

Starting Into Practice Guide

The Business Side of Chiropractic

The purpose of this guide is to help you collect and organize information needed to apply for bank financing. Each business opportunity inherently contains certain risks and preparation of this guide does not imply or guarantee you will receive financing. We are not rendering legal services or financial advice. Nothing herein should be used as a substitute for the advice of an attorney or accountant.

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CHAPTER 1. INTRODUCTION

As students of chiropractic, it's a given that you are in this profession because of your interest and passion in chiropractic care. For many students though, some of the other aspects are less appealing – including the business side of running your own practice.

You don't have to be a SUPER-ENTREPRENEUR or a great business tycoon. But you also can't rely on others to create and build your business. It's not easy. But with some well-thought out planning, you can be on your way to better understanding your new business.

Ultimately, understanding the business side of chiropractic will help you when talking with advisors, lenders, employees, and others. It will also help you make good business decisions so you can concentrate on doing what you do best -- chiropractic."

It's easy for new chiropractors to begin their practice thinking about being a chiropractor, but forgetting they must also become a business owner. Besides caring for the health of your patients, you have many other responsibilities in organizing and running your practice.

According to a 2000 Job Analysis of Chiropractic study by the National Board of Chiropractic Examiners (NBCE), chiropractors spend an average of 19.8 percent of their working time on business management issues; in a 40-hour week, that's almost 8 hours! Whether you start up your own practice or buy a practice from someone else, you will be IN BUSINESS, whether you like it or not. You know how to be a chiropractor, but do you really know how to be a businessperson?

Recognizing that health care professionals also need to be competent business people, some medical schools and hospitals are beginning to provide opportunities for new practitioners to learn the business of being a health care provider. In a July 14, 1997, announcement in *Business Week*, Columbia/HCA announced that it was pairing with the University of Tennessee's College of Business to create an executive MBA program for its physicians.

The purpose of this book: to give you a "mini-MBA," with information and encouragement to help you succeed in this new chiropractic business. You may want to read through the book briefly to get "the big picture" of what your business will look like. Then you may go back and read particular sections as they apply and when you are ready for them.

Many chiropractors feel they are unprepared to begin practice, and most cite lack of preparation in running a business as the area in which they need the most preparation. In the December 14, 2000, issue of *Dynamic Chiropractic*, a poll of readers asked the question "How well did your chiropractic education prepare you to become a successful doctor of chiropractic?" 43.0% of those responding said they were very well prepared, 24.0% said they were somewhat prepared, 14.6% said they were somewhat unprepared, and 18.3% said they were not prepared at all.

In the comments section, typical responses were:

- “I think all DC students should learn what it takes to be a successful entrepreneur.”
- “My DC college should have better prepared us to be small business owners.”
- “I was more than prepared to be a good clinician. However, ... unless you’ve had your own business before becoming a DC, most students have no idea.”

A primary feature of this book is the business plan. You can find many business plan formats in many locations; included with this document is a suggested business plan format that is based on the SBA format. It has worked for many new chiropractors who have taken their business plans to a bank or to another lender to apply for funds. Much of the book is designed to help you write sections of the business plan. You’ll see how it all fits together as you go along. Templates for the particular sections of the plan are included, but you can also construct your own template.

Hopefully this book will provide you with encouragement and help your new practice to be a success!

SOME ADVICE ON ADVICE:

Don't take a butcher's advice on how to cook meat. If he knew, he'd be a chef.

--Andy Rooney

Get practice startup advice from everyone who will talk to you. READ, check on the Internet, go to seminars. Listen, sift, weigh, and get some more advice. Then do what you feel is right.

If someone tells you “That won’t work” think about Spencer Silver, the inventor of the Post-It note” He said, “If I had thought about it, I wouldn’t have done the experiment. The literature was full of examples that said you can’t do this.” If Wilbur and Orville Wright had listened to advice, we would not be flying around in airplanes.

It’s YOUR PRACTICE and no one else’s. Do what you want, as long as it’s legal and ethical.

CHAPTER 2. THE CHIROPRACTOR AS ENTREPRENEUR

You have decided to open a chiropractic office; whether you buy from someone else or start your own practice, you are now an entrepreneur. An entrepreneur (from the French word meaning “to undertake”) is someone who organizes, operates, and assumes the risk for a business venture. A venture is (1) an undertaking that is dangerous, daring, or of uncertain outcome; (2) a business enterprise involving some risk in expectation of gain.

The point is that an entrepreneur is anyone who goes into business, because no matter how thoroughly you are prepared, any new business is inherently risky. But you can minimize the risk by planning.

What do we know about the “typical” entrepreneur? He or she is

- Probably under 30
- Has at least a college degree
- Has a parent or family member who owns or owned a business
- Has been influenced by role models.

This “typical” entrepreneur has many of the following personal characteristics:

- * Persistent, tenacious
- * Responsible
- * Inquisitive
- * Goal-oriented
- * Independent
- * Creative
- * Restless
- * Risk-taking
- * Self-Confident
- * Demanding of self

When students are asked why they want to be chiropractors, they often talk about wanting to be in a healing profession, helping others, promoting wellness. But most also talk about personal issues that are directly related to being in business:

- Wanting to be in a profitable business, making a profit, and creating wealth for themselves and their families.
- Desiring independence, not relying on someone else or taking orders from someone else.
- Seeking a particular way of life—working at a certain pace, taking time off for family and leisure.

Take a few minutes and evaluate how you rate in this important area. You can also take an entrepreneurial test online at one of these sources:

<http://www.liraz.com/webquiz.htm> or [entrepreneur test](#)

Factors in Business Success

In the August 30, 1998, issue of *Parade Magazine*, some successful entrepreneurs talked about the lessons they have learned, which might be of interest to you as you begin this entrepreneurial venture:

- Be persistent; never give up.
- Be humble and open minded; actively seek advice and support; recognize that you can't do it alone.
- Always exceed the expectations of your customers (patients); under-promise, and over-perform; offer the "ultimate" (We will be talking a lot more about this issue later).
- Love your work; you've chosen the chiropractic paradigm; make sure you really want to do this, because you'll be doing it for a very long time!
- Keep your integrity; treat everyone fairly; be honest in your dealings with everyone (patients, employees, the community).
- Expect difficulties; everything will take three times as long and cost three times as much as you expect.
- Network; take every opportunity to promote yourself and your practice.
- Return to Lesson #1 – Never Give Up!!!

Some additional principles for success in practice:

- Honesty is the best policy
- You, the doctor, are not the most important staff member in your office; your employees are!
- Satisfied patients don't refer; enthusiastic patients do;
- People don't care how much you know—they want to know how much you care.
- Does everyone like me?
- Record keepers are record breakers; you need a plan! (By the time you have finished this book, you should have a great plan!)
- We are going to grow old together (continued care)
- When it quits being fun, it's time to quit; success is not measured in dollars but in being happy with what you're doing.
- What is your mission? What are you going to do with this gift you've been given? "Chiropractic is not a way to make a living. Chiropractic is a way of life."
- Life is a boomerang; what you give is usually what you get back.

Factors that contribute to and "kill" success:

Success factors:

- | | |
|----------------------------|----------------------------------|
| *Willingness to succeed | *Targeted marketing |
| *Self-confidence | *A step ahead of the competition |
| *A clear business idea | *Support from others/advisors |
| *The business plan | *Cooperation; networking |
| *Exact control of finances | *Clear company structure |

“Killer” Factors:

- *Weak personality
- *Loner syndrome
- *Nebulous business ideas
- *No Plan
- *Too little financial backing
- *Cash-flow troubles
- *No marketing strategy
- *No controlling
- *Hiring the wrong people
- *Underestimating the competition

Not to worry; many of these “killers” (planning, financial, cash-flow, marketing, controlling, hiring, competitive strategy) will themselves be slain through the course of this guide. Please note, though, that none of these success factors have to do with your skill as a chiropractor. You can be the world’s greatest chiropractor and still not succeed in business!!!

Another List of Business Success Factors...

