Direct Primary Care Practice Business Plan Supplement

A well-written business plan for your direct primary care (DPC) practice is one of the most important assets you can have to position your new business for success. A business plan is the roadmap for your new practice, describing how it will operate, what values you will embed into its culture, and what risks you face. It also identifies your benchmarks for success, as you define it. The process of developing a business plan may actually help you decide what type of DPC practice you want to have. For example, will you charge visit fees? For what services will members pay extra? Will you maintain any fee-for-service (FFS) practice? How will you manage overutilization? Your business plan should capture your vision for the practice and for the care you provide to your patients. Further, it should clearly articulate that vision to others stakeholders (e.g., new partners, employees, potential patients, funders who could provide capital for your DPC practice). Finally, creating your business plan should help you understand what you will lose and what you will gain as a DPC practice. For example, you will lose your old support structures and gain new challenges. Fortunately, you will also lose the sometimes frustrating task of dealing with insurers, and you will gain a more meaningful relationship with your patients. Ideally, your business plan will reflect both the opportunities and the challenges involved in establishing your DPC practice.

A typical business plan includes the following elements:

- A description of the business
- What products and services it provides
- How it is marketed
- How it is managed and organized
- Financial statements for the owners
- A financial plan for the business, with attention to start-up expenses

While business planning per se is outside the scope of this resource, you can find a number of business plan templates and resources online, including the following:

- **Create Your Business Plan** (Small Business Administration): https://www.sba.gov/writing-business-plan
- **Business Planning and Financial Statements Template Gallery** (SCORE): https://www.score.org/resources/business-planning-financial-statements-template-gallery

The information covered in this DPC Practice Business Plan Supplement should be added to a more formal overall business plan. For new and established physicians in solo or small practices who want to create a DPC practice or convert their existing practice, this resource will help with the DPC-specific aspects of creating a business plan. Considerations for a DPC practice are included under headings that also could appear in the overall business plan. This resource touches on some of the special concerns involved in starting a hybrid DPC/FFS practice, but it focuses primarily on creating or converting into a total DPC practice. While there is no guarantee of success in any business, using this supplement is the first step in avoiding a guarantee of failure by planning for the short-term and envisioning the long-term.

Description of the DPC Model

Direct primary care is a subset of retainer-based practice in primary care. It is not one practice model; rather, it represents a spectrum of practice arrangements that share a common set of characteristics. The defining characteristic of a DPC practice is that it offers patients the full range of comprehensive primary care services—including acute and urgent care, regular checkups, preventive care, chronic disease management, and care coordination—in exchange for a flat, recurring membership fee that typically is billed to patients monthly.

The DPC model is distinguished from other retainer-based care models by a lower fee structure in which most—or all—primary care services provided in the DPC practice are included in the membership fee. There are a variety of DPC practice types, ranging from practices that operate entirely on membership fee revenue to hybrid practices that continue to bill insurance companies for patients who chose to remain in the FFS system.

Description of the Practice

This description should focus on the characteristics that make your new DPC practice different from the typical primary care practice. For example:

- It will be a membership practice that contracts directly with patients.
- Patients will pay for a broad range of specified primary care services with regular (e.g., monthly) membership fees. (You should also describe any additional fees you plan to include, such as visit fees or fees for certain services.)

- The practice is distinguished from other retainer-based care models (e.g., concierge medicine) because it charges a membership fee *in place of* standard FFS fees rather than *on top of* such fees.
- Membership fees will be set at a level that supports all needed care coordination and other non–face-to-face services; additional visit fees may be charged, as appropriate (e.g., for visits beyond a certain number per year).
- On average, the physician and other members of the care team will spend more time with the patient during the office visit compared with a typical primary care visit.
- The practice will focus on building strong patient-physician relationships.
- The practice will not file claims with third-party payers, which will eliminate certain staffing costs.

One important part of your practice description is the clear articulation of a specific mission, vision, and philosophy for the practice. While these are likely to be unique to your practice, you will probably want to include the idea that your new DPC practice will provide better, more cost-effective care; reduce referrals to expensive subspecialists; and build stronger physician-patient relationships.

