal or no barriers to entry? The dynamics in our profession assure us that there will always be work and future employment.

Doctors have instant status as soon as the initials M.D. appear after their name. With these two initials after your name, you have credibility that is immediately accepted by your patients. For example, if a patient comes to a doctor he or she has never met before, he or she will willingly divulge the deepest secrets of their past medical history, including menstrual history, bowel habits, and even their sexual history. No other professional guarantees its young members such instant

credibility. Doctors should appreciate their prominence in the community. Doctors must always uphold a high standard of confidentiality and ethical behavior and should never take for granted our lofty status with our patients.

Medical doctors are in the top 5% of wage earners in the United States; yet, many of our colleagues are complaining about their incomes. If we compare the average physician’s salary with those for all other jobs, our salaries are at the top of the income chart. Also, most of the others in that rare top 5% do not have the same upside potential that physicians do. Many successful physicians earn two to three times more than the average physician [2].

Physicians are fortunate not to be compelled to retire at a certain age. Because the practice of medicine is not physically demanding, many physicians can work into their 80s if they so desire as most hospitals and groups do not have mandatory retirement. Only recently have older doctors, especially aging surgeons, been asked to submit voluntary evaluation and consider accepting an assistant for certain surgical procedures [3].

Doctors, compared with many other professionals, have a wonderful lifestyle. The practice of medicine affords most men and women with the ability to spend time with their families, being able to take 2–4 weeks of vacation each year and having an option of working 8–10-hour days. This book will provide numerous examples of becoming more efficient and more productive so that the doctor can be home for dinner with his\her family. Except for the hours when physicians are on call, they have reasonable lifestyle choices. Younger physicians today are opting to work fewer hours per week, even if it means a lower income. Doctors also have the ability to select a geographic location and the kind of practice they wish to have; a choice that is not as readily available to other professionals. Many career choices have geographic limitations as to where employees can live or are at risk for the possibility that they could suddenly be transferred anywhere at the whim of a superior, but physicians can work almost anywhere they choose. They can determine where they would most like to live before embarking upon their careers.

There are more opportunities for physicians than for those in other professions, especially for those entering practice within 7 years of graduation from training programs. Doctors can elect to work for themselves, join a large group practice, or be employed by hospital or academic health-care centers. Although an employed physician must answer to a boss, starting salaries for employed physicians have increased, and these doctors function relatively independently when compared with other types of professionals who are employed by a large group, company, or organization [4].

By using examples that we provide in this book, the young doctor can actually sculpt the kind of practice they wish to have. Doctors can carve out the exact kind of practice that makes them most comfortable. If a doctor is interested in seeing only patients with certain diagnoses or in providing only a limited number of treatment options, he or she can easily do so. If a doctor wants to see certain kinds of patients (e.g., older, geriatric patients or pediatric patients), this can easily be done. If the doctor wishes to see patients who speak only another language beside English, then this, too, can easily be achieved. If you want only patients who pay cash or want to have a concierge practice, where a limited number of patients pay an annual fee to have 24/7 access to your practice, then this is also within the realm of possibility.

For the most part, physicians are told almost on a daily basis how terrific they are, which is unlike the UPS driver. There is not a day that goes by that most physicians do not receive a compliment or accolade about the care they provide. If ego satisfaction and gratification are your drivers, then you have selected the right profession.

The practice of medicine provides job security and a future of guaranteed employment. It is a sad commentary that so many graduating lawyers are unable to find a job practicing law and also have thousands of dollars of debt that must be repaid [5].

This is not the case with American medical doctors. Everyone who graduates from medical school and a training program can find a job. It

may not be a perfect job, but, nonetheless, it is a profession that is in demand and will certainly provide a future of job security.

Even though we face the challenge of declining reimbursements and higher overhead costs, a different career track would not have eliminated these detractors. These same challenges exist in almost every industry and in almost every profession. These challenges in other industries have resulted in extinction, because competition has created ways to do the same things either better or less expensively. Companies, organizations, and practices have done so because they have found ways to be more efficient and more productive. Ultimately, they have done things better. Healthcare is one of the industries that have focused on creating greater efficiencies and lowering operating costs, becoming more efficient and more productive, preserving patient satisfaction, and improving clinical outcomes. This scenario presents an opportunity for improving quality, preserving patient satisfaction, and, yes, improving the bottom line (i.e., increasing productivity).