Rhonda Abrams, author of *The Successful Business Plan: Secrets and Strategies*, discusses factors contributing to business success:

- The business concept. It must be something that people want and are willing to pay for.
- Understanding the Market. Who are these people and how can I get them to buy?
- Industry Health. This may seem to be something you have no control over, but you need to consider how your practice relates to perceptions about chiropractic in general.
- Capable Management. Since you probably won’t have a track record for your practice, you’ll have to learn as much as you can as you go. One way to do this is to read books on management and marketing and other business subjects; another way to gather knowledge is to pay for it, through the services of a practice management consultant.
- Financial Control. Of all the factors listed, this one’s possibly the most important. Without establishing and maintaining a firm control on finances, your business will soon fail. Even though you’re the greatest chiropractor ever, if you don’t watch your cash flow, you’ll be the greatest ex-chiropractor ever!
- Consistent business focus. You must constantly re-evaluate your business, look at your patient base, marketing effort, and all areas of management.
- Anticipating change. This is also difficult, because you don’t always know where change is coming from or in what form, but you can continue to read professional publications, listen and learn at chiropractic meetings, keep abreast of new regulations. Then plan to adapt.

Some Advice Before You Begin

“When you start a business, you reinvent yourself,” said one young entrepreneur. So how do you begin to reinvent yourself? If you’re unsure, here’s some advice:

1. Start by evaluating your personal strengths and weaknesses. Take one of the entrepreneurial quizzes above and do a critical self-analysis. Becoming aware of your areas of strength and weakness will help you know when to take the ball and when to hand it off to someone else. It will also assist you in planning the beginning years as you make the tough decision of whether to associate with someone, buy an existing practice, or strike off on your own.
2. Start slowly. If you’re really not sure, work in a practice for a year and ask lots of questions.

3. ***Ask for help.*** Many others have done it and most are willing to share their experiences and expertise with you. Some suggestions: Ask instructors at your chiropractic school, check the alumni listings for chiropractors in your area go to Lyceum and ask lots of questions, go to the community in which you want to locate and talk to the Chamber of Commerce and other business organizations. Find the local chapter of SCORE (Service Corps of Retired Executives) or the local Small Business Development Center (SBDC).

Try either or both of these excellent sources of assistance:

SCORE's web site (<http://www.score.org>) and SBDC: a list of Small Business Development Centers by state: ([Small Business Development Centers](#))

4. ***PLAN.*** Everyone who gives advice includes this one. "A well-thought-out business plan can go a long way toward helping alleviate start-up fears" says Bill Fioretti, director of the Small Business Development Center at the University of Cincinnati. As you begin to plan, your ideas will crystallize and you'll begin to understand that the thing you want to do is not unmanageable. You'll begin to see that you CAN do it.
5. ***Expect the unexpected.*** Unless you're blessed with unlimited monetary resources, starting your business means taking a financial risk. Whether it's a hailstorm that destroys your office, a new chiropractor who takes away business, or an unhappy patient who sues, outside influences can threaten your business. While you may not be able to keep any of these things from happening, you can accept the reality that being in business brings risks, and you can institute methods to address those risks. Start by imaging "what if" scenarios involving circumstances, then think about how to create contingency plans and resources. While you can't think of everything, reading business and management guides like this one, and talking with others will help you think about the major circumstances and set plans in motion to proactively deal with them.
6. ***Put fear to work.*** Fear is a powerful motivator; let it work to stimulate you to get to work. Knowing the magnitude of your student loan debt when you graduate should stimulate you to start your practice sooner rather than later. As with most things in business—and in life—you have a choice: Do nothing, and you'll still have to pay off your loans. Do something, and pay them off faster and begin the life you want to live.
7. ***Build a support network.*** Talking to others—friends, family, former instructors, other chiropractors—can help you deal not only with the specific problems of the new practice but also helps give you confidence and assurance. Someone else has done it and succeeded, so you know you can too.

Some Additional Advice

Some additional advice about starting your business from those who've been there (adapted from "If I'd Only Known" by Jan Norman, at Entrepreneur.com):

Don't sell what you want; sell what your customers want. As a newly-born chiropractor with the "big idea," you want to sell your vision. But think carefully about how to get and keep patients. Work on getting to know each one individually and finding out what his or her needs, wishes, and hopes are. Then let your relationship guide you in knowing how to talk to each person. The more you know about the person, the better you'll be able to give him or her what is wanted.

Use classes, seminars, and tape to learn all you can before start-up. This doesn't have to be an expensive undertaking, but it is essential that you fill up with knowledge as you're beginning your practice and that you continue to take in knowledge as you go along. Take local business seminars, practice management seminars, find books and tapes at the local library, surf the Internet for information on specific subjects you need help with.

Live within your means. This applies both to your business and your personal financial life. Set up a realistic personal budget and stick to it. Keep your expenses as low as possible. Take out of the business only what you must to maintain a minimal lifestyle and pay off your debts. Frugality in the beginning will pay off in the long run.

Cash is King. You must maintain a constant positive cash flow to remain in business. Keep this concept central to your thinking as you go through this guide and as you begin your practice. To paraphrase Vince Lombardi's famous quote on winning: "Cash isn't the most important thing; it's the ONLY thing." We'll be talking more about the importance of cash as we go through this guide.

Marketing is essential. Your business plan must include an effective marketing plan and you should be prepared to spend a lot of time working that plan. A marketing plan establishes your strategy for reaching your patients by spelling out the competitive advantage of your practice, market size, and major competitors. Include a budget and timetable and ways to measure results. Use ingenuity and persistence in your marketing efforts, to make up for lack of cash. Every little bit helps.

Delegate to grow your business. One of the best business books for entrepreneurs is Michael Gerber's *The E-Myth Revisited*. In his book, Gerber emphasizes that you must work toward making yourself dispensable to the practice, so that it is able to function without your presence at every moment. Don't try to do everything yourself; train employees to handle everything except what you do best. If you want your business to grow, you can't do it single-handedly. Please find a copy of the Gerber book and read it.

Finally, and most important, ***You need a written business plan.*** Since that's the purpose of this book, we'll get started with that business plan right away.

One good site with specific information for new chiropractors: www.startingintopractice.com

SECTION ONE: STARTING A PRACTICE AND PREPARING THE BUSINESS PLAN

Section One covers two subjects:

1. Preparing the sections of the Business Plan:

- Executive Summary
- General Business Description
- Product/Service Plan
- Marketing Plan
- Operating Plan
- Management Plan
- Financial Plan

2. Questions relating to starting a practice, including all the concerns of the new business owner (click on the link to go to the relevant section in this book):

- Where should I locate my practice?
- How can I obtain financing for my practice?
- What is involved in purchasing a practice?
- What financial information do I need in order to obtain financing?
- What types of licenses and permits and tax forms do I need to obtain?

CHAPTER 3. THE BUSINESS PLAN

Fail to Plan; Plan to Fail

If you were able to start your own business with your own funds and had no need for investors or lenders, would you still need a business plan? Absolutely!

Most new business owners think a business plan is only needed when applying for loans. While it's true that a business plan will certainly be an important part of your bank presentation, there are many other excellent reasons to have a business plan. One survey of over 1,000 small business owners found that 89 percent of them used the business plan to set employee goals, and 85 percent used it to establish records for management.

Among the reasons to create a business plan are:

- To raise money
- To map a course
- To uncover potential problems
- To set goals
- To communicate your mission to employees and others

The process of creating a business plan also encourages disciplined thinking; putting it on paper helps you create your vision. The saying, "failing to plan means planning to fail" is very true in the business plan. An unplanned business is like a rudderless ship, foundering in the shallows when it could be sailing deep waters confidently.

The business plan is more than a device for raising funds; it is a basis for the ongoing operation of a business. Consider one formal definition of a business plan: a document containing the basic business idea and all related considerations in starting and operating a business.

Before You Begin

Consider the steps to a great business plan:

1. Lay out your basic business concept, including your practice vision and mission.
2. Gather data from many sources. Talk to people, check out websites, find out as much as you can before you start writing.
3. Focus and redefine your concept based on the data you've collected. Where you start out may be very different from where you end up; don't be afraid to alter your concept.
4. Outline the specifics of your plan, according to the template set up in this book.
5. Put it in **COMPELLING** form; make it interesting, visually attractive, different from the ordinary vanilla business plan.
6. Have someone else read it to be sure it makes sense and answers all questions.
7. Proofread before printing. Then, proofread **AGAIN**.

