

Rethink Business Structure & Evolve Your Practice

Reading time:

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Date created: 03/12/2020

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Why better organisation could reform your practice

Up until the 1990s, Australian general practice was dominated by sole trading or partnership ownership structures. Over the last three decades, corporatised practices have gained a small share of the market, but many medical professionals have preferred to keep their traditional approach to running their practices.

The trend is to well structured, corporatised businesses

But Mahesh Roy, National Segment Head of Healthcare at Macquarie Business Banking, argues a new form of corporatisation does not necessarily mean healthcare mega centres or centralised KPI driven management. Rather, it can mean a better organised and structured approach to ownership and operation, transforming your practice into a business.

Survival of the most adaptable

While they may argue among themselves about which developments are the most significant, many healthcare experts now believe a perfect storm of interrelated trends, such as disruption, automation, measures to keep a lid on healthcare costs and Gen Y's desire for family friendly work hours, are combining to make corporatisation more attractive.

In the short-term this may mean practices look to finance expansion to grow. This may take the form of acquiring equipment, taking on extra staff and increasing the number of patients being treated.

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Those who believe such predictions to be overblown may wish to look at what's taking place in other fee for service industries, such as law and accountancy. In those industries, the shift in mindset from running a practice to running a business has already occurred.

"Of course, sole-trader suburban solicitors and accountants still exist and will continue to do so for some time, just as many doctors and dentists will continue to be sole traders or partnerships," Roy observes. "But the trend is to well structured, corporatised businesses as opposed to sole traders or the old 'co-op' model, run around a servicing trust."



Corporatisation doesn't mean turning into a soulless healthcare factory.

Unlike their more traditional counterparts, corporatised practices have the advantage of being structured in a way that enables efficient and informed decision making, generates economies of scale and creates goodwill to provide equity to grow. That's long allowed them an edge in terms of being able to pay for and act on expert advice on everything from social media marketing to interior design to the latest customer-retention strategies.

Now it's increasingly allowing them to outcompete more traditional practices that don't have the budget to invest in sophisticated technology or the expertise to implement it.

The practice of the future

While corporatised medical centres conjure images of mega-clinics run as profit-maximising corporations, Roy predicts a different model will emerge.

"Corporatisation doesn't mean turning into a soulless healthcare factory," he says. "Lots of healthcare professionals appreciate the flexible hours and reduced administrative burdens that come with having equity in or being a consultant for corporatised clinics, whether those clinics are large or small."

"The future growth in corporatisation will probably be in smaller-scale operations. Rather than 15 GPs working at a mega-clinic, we're seeing more modest 'one-stop healthcare hubs' with GPs, dentists, specialists and allied health providers banding together to provide better healthcare outcomes with an experience centred on the patient."

Roy points out that those with equity in such corporatised practices have a revenue stream coming from the patients they see, as well as getting a share of the profits of the business as a whole. They will enjoy the standard savings that come from sharing costs and benefit from economies of scale.

More importantly, their business will have the capital, or at least the ability to access capital, needed to invest in the technology required to run a competitive healthcare business in the digital age.

"Funding the basics, or what will soon be the basics – secure digital data storage and transfer, cloud based practice management software, online booking and payment portals – isn't cheap," Roy says. "And if a healthcare business wants to stay near the cutting-edge with, for example, AI-driven 'cognitive assistants' or AI programs for medical specialists, the costs are even greater."

Financial implications

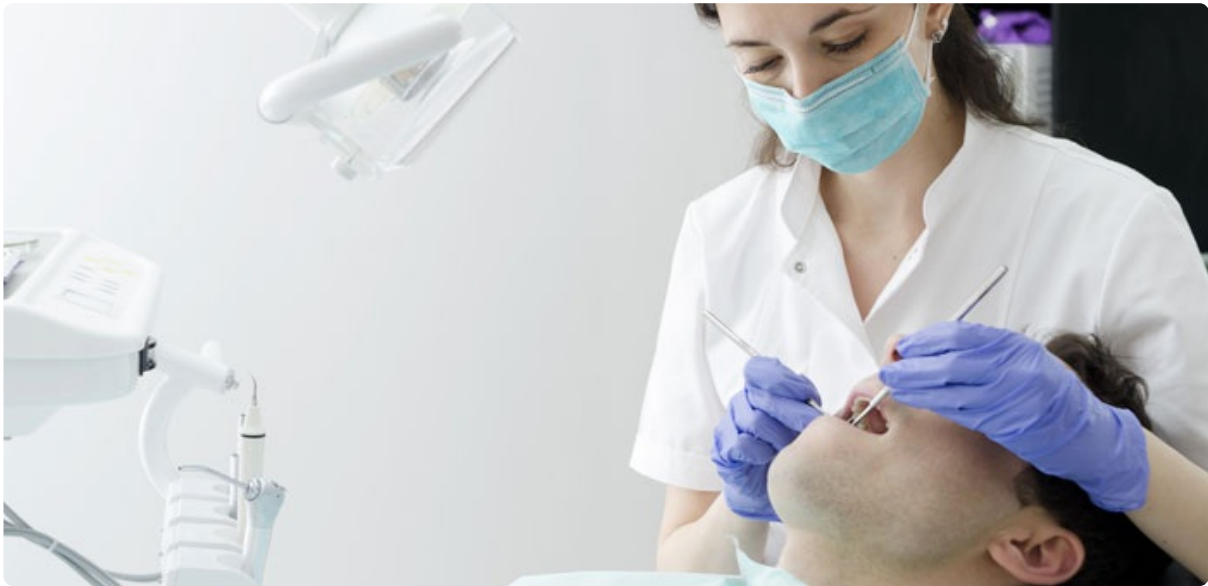
On paper, corporatisation might look like an ever more logical choice but how will it pan out in the real world?

"Let's say six GPs launch a clinic in the old co-op model with a servicing trust," Roy says. "The business is big enough to enjoy economies of scale, invest in sophisticated technology and bring in experts. Nonetheless, it's a partnership. Each GP runs their own business line and has a servicing trust in the middle, where they set their servicing fees. If one of the GPs leaves, they may sell their part of the business, usually for less than they might like because it is difficult to calculate how much that goodwill is worth if the clients aren't integrated into the clinic and are more tied to the GP them self."

"Compare that to a corporatised structure where there are, say, two GPs, two specialists and two psychologists. They have the same advantages as the six GPs in scale. But they can also refer patients to each other, integrating them into the clinic." (This is going to be handy as automation puts downward pressure on fees, resulting in healthcare professionals moving to higher volume,

lower margin business models.)

"If any one of them wants to sell their share of the business, they are likely to get a higher price for it, given goodwill can be more accurately estimated due to the larger secondary market. Alternatively, they can keep that equity and the resulting income stream. Even if they go on parental leave, retire or stop working in the business for some other reason."



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