In spite of all the hardships and detractors associated with modern healthcare, doctors have much to be thankful for. Those working in other industries have their lists of complaints, but they are often powerless to make changes, because they are neither owners nor partners in the business. If they are members of a large organization, many layers of bureaucracy must be penetrated in order to make changes. Doctors enjoy the opportunity to have significant control and the tools to implement change and to tweak our practices to improve the services that we provide our patients. We have local, state, national, and specialty organizations that are eager for young doctors to join and help make the practice of medicine better for patients and for doctors. (See Chap. 9 on organized medicine.) If we put our problems and complaints with modern medicine on a scale and then weigh those issues and concerns against the benefits of being a doctor, then we will find that the scale weighs heavily on the pluses and we should be thankful to be member of this wonderful club.

## Why Do Doctors Need to Understand the Basic Principles of Business?

Most physicians will earn \$10–12 million over their practice lifetime. However, it is physicians who will control multiple times that amount of money by directing healthcare for the patients that they provide care. With the mere signature of a physician, they control almost 100% of all healthcare expenditures yet physicians receive only 18% of the total \$3.5 trillion in healthcare expenses [6]. Using basic business skills and outstanding clinical management, individual physicians or groups need to understand that in order to be successful, the physicians will have to prove that they can deliver a better product at a lower cost than their competitors. This is the direction of the future of American healthcare. Perhaps that is why 20% of the enrollment in US business schools are physicians [7]. The authors do not believe that an MBA is going to be a necessity for surviving in the future for new physicians. However, we do believe that a minimum knowledge about business will be required, and we believe that is what is the purpose of this book: to help young doctors cross the bridge between practicing medicine and running a business. Young doctors need to understand that the business of medicine will determine their future success.

Our training teaches us how to diagnose and treat medical conditions. Few of us have any training in the business of healthcare. It is imperative that we understand and accept that healthcare is a business. It really is no different than Coca-Cola, Microsoft, or Apple but just on a much smaller scale. Those companies need to be concerned about profit and loss and expenses including overhead just as a medical practice must monitor on a regular basis. One big difference is that healthcare is a very regulated industry. We have laws established by both the federal and the state government that we must adhere to closely or face huge fines and penalties.

The patient in this millennium has high deductible insurance coverage, expensive premiums, and often co-pays that makes the patient have skin in the game. The nature of medical practice has placed a price tag on nearly every-

thing a doctor does or orders. The days of transparency have arrived, and when a patient asks how much is CT scan or what is the cost of BRCA gene test, the doctor needs to know the answer or be able to provide it quickly for the patient.

### Sally's Experience

Sally was despondent about her experience after her rotation with the internist in private practice. She discussed her experience with the dean of the medical school and recommended that other students not be assigned to a physician harboring such negative attitudes about the medical profession. The dean placed Sally in touch with a more encouraging and constructive physician. The dean pointed out that despite all of the challenges, medicine is still a desirable profession and the majority of doctors would choose the healthcare profession again. Sally also decided to make an effort to understand the role of business in medicine. Out of her negative experience, she left with the understanding that becoming a complete physician means to be a good clinician and to become knowledgeable and competent in the dollars and cents of the practice of medicine.

## Bottom Line

When a physician takes the Hippocratic Oath, the focus is most primarily on the clinical aspects of the care he\she provides to the patients with a medical problem. However, the young physician has not only answered a calling but also needs to understand a business. The importance of business in healthcare can be succinctly stated by the title, *A Doctor by Choice, a Businessman by Necessity*, of an article in the New York Times by Dr. Sandeep Jauhar [8]. It will be a necessity for all physicians to have a basic understanding of the basics of business in order to have a successful practice. This book will provide those basic business principles and metrics that will put you on the road to a practice that you will enjoy and will ensure your productivity.

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