



## BUSINESS PLANNING IS VITAL TO THE SUCCESS OF YOUR PRACTICE



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**W**hether you are just starting or have an established medical practice, annual business planning is a vital component of growing a successful practice and obtaining results. By going through the business planning process you will solidify your goals and provide a way to measure results. A good business plan will:

- Force you to think about your practice and where you want to be.
- Define concrete goals and objectives in simple, measurable, achievable, realistic and time limited (SMART) terms.
- Test your business assumptions.
- Benchmark your progress against actual performance.
- Determine how much money you will need to finance your business plan.
- Help you obtain the necessary financing to operate and expand your practice.

The business planning process will lead you through a series of thought provoking questions and issues. The objective is to clearly define your practice and personal goals, as well as prove the viability of the practice to lenders and other outside parties. Your consultants will look at your plan to determine if your practice or expansion plans are realistic and obtainable. Your business plan will spell out your goals in clear, SMART terms. It will:

- Define your practice concept.
- Explain your vision and mission statements.
- Establish revenue and practice volume goals.
- Determine how you will measure your success.
- Determine if there are any risks associated with your services.
- Present an analysis of demographic and market research to determine if the geographic area will support the survival and growth of your practice.
- Provide information on your competition (other providers) and an analysis of your strengths, weakness, opportunities and threats (SWOT Analysis).
- Define your marketing strategy, which will include your fee schedule and business development strategies.
- Identify your organizational structure and human resource needs.
- Determine your financing needs.
- Review regulatory requirements that are applicable to your practice.

A business plan loses credibility if the objectives are not believable to the reader. Its purpose is to inform and influence the reader towards some action, such as providing a loan or other financing opportunity.

Although most practices are not trained to think this way, one of the most critical components of a business plan is the *Financial Plan* – especially if you need to obtain a bank loan. Your financial plan should include a:

- Breakeven Analysis
- Practice Overhead Analysis
- Projection of Patient Volume and Reimbursement
- Cash Flow Forecast

The *Breakeven Analysis* in your practice is the point at which your revenue is equal to your total expenses. At this point you neither make money, nor do you lose money. The breakeven analysis will let you know how many patient encounters per day are needed for you to meet your overhead. When applied to other specialties, the breakeven may be the number of studies or procedures performed. It provides a good indication of the viability of your practice or an ancillary service. The breakeven can also be used to evaluate practice expansion plans or other expenditures.

The *Practice Overhead Analysis* indicates how efficiently your practice is running, as well as the appropriateness of your staffing levels. A practice overhead analysis focuses on the following areas:

- Personnel – *salaries and benefits*
- Occupancy – *rent, mortgage, utilities, cleaning and repairs*
- Operations – *malpractice, medical supplies, and drug costs*
- General and administrative costs – *all other expenses not included above*

Physicians should utilize benchmarking tools, such the Medical Group Management Association (MGMA) Cost Survey, as well as the Performance and Practices of Successful Medical Groups Survey. Both surveys will allow physicians to evaluate their organization's performance against other practices in their specific specialty and geographic region. Comparisons can then be made of the practice's actual overhead costs to those of similar practices. These vital signs can be used to determine if the practice is operating efficiently and identify areas for improvements.

The purpose of the *Projection of Patient Volume and Reimbursement* is to project the future revenues of your practice over a period of time – usually one to three years. It includes your patient volume by location, provider and CPT code. The net practice income projection is probably the most difficult to forecast, especially for a new practice due to the lack of historical data. In this case, the physician should use data from similar practices as a starting point. The patient volume history can be used for existing practices. In either case, your net practice income projection should reflect your goals, strategies and objectives.



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A *Cash Flow Forecast* is probably your most important financial tool. It is your cash flow that shows if, and when, you will run out of the cash needed to run your practice. It allows you to take action before a problem occurs or do “*what if*” calculations before taking on new physicians or adding ancillary services. The cash flow is a 12-month projection that forecasts the receipts and disbursements for your practice.

As one of the leading accounting and consulting firms for physician practices, Cowan, Guteski & Co., P.A. understands the importance of business planning to secure the viability of your practice. Contact Don Cowan, CPA, CFP® - Managing Director at 732-349-6880 extension 122 or [dcowan@cowanguteski.com](mailto:dcowan@cowanguteski.com) for more information on business planning.

***About Cowan, Guteski & Practice, P.A.***

*As a diversified certified public accounting firm, Cowan, Guteski & Co., P.A. is committed to being an active partner in their client’s growth by delivering value driven accounting and profitability consulting services. Visit [www.cowanguteski.com](http://www.cowanguteski.com) for more information on the services available to meet the unique needs of physician practices.*



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