Initial objectives for your DPC practice might include the following:

- Deliver high-quality primary care to residents of the service area who join your practice
- Improve patient satisfaction with the care experience
- Improve the health of your practice's membership population
- Increase the quality of care provided to patients
- Reduce the per-capita cost of health care
- Serve the community's needs
- Ensure that the practice can survive off its own cash flow in 12 months or fewer
- Maintain collections of 99 percent or more and missed appointments of 5 percent or less
- Increase the number of patients by ___ percent per year through superior performance, marketing, word-of-mouth referrals, and additional physician hires (if applicable)
- Have _____ members by the 12th month of operation and _____ members by the 24th month of operation

Services Provided

You will need to determine what services are included in your DPC practice's monthly membership fee, and then set prices for any additional services you do not plan to include. Use the Services Worksheet on pages 6 and 7 as the starting point for your list. Consider what services you are comfortable offering, based on your skillset and training. In addition, determine whether you can refer less often than you might have in FFS practice. The more services you can provide with a reasonable membership fee, the more attractive your practice will be to patients. Your list of services will depend on your circumstances and the amount of your monthly membership fee.

Most DPC practices find that it makes sense to include the following services in their membership fee:

- Annual health assessments
- Expanded access to the care team (including by phone and email)
- Urgent care
- Care coordination
- Preventive care
- Chronic disease management
- General evaluation and management (E/M) services

Services for which you might consider charging extra include the following:

- In-office x-rays
- Flu shots
- Casting
- Bracing
- Pregnancy testing
- Health coaching and counseling
- Laboratory tests (or some subset of laboratory tests)
- Minor surgery
- Immunizations

By including a broad range of specified primary care services and offering some ancillary services, you may be able to save your patients money, which is another selling point for your DPC practice. For example, you may be able to save money if you establish a volume purchase program by sending all blood samples to one lab or ordering prescription drugs from one source; these savings could be passed on to your patients. You may also find that you can negotiate discounts for your members; for example, imaging services might give a price break on computed tomography (CT) scans and magnetic resonance imaging (MRI) in return for direct and full payment that does not require claims submission.

Many DPC physicians are adding in-office dispensing to their practices as a way to enhance the patient experience and add member value. Physicians can distribute pre-packed medication directly to the patient at the point of care. In addition to being convenient, in-office dispensing is another extension of DPC's

philosophy of cutting out the middleman. DPC physicians have been able to get medications at wholesale prices and pass along the savings to their patients.

Physician dispensing regulations are governed at the state level, typically by either the state's pharmacy board or medical board. Depending on your location, dispensing medications can be as simple as finding a medical supplier or as difficult as negotiating special exemptions. For more information about dispensing regulations in your state, contact your state's medical board (www.fsmb.org/state-medical-boards/contacts) or pharmacy board (www.nabp.net/boards-of-pharmacy). Consult your legal counsel if you have any questions regarding your state's regulations.

Another issue to consider about the services your practice will offer is whether you need a provision to control overutilization (e.g., charging additional visit fees, capping the number of visits). Established DPC practices have not reported that overutilization is a problem. On average, they have reported seeing one patient per 100 enrolled per day (e.g., six visits per day from a panel of 600 patients). Unless you have reason for serious concern based on your patients' personalities and circumstances, you might start with no control on utilization and wait to see if it becomes a problem.

Services Worksheet

The Services Worksheet on pages 6 and 7 can help you establish the list of services that are included in your DPC practice's monthly membership fee. Put a checkmark by the services you want to include. If you can estimate the annual cost per member of providing each service, enter that figure in the "Cost per member per year" column. Then, add the annual costs to see how the total compares to the membership fee you have in mind. For excluded services, enter the cost per visit and an appropriate fee.

Marketing Plan

A marketing plan is a key element of any business plan. Given the challenges that new DPC practices face, effective, strategic marketing is particularly important. These challenges include the following:

- As awareness of DPC continues to grow, some patients who have heard of DPC may assume it is concierge care and is not for them.
- If you do not participate in any insurance contracts and you derive all of your practice revenue from membership fees and direct charges for services, you will become an out-of-network provider for all of your patients. They may have to accept a decrease in insurance reimbursements if they join your DPC practice.

Sample Checklist for Conversion to a DPC Practice

In any major undertaking, you need to keep track of the details. A checklist is an easy, effective way to make sure you complete all of the key steps involved in converting your existing practice to the DPC model. The following items are a starting point for your to-do list.