Writing the Plan

Some suggestions to help you in the actual writing of the plan:

Be honest, not only by avoiding outright lies, but also by revealing what you actually feel about the significant and relevant aspects of the plan. If there are possible problems, point them out (before someone else does!).

Use the third person (he/she/it) rather than the first person (I/me). Write as if you were a consultant hired by the DC to write their business plan. Discuss the BUSINESS rather than the OWNER. This focuses your thoughts and forces you to think more clearly and logically from the reader's perspective. It also focuses the reader on the business and avoids your sounding like you're "tooting your own horn."

Accent the positive. Avoid negatives such as "I don't have any business experience." Instead, discuss the business experiences that have prepared you for practice and describe what you will do in the future.

Use transitional words, such as "but, still, therefore," and active, forceful verbs (avoiding forms of "to be") as a means of leading the reader from one thought to another. This language results in a much more dynamic style, giving your reader a positive impression of your sense of purpose.

Use the "KISS" principle (Keep it short and simple). Avoid redundancies, such as "future plans" or "advance planning," since repetition adds nothing to the presentation. Don't try to overwhelm the reader with your knowledge of your profession. The person who reads your plan either already knows about chiropractic, or, frankly, doesn't care! If you want to give an overview of the wonders of chiropractic, put it in an appendix. Make the plan easy and interesting to read by using short, simple words, and varying sentence length.

Use visuals, such as tables, charts, photos, computer graphics, to present ideas effectively and clearly.

Assume that your reader has limited time and interest. Use the journalistic format of putting the most important information first in each section, and the supporting materials at the end of each section (charts, visuals, tables).

Be as specific as possible. Explain and support every number you use. Leave no question unanswered.

What to Include/What NOT to Include:

DO Include:

- A personal financial statement and resume or curriculum vitae
- A brief description of chiropractic and your philosophy of practice
- A timeline for startup
- A layout of the office
- A brief listing of your fees

DO NOT Include:

- Detailed demographics and marketing background data
- Samples of forms and letters you'll be using
- A lengthy description of the "wonders of chiropractic" and how it works. Your reader is a lay person and he or she is more concerned with your business acumen than with your ability to write about chiropractic.

More considerations:

- Try to project 3-5 years in the future, especially for your financial plan.
- Consider believability; don't make claims you can't support.
- Be objective about the profitability of the business, your competitive advantage, and your success.
- Use numbers for impact.
- Use bullets to draw attention to particular items and to make your plan more interesting and easier to read.

Elements of the Plan

Executive Summary. The Executive Summary is a short, one-page overview of the entire business plan.

It has two purposes:

- (a) it gives an overview of the business and, if applicable, financing needs;
- (b) it creates interest in the reader to motivate a complete reading of the plan. The Executive Summary is written after the plan is complete, since it incorporates highlights from all areas of the plan.

General Company Description. This section presents the mission or vision statement of the business, and an overall description of the business, including the location, the size, the ownership, and the legal form of practice.

Product/Service Plan. This section emphasizes the particular services you will be performing, and particular types of patients to be served. It provides specifics on how the Mission Statement will work in practice. If you intend to specialize, this is the place where you would describe what areas you will be working in. This section should NOT be a reiteration of the general company description or a long discussion of the wonders of chiropractic. A brief overview of the SPECIFICS of your practice philosophy is appropriate here. Describe the style of your practice and your Unique Selling Proposition (USP), which will be described in detail in the Marketing section.

Marketing Plan. Here is the place for a description of your overall marketing strategy, including information about potential customers and target market. Also include specifics of your advertising, publicity, and sales promotion plans, including budgets and target dates, especially for the first six months to a year. Finally, a description of your projected sales volume over the first 6 months to 1 year will be needed.

Management Plan. The key players, both internal (management and employees) and external (accountant, attorney, insurance company, etc.) are discussed here. Included should be projections on hiring of employees as your business grows. Also include here your qualifications for practice and your plans for meeting state licensing requirements.

Operating Plan. In this section, you will describe how you plan to provide your services, including the day-to-day operations of the business. Many plans include a layout of the office, timeline to startup, narrative on purchase of specific office and clinic equipment and computer software and hardware, and descriptions of a “typical” day of seeing patients.

Legal Plan. You will describe the legal form of organization in this section, as well as the steps you will be taking to begin to implement this plan, using your own resources along with legal counsel. You may also include the legal organization in the general company description.

Financial Plan. From information drawn from other sections of the plan, you will prepare a financial plan. Most of the documents in this section will be “pro forma” (following a form); i.e., making assumptions to project into the future. This section will include:

- A listing of your startup financial needs for opening your business on “day one”
- A twelve-month cash flow projection
- A one-year profit and loss (income) statement, including depreciation, and
- A listing of financing needs and potential sources for each, with a “bottom line” total financial requirement for the first year of operation.

Steps in Preparation

The general plan of action for preparing your plan is listed below. Each step is detailed in the appropriate section of this book. *Included in each of these steps may be preparation of visuals.*

The **first step** in creating your business plan is visualization and brainstorming of the mission and the general company description, including the legal framework under which you will be operating.

The **second step** focuses on your marketing and sales plan and the specifics of your promotion plan, including a first-year marketing and promotion budget.

The **third step** is the financial data, prepared from the sales forecast, startup information, and other projections you will make.

The **fourth step** is preparation of the management and operating plans.

The **fifth step** is writing the executive summary.

The **final step** is reviewing, checking numbers, proofreading for errors (Don't forget this step!)

The Executive Summary

This section, as stated above, provides a general description of the company and presents your financial needs, if you're taking the plan to a lender. Since the Executive Summary seems to be the most difficult part of the business plan to write, we'll spend a little time discussing this section.

The executive summary should include the following:

1. The name of the firm, when it was founded or when it will open for business, the location, the legal form of organization.
2. A one-sentence description of what the business does "We will provide chiropractic care for patients in XYZ city/county, state...."
3. Several sentences in which you present your mission statement and a little more description of the company.
4. A general description of the target market you will serve, geographically, and your specialization and the technique(s) you will be using. Remember that your reader may not be familiar with chiropractic terminology, so keep it simple. You may also want to briefly discuss your competitive advantage here.
5. A brief SWOT analysis, in which you describe internal strengths and weaknesses, and external opportunities and threats.
6. A brief introduction to the doctor(s), staff, and your office organization.
7. Finally, an overview of your financial requirements: how much you want, what forms (term loan, credit line) and how you will use these funds. Include a brief statement of your expectation of profitability to support this request and how and when you intend to pay the loans back.

Here's a sample of a very short, direct Executive Summary:

Cosgrove Chiropractic will begin operations as a sole proprietorship on August 1, 2004. The practice will lease office space at 123 Smith Street, Vanguard, Ohio. Cosgrove's team will be lead by Dr. Carol Cosgrove, B.S., D.C. Dr. Cosgrove will receive her license to practice in the state of Ohio in July 2004.

Cosgrove Chiropractic will be located in 1200 square feet of space in the Cartwright Center, a professional office building on Smith Street. A front desk person will be hired immediately and a clinic/x-ray assistant will be hired within the first six months.

Marketing efforts will begin with a grand opening on September 6 and a direct mail campaign immediately after the opening.

Funding requirements include a \$25,000 term loan for startup and a credit line of \$13,000 for the first six months. Dr. Cosgrove has \$3,000 in equipment to contribute to the practice, as well as \$5,000 in personal savings.

For another sample Executive Summary, see [Appendix N](#).

Making a Good Impression

From studies of effective business plans, here are some more general suggestions:

- It must be the right length (not too short or too long) and have the right appearance (not too fancy).
- It must include the right confident tone, but not be overconfident, ignoring potential problems or pitfalls.
- It must explain in both qualitative and quantitative terms the benefit to the patients of this office's services ("Why should I want to be a patient here?")
- It must be specific, describing each section with as much detail as possible.
- It must justify financially the requests for funding and prove that the business will be financially viable within a reasonable length of time.
- It must contain believable financial projections, with the key data explained and documented.
- It must be supported with a well-orchestrated oral presentation, including answers to a wide variety of possible questions.

