



The Do's and Don'ts of Financing a New or Growing Medical Practice

A Message From Our Friends At Clark County Credit Union



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Starting or expanding a medical practice can be challenging, especially considering all the components that go into the business side of providing health care in Southern Nevada. Medical professionals want the best for their patients, and while providing leading-edge medical services and the latest in patient care technology provides a competitive advantage it can also be very expensive. Once you've decided on a plan to start or grow your business, you will need a financial partner to help make it a reality.

After working with businesses at all stages of growth for nearly 15 years, I have seen some of the ways business financing can go badly. Lack of planning, using risky financing or credit cards, and not leaving enough cash available for last minute expenses are all challenges a medical practice may face when expanding.

Here are some suggestions for making the financing portion of your expansion simple and streamlined:

- Take into consideration any patient run-off that may occur with a newly relocated office. Depending on how far the new location is from the existing location, you're going to lose some patients.
- A similar concern exists with acquiring a new practice. Calculate some patient run-off and a reduction in revenue from the previous owner's practice.
- Make sure you have enough cash on hand for other expenses that can come up with a move or expansion. Things such as cost of moving, new

furniture, CPU's, and waiting room artwork may not typically be financed.

- If building out a new office or constructing a new building, button down your plans as much as possible before you start the project. Hire a consultant if necessary. The cost of a consultant is much less than pricey change orders.
- Hire a strong back office / collections department. Doctors' primary concern should be the wellbeing of their patients. However a bad office staff can sabotage an entire office's patient base, causing the doctor to lose focus on patient care to deal with the administrative side of the practice.

These suggestions, when followed, will help alleviate stress and time loss due to inefficient planning, financial difficulties and surprise expenses. Sometimes it is better to wait for a plan to come together, complete with financing and a strong business strategy, before charging ahead.

Unfortunately, this was the case when we recently helped a member of the credit union purchase his own building to fit the needs of his growing business. After he designed his space, got bids from contractors and started construction, he then began to change his mind about the building layout. The borrower literally had a wall built only to tear it down, and then decide again that the wall should stay. Additionally, as the building progressed and started to come together, he realized that he wanted a higher-end feel to the office than originally selected.

Flooring was ripped up and reapplied with the higher end finish. Each change order resulted in significant increases in his total costs.

Additionally, because he changed his quality of tenant improvements after the appraisal was completed, the lower quality finishes resulted in a slightly lower value which means the business owner needed to come in with significantly more cash. In this case, he was able to afford it, however if there is insufficient cash reserves (either in the business or personally) this can severely handicap your project.

Anytime you decide to build or expand, make sure

Continued on page 24...

that you have more than enough cash (or access to cash) so you can complete your project. Consider additional costs such as marketing the new location, additional staff with increased space, equipment and furniture upgrades and higher utility costs in a larger space.

There are several lessons to be learned from this real live case study, include the following:

- When considering your new building or expansion, walk other properties and analyze the space layout. Ask the doctors where bunching occurs or what they wish they did differently. Learn from others' experiences.

- Rather than trying to do everything yourself to save money, recognize that there are architects, interior designers and other professionals that can help you create the right flow to your office. It's less expensive to pay for consulting in the beginning than it is to tear down walls and pay for change orders.

- Pay attention to the small stuff. A budget can get blown out of proportion through small items such as door handles or faucets.

- When moving, keep in mind what other things may need upgrades. Are your phone systems, computers and servers still adequate? Is your software up to date? These costs are not typically included in a building loan, but getting a separate loan for them at this time will save you time and effort.

Contact a trusted commercial loan officer for guidance on the financing options available to you with an expansion or new building purchase.

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