- ☐ Talk to staff about changing your practice model from insurance/FFS to DPC, and consider appropriate staff additions or changes.
- ☐ Consult a health care attorney to discuss converting to a DPC practice and determining whether to opt out of Medicare.
- ☐ Send out a patient interest survey to current patients.
- ☐ Find a new location (if applicable).
- ☐ Set a date for launching your DPC practice.
- ☐ Schedule meetings with employer groups, such as local businesses, the Chamber of Commerce, and Rotary Clubs.
- ☐ Review insurance contracts for opt-out requirements.
- ☐ Send letters to insurance companies to opt out of contract renewal.
- ☐ Research your state's patient abandonment rules and regulations.
- ☐ Send out first notification letter to current patients, and then send several follow-up letters to those who haven't decided whether to join.
- ☐ Find an insurance agent/team to offer a wraparound insurance policy that works with DPC services.
- ☐ Find new merchant services for billing/invoicing patients using monthly fees.
- ☐ Depending on the state in which you practice, determine policies and procedures for tracking and dispensing prescription drugs, vendor(s), and, if necessary, carrier(s) and rates for shipping.
- ☐ Determine monthly membership and visit fee structures, what services to include in the monthly fee, the wording of the patient membership agreement, and an optimal patient panel size.
- ☐ Start marketing your new DPC practice well before the next open enrollment period (use tactics described in the "Marketing Your Direct Primary Care Practice" tool).
- ☐ Hold as many open meetings as possible before the next open enrollment period to answer patients' questions.

Information about marketing a DPC practice is presented as a stand-alone element of the AAFP Direct Primary Care Practice Toolkit. See the "Marketing your Direct Primary Care Practice" tool.

Patient Considerations

The key value proposition of DPC for patients is the cost savings that DPC practices could offer when their care is paired with a low-cost, high-deductible, wraparound insurance policy. Although few wraparound policies are available currently, DPC practices should advise their members to obtain this type of insurance whenever such policies do become available.

Another important patient benefit of DPC is the provision of comprehensive health care services in the context of a more in-depth, meaningful physician-patient relationship. Since primary and preventive health care are covered by nearly all insurance plans, and the DPC model is a new way of purchasing health care, many patients won't understand it right away. Your marketing efforts for your DPC practice need to educate, recruit, and retain patients, as appropriate for the location and demographics of your practice.

Financial Plan and Pricing Strategy

Since DPC practices have a member-based revenue model rather than a traditional FFS model, their revenue stream is a simple, monthly membership fee, with or without visit fees. DPC practices do not charge insurance copayments or deductibles, and they do not need to be paid by insurance companies for primary or preventive care. Therefore, their revenue goes directly to primary and preventive care delivery and costs, not to an "insurance bureaucracy tax."

Consider a typical FFS office visit:

- You charge $80 for a 10-minute patient visit.
- The insurance company reimburses you $40.
- Your cost of collection is between $5 and $20, depending on variables such as patient responsiveness, staff time, and your billing system.
- Therefore, the actual reimbursement for an $80 visit is only $20 to $35.
- If you assume a single, all-inclusive exam room overhead of $30 (i.e., the national average), you could be losing up to $10 for each patient you see.

One of the biggest advantages of DPC is the drastic reduction in overhead, malpractice insurance, health insurance claims, processing, billing, and collection costs. Since the relationship between the patient and the physician in a DPC practice involves a direct exchange of money for primary care services, billing and collections costs are minimized. If service fees or visit fees are collected at the time of service, collections may be reduced to little more than following up with patients who are not current with their membership fees. Some DPC practices have reported a cost reduction of 40 percent or more from the elimination of billing and collecting from insurance companies. Medical malpractice insurance premiums should also be lower because the DPC model focuses on primary and preventive care, with an emphasis on wellness, longer visits with physicians, and more face-to-face communication.