Presenting the Plan

As you're working on your business plan, you may wonder about the timing of the presentation to a bank. Generally, you will initiate the conversation with a bank over the phone; ask questions to see if the banker is interested in your proposal. Then, send or deliver the business plan so the banker can read it prior to a meeting. It's generally not a good idea to initiate contact by dropping off a "bare" business plan without at least a cover letter. Why waste your time and printing costs with a bank that may not be interested? (See the chapter on Sources of Funds for more information on presentation.)

Acceptance of your plan by a financing source usually requires a formal in-person presentation. Some suggestions to make your presentation dynamic:

- Have someone read over the plan and "quiz" you on its elements.
- Be prepared to defend your numbers, especially those in the marketing and financial plans. For example, How do you know you can get this many potential patients? How do you know your sales and expense estimates are "good"?
- Be able to show evidence of your understanding of the basic principles of business, like the difference between advertising, publicity, and sales promotion, or your knowledge of basic financial principles.
- Be able to prioritize your objectives. Often when a plan is presented, you may have to reduce some of your requests. You will need to decide before the presentation which are top priority and which can wait until a later time.
- Be able to describe your options if something happens to prevent you from meeting your objectives. A good way to do this is to describe "best case," "worst case," and "expected" scenarios for your financial needs.

When do you present the completed plan to a lender? Usually, you will prepare a preliminary plan with general financial data and present this to several lenders, looking for one who is willing to lend you money and in whom you're satisfied. When you have an office location and know specific costs for assets and expenses, then you can provide this to the bank you've selected for the final lending agreement.

Your hard work in preparing the plan and your optimistic, confident, yet realistic expectations of your potential success will provide you with the "ammunition" you need for a successful presentation of your plan.

CHAPTER 4. PERSONAL INFORMATION FOR YOUR BUSINESS PLAN

Before you prepare your business plan and schedule an interview with a lender, you will need to prepare some personal information for the interview:

1. Review your credit rating to be sure there are no issues to delay or stop your loan request.
2. Prepare a personal financial statement to show the lender the current status of your assets and liabilities.
3. Prepare a monthly budget to determine the amount you'll need to live on while you open your practice.
4. Prepare a resume to provide information on your background and qualifications.

Your Credit Rating

At some point within the year before you begin practice, you really must check on your credit rating. It's one of the first things a bank will check when you come in to apply for a loan. Since you don't want any surprises at that crucial time, check it now.

To check your credit, you can apply for a credit rating online at one of the major credit bureaus:

- TransUnion (tuc.com)
- Equifax (Equifax.com)

For under \$35.00, you can receive a credit report with a credit score. The credit score (called a FICO score), ranges between 300 and 850, and the higher the score, the better. Factors affecting your credit score:

- Numbers of late payments, missed payments
- Length of credit history (how long you've had credit, when was the most recent account opened)
- Total amount owed (how much credit you have compared to the amount of credit available to you)
- What types of credit you are currently using (If you have any mortgages, these are considered more carefully by another mortgager)
- How often and how recently you have applied for credit

Your credit score changes every time new information is added: late payments, new credit applied for, accounts opened or closed. Inquiries are recorded on your credit report. It is NOT true that every inquiry decreases your credit score. Most inquiries have no impact on your credit score. More important negatives are delinquencies and the length of time you have used credit from a particular source.

Review your credit report, looking at all negatives for accuracy and length of time since the negative. If you find information you think is incorrect, contact the credit bureau or the creditor. This may take some time, so it's a good idea to start sooner rather than later.

Your Personal Financial Statement

One of the things a lender wants to see when evaluating your potential for paying back loans is a personal financial statement or net worth statement. Your net worth is what is left after you add up your assets (what you own) and subtract your liabilities (what you owe). Use the worksheet to describe your financial position as you graduate. Note that this is not a "report card; there are no right or wrong answers. Be completely honest and include everything you can think of. Don't attempt to hide anything.

See Appendix D for an example of a Personal Financial Statement Spreadsheet

Assets. Indicate your assets in terms of their current fair market value (what they would bring if you sold them) not in terms of what you paid for them. For example, if you bought stock 5 years ago for \$1,000 and it's now worth approximately \$1,500, use the value now. If you own a home, estimate its value by checking real estate values for similar property in the newspaper or on the Internet. List all assets at current value without attempting to reduce them for any indebtedness. For example, if you own a car that has a value of \$5,000 but you owe \$3,500 on it, list it as an asset for \$5,000 and a liability for \$3,500.

Some graduates list the value of their education among their assets. Because this number cannot be calculated, it is problematic for lenders: What's the "value" of an education? Is it the equal of the student loan balance, or is it the lifetime earning power of the individual? It really can't be quantified, and bankers/lenders need to be able to put numbers to everything in order to process a loan request.

Liabilities. Then list all the balances owed to others, including credit card debt, mortgages, auto loans, and your student loans (even if they are currently in deferment). List them in order of when they must be paid back, soonest to be paid first. Include credit card debt balances and any other outstanding loans. Include other debts which are secured by property or which are contractual and must be paid back. If you have informal or forgivable loans from relatives or friends, you do not have to list those.

Net Worth. When you've added up all the assets and liabilities, subtract the liabilities from the assets. This is your net worth. If you have a large amount of student loan, it will probably be a negative net worth. Don't worry; your lender should not be astounded at this figure; he/she has seen this before with new graduates.

Personal Cash Flow Worksheet, AKA Personal Budget

You may also want to take a few minutes and prepare a personal cash flow worksheet, in order to support the amount of your monthly draw from the practice. Note that your student loan payments are a PERSONAL expense, are not tax-deductible, and should not be paid from the business. I suggest that you first list all income numbers EXCEPT draw, then all expenses, and then use draw to make income equal to expenses.

NOTE: If you are taxed as a sole proprietor, DRAW is the amount you are DRAWING out of the business for your personal living expenses, including your student loan payments. In a sole proprietorship, you determine draw based on the amount you need to live on (from the Personal Cash Flow Worksheet). In a corporation, you will be taking money out of the business as a salary, but it's the same concept; you want to be sure to have enough to live on.

Be accurate and complete about your personal living expenses. Don't forget to include miscellaneous, emergency, and entertainment expenses. You may need to live frugally but no one expects you to starve. Use your current student budget as a guideline. Include the monthly payment for your student loan, even if it is currently in deferment; you'll be paying on it soon enough.

Assessing your income and expenses will let you size up your standard of living (are you living beyond your means?), indicate your ability to save, and highlight potential problems.

See the Personal Cash Flow worksheet in the Practice Spreadsheets

Your Resume

Your resume is an important addition to your business plan. It tells your lender more about you and your professional background and your ability to perform.

Many chiropractors use the term "CV" instead of "resume." What's the difference between a "RESUME" and a "CURRICULUM VITAE"? Although the terms are often used interchangeably, there is a difference in purpose and format for these two documents. In very general terms, a resume is used in business situations for the purpose of obtaining a job interview; a curriculum vitae (or CV) is used in academic situations for the purpose of applying for promotion and tenure.

The resume lists education and experience in order of importance and usually includes only the information needed to persuade an employer to call you for an interview. The curriculum vitae (which literally means "a running of the life") is a more detailed listing of your academic, professional, consulting, and publication experience. Generally the CV is longer than the resume because it also includes details which demonstrate your academic, professional, community and civic accomplishments and achievements.

You might consider creating a hybrid which you can call a CV but which incorporates the best features of both. Since your education is most important, list this first. Then list other experience and training related to your career, including awards and honors achieved along the way. Finally, list other professional (work) experience, to show someone more about your work background.

See [Resume](#) for a sample.

Building Your Resume:

First, include a “letterhead” by printing Your name/address/phone number/email centered at the top of the first page (Also identify each subsequent page with your last name and page number.) Then list:

- Education
- XYZ College of Chiropractic 200? to present
- Cityname, Statename
- Anticipated graduation: month, year
- Degree: Doctor of Chiropractic

Include other undergraduate studies (even if no degree) and degrees in the same manner.

Second, list your professional experience at your chiropractic school, including your clinic experience, and your preceptorship, if any.

- Include your preceptorship month/year to month/year
- Name and address of doctor
- Student Extern month/year to month/year
- XYZ Chiropractic College (which clinic)
- Supervising doctor: so and so, D.C.

Third, list any items in the following sections. If you don’t have anything to list, omit the section; don’t say “None.”

- Special training/Elective courses completed
- Volunteer Experience (month/year to month/year, supervisor, brief description if necessary)
- Awards and Honors
- Extracurricular Activities

Finally, consider including other work experience. Some advisors will tell you not to include this information, since it may not be chiropractic, but I believe all experience is valuable and tells a prospective employer much about you and your work ethic. Include:

- Company name, city, state
- Month/year to month/year,
- Job titles, brief description of duties.

Resume help sites:

Monster.com

<http://hotjobs.yahoo.com/resume>

<http://jobsearch.about.com/od/resumes/Resumes.htm>

Creating A Winning Resume:

A resume that produces results is:

Neat and Correct

Short and to the point

*Demonstrates your competence –
education and experience*

A Resume MUST contain:

- Your name, address and phone number (in letterhead format)
- Description of your education and training
- Description of your skills and experience

A Resume MAY contain:

- A statement of your objective
- A summary of your qualifications
- Description of your volunteer and community service activities
- Description of any awards, honors, or achievements
- Description of your professional affiliations and activities

A Resume MUST NEVER contain:

- Salary information (either requested or former)
- References (provide this to the employer at the first interview)
- Personal information (hobbies, marital status, children, etc.)
- A photo
- Letters of reference or testimonials (unless specifically requested; provide these later)

Resume Facts/Fallacies

Fallacy: A resume should never be longer than one page

Fact: If it is possible to limit your resume to one page and still be effective, go for it! Many resumes, especially those for people who have had a number of professional positions, cannot be limited in this way. Quantity is not as important as quality.

Fallacy: The purpose of a resume is to list all your skills and abilities.

Fact: The purpose of a resume is to kindle interest and generate an interview

Fallacy: Your resume will be read carefully by an interested employer

Fact: You have about 20 seconds to make an impression on this person. Your resume must have immediate impact. That doesn't mean that the resume might not be scrutinized carefully later, but the first 20 seconds is crucial.

Fallacy: The more good information you present about yourself in your resume, the better.

Fact: By including too much information, a resume may actually kill the appetite to know more.

Seven Steps to Resume Preparation

Step One: Collect data, using the data collection sheets attached

Step Two: Find a format you like. It doesn't matter if it's fancy, as long as the format is clean, professional, and consistent. You can find templates on word processing applications like WORD, but they are sometimes difficult to use; creating one yourself or using the template in Planning For Practice Success™ might be easier.

Step Three: Prepare the resume header, with your name, address, phone number, in professional format. If your resume extends to two or more pages, be sure to have a brief header on each page, with your name and the page number.

Step Four: Write your position objective (optional) / Special Skills, Qualifications (list these briefly for emphasis)

Step Five: Write the body of the resume.

Step Six: Print and PROOFREAD. Have someone else review and PROOFREAD. It is vitally important that your resume be error-free and have a crisp, professional appearance.

Step Seven: Prepare a cover letter. NEVER send a resume without a cover letter. Sending a "bare" resume is very poor business etiquette. Attached is a brief description of what the cover letter should contain.

Job Search Letters

Cover letters. A cover letter accompanies the resume and is a SALES letter, persuading the reader to look at the resume. A good cover letter is the first thing the prospective employer sees of you, so it must be **PERFECT (accurate and complete) and PERSUASIVE.**

Cover letters may be solicited (written in response to a specific search by an employer) or unsolicited (prospecting, to an organization that has not announced a position opening). Whether your application letter is solicited or unsolicited, your qualifications are presented similarly. The main difference is in the opening paragraph. In a solicited letter, no special attention-getting effort is needed because you have been invited to apply. However, the unsolicited letter begins by capturing the reader's attention and interest. An unsolicited letter might follow the AIDA format of a sales letter (Attention, Interest, Desire, Action).

The opening paragraph of a solicited letter should include information about how you heard about this position, and a brief introduction of yourself. It should also clarify your reason for writing this letter.

Cover letters may also include:

- A summary of your experience, emphasizing the experience most relevant to that particular employer.
- Discussion of any specific points or personal information you might want the employer to know which have not been covered in the resume. This might include significant gaps in time in the resume, special circumstances, reasons for seeking this position.
- Since this is essentially a sales letter, back up your assertions of your ability by presenting evidence, solid "selling points" to demonstrate your ability.

The closing paragraph has two important functions: to ask the reader for a specific action and to make a reply easy. In almost all cases, the action you ask for is an interview. Try to sound natural and appreciative. Offer to come to the employer's office at a convenient time. You might also consider telling the reader that you will call back within a certain time to check on the status of your application. Include your phone number and any other contact information (even if the phone number is on your letterhead).

Thank you letters

If you have received an interview for a position, ALWAYS send a thank you letter within a day or so. Include some specifics about your qualifications, reminding the employer of how well you "fit" the position requirements. You might also include other points on which you agreed.

CHAPTER 5. YOUR MISSION AND USP

Development of a mission statement and a statement describing your practice are key, not just to preparation of the business plan, but to every other practice decision. What you name your practice, how and when you hire staff, the kind of patients you seek out, the location of your practice: EVERYTHING depends upon your Mission and your Unique Selling Proposition (USP).

Developing Your Mission Statement

According to Dr. Stephen Covey, "A mission statement can become a powerful influence to nurture conditions necessary to develop quality and effectiveness within any organization. To do so, it must become the organization's governing 'constitution,' the standard by which strategy, systems, structure, style, and skills are developed and judged".¹

The principles behind the mission statement are:

- You must establish, honor, and live the mission as your 'constitution';
- You should use it to encourage new employee commitment;
- You should make it constantly visible and meaningful to all 'stakeholders';
- You should use the mission statement as the central tenet for your business plan and all of its elements;
- You should review it periodically, revising it as appropriate to reflect changing conditions.

In composing your mission statement, remember these critical elements, again from Dr. Covey:²

- Does it identify your organization's fundamental reason to exist?
- Have you clearly identified the means through which the purposes will be achieved?
- Are the key needs of primary stakeholders adequately addressed?
- Is its language and intent challenging yet relevant and realistic?
- Does it inspire and motivate both management and employees?

1Covey, Stephen R. (1999). "No apples in oak trees: The importance of a mission statement." [On-line] <http://www.moneyhunter.com/htm/mentor/covey2.htm>. Available July 16, 1999.

2 Covey, Stephen R. (1999). "Critical elements of a mission statement." [On-line] <http://www.moneyhunter.com/htm/mentor/covey1.htm>. Available July 16, 1999.

Some examples of Mission Statements from other health care practitioners:

To serve our patients in a courteous, professional and kind manner, to let our patients know they are valued and to develop long-term relationships with them.

To offer state of the art care with minimum discomfort.

To provide regular preventive care in our office so our patients can enjoy a lifetime of wellness.

To have highly motivated employees. To provide an enjoyable, positive atmosphere for them to work in and to provide fair wages for their efforts.

Our office will exhibit state of the art skills and equipment in a high-tech environment. We will focus on delivering the most current standard of care in the areas of....(techniques? Specializations?)

Since our staff is this practice's most important asset, a high commitment will be made to continuing education. This office will provide an environment for personal growth.

We are dedicated to the concept of patient-centeredness and will strive to maintain a fee-for-service practice that is not controlled by third parties who have no long-term relationships with our patients.

Define Your USP

Although the USP is a marketing concept, we will discuss it here, because it's important to establish your USP early in your work towards your business plan. Keep it in mind as you make practice decisions in the upcoming chapters.