For your DPC practice, you will need to determine the membership fee structure, the optimal number of patients per physician, whether to use mid-level providers, and the number and type of support staff. Considerations include the following:

- The amount of the membership fee
- Whether to stratify the fee (**Note:** Some state insurance commissioners may view membership fees that are stratified by clinical risk or by age as a form of insurance, so be sure to consult with knowledgeable advisors about this consideration.)
- Whether to charge a per-visit fee or charge extra for services such as immunizations, minor surgical procedures, and imaging
- Whether to include financial incentives to minimize overutilization of practice services
- Whether to maintain any conventional FFS practice (i.e., a hybrid DPC/FFS practice)

With the proper preparation, you can make arrangements to ensure you have a strong cash balance on hand to keep the business running while you build your patient panel. On a yearly basis, you can make adjustments to your fee structure based on actual operating costs. The two Excel workbooks included in this toolkit (see "Net Revenue and Physician Salary Calculator" and "Financial Pro Forma Calculator") and the Start-up Costs Worksheet on the last page of this tool can help you work through many of these decisions.

Although direct care can reduce overhead and make practices more financially viable, the transition from traditional practice may result in temporary reductions in income.

— Brian R. Forrest, MD

Management Plan

A solo physician in DPC practice may be able to get by with one or two employees to handle clinical and administrative duties. Groups of three or more physicians in DPC practice tend to have less than one administrative full-time equivalent (FTE) per physician, compared with the 5:1 FTE-to-physician ratio common in many conventional practices. This low staff-to-physician ratio makes it less expensive to add physicians or mid-level providers as the practice grows.

Unless your practice's membership agreement is structured so that the membership fee does not include services that are covered by Medicare, you will not be able to participate in Medicare. However, it still makes sense to build your practice around an efficient, physician-friendly electronic health record (EHR), especially one that is rich in patient-facing features such as a patient portal with secure physician-patient email. Any tools that optimize your ability to communicate with, manage care for, and retain your patients are valuable. Although EHR technology is still young enough to pose challenges, a number of systems designed for smaller practices have proved helpful and easy to use. Check out the "Direct Primary Care Service and Technology Vendors" list for EHRs that specialize in DPC.

DPC practices may attract members who are uninsured and members who have conventional FFS insurance but are willing to submit their own claims for out-of-network care. You can help your uninsured patients by identifying high-quality referral subspecialists, labs, imaging facilities, and other ancillary service providers who are willing to offer significant discounts for direct cash payment. Insured patients will likely prefer providers who are in their plan networks.

External Factors Affecting DPC Practices

Federal and State Regulations

States have started to enact legislation that defines a DPC membership fee as a medical benefit outside the scope of insurance regulation. To date, only a few state regulators view membership fees paid in exchange for health care services as a form of health insurance or a health plan. However, depending on your state's regulatory environment, you may find that you need to make certain provisions (e.g., charging visit fees in addition to a reduced membership fee) to avoid being subject to insurance regulations. Moreover, some state insurance commissioners may view membership fees that are stratified by clinical risk or by age as a form of insurance, so you need to tread carefully and be sure you have knowledgeable advisors.

It is vital to get advice from an attorney who is familiar with DPC-related issues and can ensure that your pricing structure complies with your state's regulatory environment and all applicable laws.

Not all health care attorneys have the necessary experience and expertise, so choose carefully (see the "Key Questions to Evaluate Legal Counsel for Your Direct Primary Care Practice" tool). Remember, legal advice is not something you only need when you are starting a new practice. You should maintain a relationship with your legal advisor(s) to keep abreast of rules and regulations as they evolve.

The Patient Protection and Affordable Care Act (ACA) includes a clause that recognizes DPC as a valid health care delivery model if it is paired with a wraparound insurance policy that covers everything outside of primary and preventive care (i.e., emergencies and catastrophic events). In addition, DPC is the only non-insurance offering to be authorized in the Health Insurance Marketplace.

Keep in mind that to avoid allegations of patient abandonment when you convert a conventional practice to DPC, you will need a detailed plan for transferring care of patients who elect not to join your DPC practice. Consult your attorney for guidance.

The Insurance Challenge

Ideally, members of a DPC practice would have low-cost, high-deductible, wraparound insurance to cover everything outside of primary and preventive care. Unfortunately, few insurers currently offer such policies. The DPC market may need to grow before insurance companies find it worthwhile to design policies that work with DPC services. Some insurance companies may not be aware of the advantages of the DPC model, while some may view DPC as a threat. Some insurance companies are actually working against the diffusion of the DPC model because they fear getting cut out of the health care finance equation. However, there are insurance companies that are investing in the development of DPC practices as a means of saving on downstream health care costs. In addition, some payers have embraced hybrid DPC/FFS practices that continue to bill insurance companies for patients who chose to remain in the current FFS system.