The USP (Unique Selling Proposition) is what makes you unique, and you will use it as a framework for all your marketing and practice management efforts. It's like saying "Here is what the firm is, "I am special". You might also consider this as your "style." For example, there are many fast food restaurants, but each has a different style, that distinguishes them in the minds of consumers. What's the "style" of a Domino's compared to Pizza Hut? When you've found this style, you should infuse it into every aspect of your business.

EVERYTHING you do should reflect your style. The USP or style is the unifying factor in a business. Style begins with a brief statement of "who we are," continues throughout all of your company, from business cards to brochures, to Yellow Pages advertising, and so on.

Without a USP or a mission, you have no focus for operations. The most successful firms are those that define themselves specifically, who have a vision of what they are and what they want to be. You may not be able to be terribly selective as you are starting out, but you need to begin to define yourself at the beginning!

Some Methods for Determining USP

Competitive advantage:

A consideration in your USP would be to describe your clinic and its superiority to the competition. How is your service better than the others in your area? Any areas in which you feel you have a superior position can be described in your USP, and this feature can be used in your marketing effort.

Who Has The Edge?	You	Your Competition
Quality		
Price		
Location		
Delivery		
Follow-up service		
Availability		
Convenience		
Reliability		

Customer Point of View

In defining your USP, consider the importance of customer perceptions. Define yourself in terms of what your customer wants, NOT what you think you want to sell. For example, if you want to emphasize your specialty (Gonstead or NUCCA, for example), be aware that most people don't know what these terms mean, so you'll have to include some education in your marketing efforts. What do you want your patients to see?

- Convenience
- Cleanliness
- State of the art, up to date facility
- Specialization in a certain area (family, pediatrics, sports...)
- Training in ___ Technique
- And so on...

Highlight Features

Highlight the services or features you want to provide. Do you want to be perceived as the highest quality service in the area, or the lowest price? Do you want to be able to discuss a specific type of care that you will provide?

- price
- specialized care (technique)
- services to special audience (sports, elderly, children, etc.)
- follow-up care
- location
- delivery
- availability/hours
- convenience
- reliability

Some examples: “New patients seen same day” “Our follow up care is unmatched; we call each patient the day after the first adjustment...” “Evenings and Saturday mornings are open to walk-ins.”

Describe your USP in your Product/Service Plan and in the introduction to the Marketing Plan section of your Business Plan, to let your lender know that you have thought carefully about your marketing effort.

CHAPTER 6. LEGAL FORMS OF PRACTICE

In this section we'll be looking at the most common forms of small business ownership and considering a number of factors you will need to consider in making your decision about the type of business you want to set up.

At the end of this section is a [comparison chart](#) to help you determine which type is best for you.

Criteria in Considering Legal Form

- *Cost of organizing* – How much does it cost to form this type of business?
- *Liability* - In what ways am I personally liable in this type of business?
- *Continuity* – What happens to the business if I leave it or die?
- *Control* – How much control do I have personally in this type of business?
- *Distribution of Profits/Losses* – Who receives the financial benefits (and the losses) from this type of business?
- *Taxes* – What are the tax implications for this type of business?

Before we discuss the specific legal forms, a few notes:

- Recognize that you can change your mind and your business type as you grow. You're going to be in business for a long time and your circumstances will change, so don't feel that you have to be locked in to one type of legal form. Many businesses start out as sole proprietorships and later change to a corporation, usually subchapter S, or to a limited liability type company. We'll talk about the characteristics of each legal form and the basic startup requirements for each type.
- Start out with the end in mind. When you are setting up a business form, consider what would happen if you were no longer in the business. Ask yourself what would happen if you needed to get out. What would be the effect on your family or your partners? In some forms, like the corporation, the effect would be minimal. In a sole proprietorship, your death could mean that the business would end up in probate, which could tie up a sale or transfer for many months. In a partnership, it could also mean a protracted negotiation.

Liability Considerations

Liability relates to the question: What if something goes wrong and someone sues me? It certainly is an important consideration, but there are several types of liability to consider, and not all are related to your legal form. Let's look at liability for a few minutes, with this table:

Type of Liability	What Happens:	Who Sues:	What Protects You:
Professional Negligence (Malpractice)	You injure someone in the course of adjusting; You fail to diagnose a condition	Patient	Malpractice Insurance
General Negligence	Someone is injured while in your office or on your property	Patient, other	General business insurance, which includes property/casualty/liability
Corporate liability	You fail to pay your business debts	Creditors (those to whom you owe money)	Corporate status may protect you from being personally required to pay back debts of the business If you have made personal guarantees, you may still be personally liable for business debts
Other Liability	Your partner embezzles money from the practice or deliberately injures someone	Creditors, lenders	If you are in a general partnership, you may be liable for his/her actions; If you are in an LLC, your liability is limited to your investment; If you are in a corporation, you may be liable as a shareholder; you may have limited liability as an employee in a corporation

Note that the legal form only offers protection against failure to pay business debts, not against professional or other negligence. What this means is that you should always be aware of the potential for legal action against your practice and you should protect yourself against the possibility that such an action might be harmful to your practice. But, don't let this one factor scare you into only one form of practice. If you are a sole practitioner, you can limit your liability effectively by purchasing adequate malpractice and business insurance.

Sole Proprietorship

Most practices are set up as sole proprietorships, as are over 90% of the businesses in the United States today. In a sole proprietorship, the company is owned by one person who has title to all the assets of the business, receives all the profits, retains all the liability, bears all the losses, and pays off all the debts. A sole proprietor has all the advantages and disadvantages of small business ownership: no interference from others, and no help from others. A sole proprietorship is the simplest and easiest type of business to set up. It requires a business license from the town or city in which you will locate. Profits and losses from the sole proprietorship are part of your personal income tax and are listed on your 1040 form.

Partnership

A partnership is very much like a sole proprietorship, with several people instead of just one; that is, the advantages and disadvantages are shared by two or more people. The partnership is created by a partnership agreement, which describes every situation and how the situation will be handled by the partners. Decisions about who gets what percentage of the profits, who does what type of work and how

much, who makes which kinds of decisions, and what happens if one partner leaves are spelled out in the partnership agreement.

If you decide to go into partnership with someone, even if this person has been your best friend since first grade, DON'T try to write the agreement yourself; obtain the services of a good business attorney so that both partners can be sure that every eventuality is covered. In addition to the usual business licenses, the greatest cost in setting up a partnership is the preparation of the agreement. Profits and losses from the partnership are taxable to the partners personally on their individual 1040 forms, according to the percentage they've agreed upon.

General vs. Limited Partner

In a general partnership, all partners are equal and all share in liabilities. In a limited partnership, some partners have limited responsibilities and limited liability; this is a common form when you have someone investing in the partnership who does not participate on a day-to-day basis.

Liability in a general partnership is shared by all partners, but a limited partner only has liability for his or her share invested.

Limited Liability Company

Since 1977, states have allowed small businesses to establish a type of entity called a limited liability company. Like corporations, they are legal entities existing separately from the owners, who are called "members." The LLC is not a partnership or a corporation, but it combines the corporate advantages of limited liability with (normally) the partnership advantage of pass-through taxation (to personal tax returns). In every state except Massachusetts, you can form an LLC with just one person.

The daily operations of the LLC are similar to a partnership, but members have the liability shield benefits of a corporation. Individual member liability for business debts is limited to the value of their ownership interest in the business, so members can take an active role in the operation of the business without exposing themselves to excessive personal liability. LLCs are taxed by the IRS like general partnerships, with the profits and losses being passed through to the individual members. LLP's protect partners from placing their personal assets at risk when a fellow partner might be sued. You might want to consider this form of business when considering whether to take on a partner.

What "Limited Liability" Means

Like corporate shareholders, LLC members are protected from personal liability for business debts and claims. This means that if your practice can't pay its creditors, they cannot come after your personal assets. Only the assets of the LLC can be used to pay its debts, so your loss is limited to the money you've invested. This is called "limited liability." Of course, you may still be liable for:

- Personal injury (but you have malpractice insurance to cover this)
- Personal guarantees to obtain a bank loan
- If you fail to deposit employment taxes or sales taxes
- If you do something intentionally to harm or defraud someone

- If you treat the LLC like an extension of your personal affairs (this is why it's important to keep separate bank accounts!)