Make sure to align incentives so that you are always supported to do the right thing for the patient; misaligned incentives can creep in very easily, especially during the early days when the practice is just starting to grow.

— Erika Bliss, MD

Services Worksheet

	Included Services		Excluded Services	
	Include in membership? ☑	Cost per member per year	Cost per visit (if excluded)	Fee (if excluded)
ADULT MEDICINE				
Annual exams	☐			
Preventive services	☐			
Routine office visits	☐			
Diabetes education	☐			
Consultations and personalized coaching for weight loss, smoking cessation, and stress management	☐			
Chronic disease management for hypertension, diabetes, hyperlipidemia, heart disease, asthma, arthritis, osteoporosis, and other chronic conditions, with referrals to subspecialists when necessary	☐			
Primary care counseling/treatment for infertility, marital and family issues, mental health issues, and sexual dysfunction	☐			
Urgent care: Same-day or next-day care for acute problems, including sprains, strains, fractures, cuts requiring stitches, and acute illnesses	☐			
Dietician services	☐			
Exercise and obesity counseling	☐			
Spirometry	☐			
Joint injections	☐			
Electrocardiograms (ECGs)	☐			
Subtotal cost per member per year				
SKIN CARE				
Skin biopsy	☐			
Wound care	☐			
Removal of minor lesions, skin tags, moles, and warts	☐			
Biopsies of suspicious dermatological lesions and/or referral	☐			
Subtotal cost per member per year				
WOMEN'S HEALTH AND PREGNANCY				
Acute problems	☐			
Annual well-woman exams	☐			
Papanicolaou testing	☐			
Family planning	☐			
Intrauterine device (IUD) insertion	☐			
Pregnancy testing	☐			
Maternity/prenatal care	☐			
Subtotal cost per member per year				

Services Worksheet, continued

MINOR SURGERY				
Laceration repair	☐			
Lesion removals	☐			
Hyfrecation for lesions and blemishes	☐			
Subtotal cost per member per year				
CARE OF INFANTS, CHILDREN, AND ADOLESCENTS				
Newborn care	☐			
Infant care	☐			
Annual health assessments	☐			
Routine office services	☐			
Immunizations	☐			
Sports physicals	☐			
Subtotal cost per member per year				
MISCELLANEOUS				
Laboratory tests, including blood glucose (fingerstick), hemoglobin/hematocrit, HIV screening, prothrombin time (blood coagulation assessment), mononucleosis testing, pregnancy testing, fecal occult blood testing, rapid strep testing, urinalysis	☐			
Blood draws	☐			
Subspecialist care coordination	☐			
Hospital care coordination	☐			
Immunizations	☐			
Flu shots	☐			
Casting	☐			
Ankle braces, forearm splints, finger splints, thumb spica splints, cast boots, walker boots, wrist braces	☐			
Phone appointments	☐			
Email/text contacts	☐			
Subtotal cost per member per year				
TOTAL COST PER MEMBER PER YEAR				

Start-up Costs Worksheet

Ask any colleague who has started a practice: you are probably going to underestimate how much it will cost. This worksheet can help you identify and budget for significant expenses. Once you have your budget figures, you can insert them in the "Financial Pro Forma Calculator" included with this toolkit. Budgeted expenses that are not represented in the calculator can be inserted in one of the green-tinted cells marked "[other expense]" on the Labels & Variables worksheet.

Expense categories	Budget	Expense categories	Budget
Building (if purchased)		**Insurance**	
Purchase		Malpractice insurance	
Construction		Building insurance	
Remodeling		General liability insurance	
		Workers' compensation insurance	
Building (if rented)			
Leasehold improvements		**Marketing**	
		Advertising	
Information technology		Printing	
Wiring		Signage	
Hardware			
Software		**Administrative expenses**	
Telephone system		Legal and accounting fees	
Service contracts		Utility deposits	
		Pre-opening salaries	
Furniture and decor		Business licenses	
Waiting area		Regulatory costs (e.g., Clinical Laboratory Improvement Amendments [CLIA] expenses)	
Front desk		Loan origination fees and interest	
Back office			
Exam room(s)		**Contingency fund**	
Procedure room			
Physician office		**Cash on hand at opening**	
Medical equipment		**Other expenses**	
		•	
Supplies		•	
Office supplies		•	
Medical supplies		•	