LLC Taxes

The IRS treats an LLC like a partnership for tax purposes. Like a partnership or a sole proprietorship, the LLC is NOT considered separate from its owners for tax purposes. It's what the IRS calls a "pass-through entity." This means that the business profits/losses pass through to the owners, who report them on their individual income tax returns. The LLC, like a partnership, files an information return on Form 1065, reporting the profits or losses of the business as a whole. For Social Security/Medicare purposes, you are considered self-employed if you're a member of an LLC. So you must pay self-employment taxes directly to the IRS (see below).

You may choose to pay LLC members a regular salary (consider as an employee) or a share of the profits (consider as a partner). If you pay a salary, the IRS says it must be reasonable and must be paid for performance of services, not as a percentage of profits. This salary is taxed as ordinary income and is considered a deductible business expense of the LLC. If you decide that members will divide the profits, their share is taxed as self-employment income and the amount drawn out by the members is NOT a deductible expense of the business.

For more information on the LLC/LLP format, check out these web sites:<http://www.businessforum.com/llc.html> and <http://www.4inc.com/llcfaq.htm>

A checklist can be found at the following website: [LLC checklist](#)

Forming and Ending an LLC

To create an LLC, you file articles of incorporation with your state and pay a filing fee. You must also create an operating agreement, which is similar to a partnership agreement. When one member wants to leave, the LLC dissolves, but you can include a buy-sell agreement (an agreement to allow you to buy the other member out) in your operating agreement to allow for continuation of the business.

It's perfectly legal to change your business structure from a Partnership to an LLC (described below). The forms used in a partnership are essentially the same as those needed to start an LLC. BUT, forming an LLC doesn't wipe out any previous commitments or obligations under the partnership.

A Checklist for Establishing an LLC

- Prepare the Articles of Organization and file with the state
- Check on the availability of a name for your LLC and file a reservation of name form (Don't get your stationery until you are sure you can reserve the name!)
- Pay your fees for filing the LLC
- Prepare your Operating Agreement

NOTE: Make sure your state allows professional LLC's; in some states you may need to file as a professional corporation or personal service corporation

Professional Corporation

Under the tax code, groups of professionals (like chiropractors) may form and operate a special type of entity called a "Professional Corporation" (PC) or "Professional Association" (PA), depending upon the state in which it is organized. The PC is a separate entity from the owners, similar to a C-Corporation, but the tax rate is less, and, in practice, the shareholders usually take out all or most of the profits as tax-deductible salaries, bonuses, or fringe benefits. The benefit to this type of association is that it protects individual owners from negligence of an associate, and it can be a useful backup to malpractice insurance. For a sole owner, this type of legal form is not advisable; check with a tax advisor in a few years if you're considering practicing with other individuals.

What a Corporation Looks Like

A corporation is an artificial entity, recognized by law as a separate legal being. A business is incorporated within a particular state under a charter, which is a document that establishes its existence. The corporation you'll set up will prepare the appropriate corporate documents and issue stock, but it will be privately held (that is, its stock will not be publicly offered on a stock exchange). The corporation is run by a Board of Directors, of which you will probably be the chairman, and you will also hold the majority of the stock in the corporation.

Since the corporation is separate from the people who run it, you become an employee, which means that you lose some control but also that your liability is limited to that of an employee, in addition to your status as a corporate officer. The corporation receives the profits and losses, which are recorded on a separate corporate tax return. Your own income from the corporation comes from your dual status as an employee and as a shareholder. You are taxed on both incomes – employment income and income from the corporation (dividends, profits received).

Sub-Chapter S Corporation

If you are considering corporate status for liability reasons, you should look at the election to be designated as a Subchapter S corporation, which combines the benefits of a sole proprietorship with the limited liability of a corporation. In a regular corporation (sometimes called a "C Corp," the company itself is taxed on the profits of the business. The owners become employees and are taxed on their salary and bonuses and also on dividends from their ownership shares. In contrast, in an S corporation, the profits of the business "pass through" to the owners, who report them on their individual income tax returns (just as with a sole proprietorship). The S corporation itself doesn't pay any income tax, although it will probably need to file an information return with the IRS.

After you set up the corporation, if you meet certain criteria, you can elect S-corp status. Most chiropractic practices will meet the criteria, which includes:

- All shareholders must be U.S. citizens
- Profits and losses may be allocated to shareholders only in proportion to their interest in the business
- Shareholders may not deduct corporate losses in excess of their investment “basis”
- The corporation may not deduct cost of benefits to highly paid employee-shareholders.

Note that S-corporation status is not automatic. It must be elected and there are time limits to the election. Be sure to consult a tax accountant or attorney if you’re considering this business form.

Forming a Corporation

In order to set up in corporate status, there are a number of steps you must go through:

1. Choose a name
2. Prepare and file Articles of Incorporation for the state in which you wish to establish the corporation.
3. Elect a Board of Directors. These are the people who are responsible for the success of the practice; they will serve as advisors to the business. You will probably want to be the chair; you also may have family members on the board. You will want advisors, such as your CPA or attorney on the board. You might also want a friend who is a DC to be an advisor.
4. Adopt bylaws for the corporation. These are pretty standard rules of operation.
5. Hold an initial Board of Directors meeting to approve the bylaws and establish the rules and policies for the corporation. This is also the meeting when you’ll be voted in as Chair.
6. Set up the corporate bank account (your business checking account)
7. Issue stock. You can decide who gets how much, but be sure to retain a controlling amount for yourself.
8. Set up a corporate record book to keep track of the minutes of Board meetings and other actions taken by the board. These are scrutinized by the IRS to be sure you are acting appropriately as a corporation, so it’s important to keep accurate minutes at every meeting of the Board.
9. Follow through on state government requirements, such as filings and tax information.
10. File your S-Corporation election, if you decide you want S-Corp status.

Self-Employment Taxes

Everyone practicing in the United States must pay self-employment taxes (for Social Security and Medicare); the legal form you choose determines how much you must pay and the manner of payments. You should consider the tax effect of your legal form:

- Sole Proprietors pay 100% of the self-employment tax. It is calculated on the personal income tax return (Form 1040) and is sent to the IRS along with any income taxes owed
- Partnership also pay 100% of self-employment tax.

- Employees in corporations pay 50% of FICA/Medicare payments; the corporation pays the other 50%, which is deductible to the business as an expense
- Members in LLCs who pay individual income taxes pay self-employment taxes in the same manner as sole proprietors or partners.

In conclusion:

If you are going to be practicing alone:

- Purchase plenty of malpractice insurance and business liability insurance and become a sole proprietor.
- If this still makes you nervous, set up an LLC.

If you are going into partnership with someone:

Establish an LLC or LLP.

Summary:	Sole Proprietorship	Partnership	LLC	Subchapter –S Corporation
Major advantages	Independence, flexibility, minimum legal requirements; ease of starting	Shared liability and responsibilities; flexibility	Same as partnership, with limited liability	Limited liability; profits taxed once; favorable tax rates
Major disadvantages	Unlimited liability; limited life	Unlimited liability; limited life; relations among partners can cause problems; changes may be difficult	Relations among partners can cause problems; changes may be difficult	Relations with shareholders can cause problems; limited ownership control; relatively costly to establish and maintain

Tax Implications of Practice Forms

Form	Taxable to you	Taxable to the business
Corporate Status	As an employee, on your earnings As a shareholder, on your dividends	Net taxable income, at corporate rate
Self-employed status (includes Sole Proprietorship, LLC, Partnership)	Net taxable income taxable to you on your personal tax return	No income tax to the business

Bottom Line: Don't worry about incorporating until you have a lot of assets (over \$300,000) and a tax problem.

Tax Rates

Here's a comparison of the tax rates for corporation and individuals:

Corporate Income Tax Rates -- 2003, 2002, 2001, 2000, 1999, & 1998

Taxable Income Over	But Not Over		Tax Rate
\$ 0	\$ 50,000		15%
50,000	75,000		25%
75,000	100,000		34%
100,000	335,000		39%
335,000	10,000,000		34%
10,000,000	15,000,000		35%
15,000,000	18,333,333		38%
18,333,333		35%

Individual income tax rates vary depending upon income level, from 10% to 38% . For example:

Married Individuals Filing Joint--2003

Taxable income:		Tax:		
Over	But not over	Tax	+%	On amount over
\$ 0	\$ 12,000	\$ 0.00	10	\$ 0
12,000	47,450	1,200.00	15	12,000
47,450	114,650	6,517.50	27	47,450
114,650	174,700	24,661.50	30	114,650
174,700	311,950	42,676.50	35	174,700
311,950	90,714.00	38.6	311,950

(Source: A/N Group, Inc <http://www.smbiz.com/sbrl001.html>)

Legal Forms of Organization: A Detailed Comparison

Legal Form	Sole Proprietorship	Partnership	C Corporation	S Corporation	Limited Liability Company (LLC)
<i>Number of owners</i>	One	no limit	no limit on number of shareholders	not more than 35 shareholders	1 or more "members"
<i>Startup costs</i>	filing fees (DBA), business license	filing fees, attorney fees for agreement	filing fees, taxes, state fees, attorney fees for incorporation documents	filing fees, taxes, state fees, attorney fees for incorporation documents	filing fees, taxes, state fees, attorney fees for operating agreement and other documents
<i>Legal Liability</i>	unlimited owner liability	unlimited liability for general partners; limited liability for limited partners	shareholders liable only to amount invested; officers may be personally liable	shareholders liable only to amount invested; officers may be personally liable	personal risk of "members" limited to amount invested; protects members of partnerships from risk when fellow partner sued
<i>Tax implications</i>	individual rate; file Schedule C with 1040	partners taxed on personal returns (1040) as per agreement; 1065 information return filed	Corporate tax rate and form; shareholders taxed on dividends	Passed through to shareholders according to stock held. Generally no tax paid by corporation.	Divided among members according to investment or agreement; reported on individual tax returns
<i>Continuity of Business</i>	dissolves on death or withdrawal of owner	dissolves on death of general partner, unless otherwise specified	not affected by death of shareholder, officer	not affected by death of shareholder, officer	not affected by death of member, depending on terms of agreement
<i>Distribution of profits</i>	all to owner	shared by partners as specified in agreement	paid to shareholders according to investment	paid to shareholders according to investment	paid to members according to terms of agreement
<i>Transfer of interest</i>	owner can sell at any time	depends on agreement	shareholders free to sell stock at any time, unless restricted by agreement	shareholders free to sell stock at any time, unless restricted by agreement	sale of interest depends on terms of agreement
<i>Tax position of individuals</i>	Self-employed; pay self-employment taxes	Self-employed; pay self-employment taxes	Employee; pay employee share of FICA/Medicare	Employee; pay employee share of FICA/Medicare	Self-employed; pay self-employment taxes

CHAPTER 7. BUY/START/ASSOCIATE/INDEPENDENT CONTRACTOR

There may be a lot of questions running through your mind as you contemplate beginning your practice:

- How do I decide whether to open my own practice, go to work with someone else, or buy an existing business?
- How do I know if I'm buying a "good" practice?
- Should I lease or buy an office?
- How do I choose professional advisors?
- How do I decide where to locate?

The following sections will tackle some of those questions to help you make decisions before you begin your practice.

Buy/Start/Associate Decisions

Before you make this decision, you should do two things:

- Research each option carefully, looking at all available information, and
- Ask your advisors and supporters, especially to get their advise based on their knowledge of your personality, skill, and risk tolerance.

Employee (Associate) vs. Independent Contractor

Associating. The first decision most new graduates make is usually between associating for a time with a doctor or going directly into practice. You should associate if you are very unsure about where you want to locate, so you can see if you like the area. You should also associate if you are not confident about your abilities to run an office and want some time to listen and learn. But if you read this guide and other business guides, and if you set up a detailed business plan, your confidence should increase and you may decide to "go it alone."

You may wonder how much an associate can expect to make; some associate contracts pay as little as \$12,500 (plus bonuses, of course!) up to \$48,000. Most do include bonuses and production incentives on top of a base pay level. The BEST situation to go into as an associate is a busy practice in which there is a waiting list or a busy practice in which the doctor wants to work fewer hours. But be careful; many doctors want you to associate to build their practice for them.

A question to consider: If you can bring in new patients for this doctor, why not do it for yourself!?

Independent Contractor. Another option to associating, one which is half-way between total dependence and total independence, is the independent contractor status. It is essentially an "office within an office," in which you are leasing space from another doctor.

As an independent contractor, you form a contractual relationship with a doctor, establish your own practice, and work independently in the doctor's office. You obtain a business license and set up a legal form (usually as a sole proprietor), have your own practice name, establish your own office hours, do your own advertising, see your own patients or those referred by the other doctor. In some cases I've

heard of, the doctor turns over certain hours to the IC; in others, the two doctors practice at the same time, using the same facilities. Arrangements vary according to the needs of both doctors.

This type of arrangement works well in a situation where you want to keep overhead low while you are getting started, and the other doctor wants to practice fewer hours.

You may also be wondering about financial arrangements for payment as an Independent Contractor. The best arrangement is a straight sub-lease at \$X per month. You may also consider “additional rent” based upon a percentage of collections, in addition to the base rent. If you’re considering this option, put a cap on the percentage! Everything is negotiable in this kind of arrangement.

In negotiating the contract for an Independent Contractor arrangement, clearly define:

- What happens if you see the other doctor’s patients or he/she sees yours? (For malpractice reasons, each practitioner should have his/her own patients and only in emergencies should the other person see those patients.)
- What facilities and staff are you entitled to? What hours are available to you?
- Who will get new patients/walk-ins/referrals? (The fairest is to alternate)
- Who will retain patients if you leave? (Since you are independent, this should be you, but it pays to spell it out.)

If you choose the Independent Contractor option, you will be running your own company and you must set up this company in one of the forms discussed in the legal options chapter. Setting up as a sole proprietor is probably easiest in this circumstance.

NOTE: The IRS has very specific guidelines about Independent Contractor status, which you need to review if you are considering this option. Note that the risks of misclassification fall on the business owner, not on the employee. The risks include retroactive overtime, interest and penalties imposed by the IRS, and attorney’s fees and legal costs. Check the IRS website for important [guidelines](#).

Buy vs. Start

In order to make the difficult decision between buying an existing practice or starting your own, you will need to consider your personal situation, your strengths and weaknesses, and your confidence and risk tolerance levels. Here are some considerations:

You should start your own business if:

- You can buy your own equipment at a reasonable price
- You wish to practice in a specific geographic location and there is no practice at this location that suits your needs
- You are fairly confident that you can obtain financing for a start-up
- It is in an area under-served by chiropractic or one in which you can quickly build a patient base
- You have enough financial backing or savings to live while you are getting set up.

You should buy an existing business if:

- It is in the right location
- Its physical layout and equipment are acceptable to you
- It has good employees already in place
- You can reliably determine that it is generating profits consistently at a comfortable level
- You can reliably determine that the information about the patients and financials is correctly stated
- You feel confident that the seller will work with you in the transition

In general, it is usually better financially to purchase rather than start your own business, since the systems and equipment and patients are already in place and the business has a track record which you can use as a basis for financing. Even if you don't know whether the patients will transfer to you, you can still generally make a profit faster by purchasing a practice than by starting a new practice, if you can get a reasonable price (See the [Practice Purchase](#) chapter).

Your Management Team

Selecting professional advisors to assist you in the purchase and ongoing management of your business is an important decision.

Banker/Lender. The first person you will probably consult will be a banker, to whom you will bring your business plan and requesting financing. In choosing a banker, consider first the local bank rather than a branch of a national bank; the local banker has a greater concern for the community and is more likely to be willing to develop a professional relationship with you as a local business owner. Find a bank that has a broad range of services to businesses and which has a commercial loan department. Show the banker you're on top of the business, and provide information on a regular basis.

Attorney. Try to find someone who is knowledgeable about the legal aspects of professional health care practices; ask other chiropractors and medical doctors, and other health care providers in your area. A good lawyer can be very helpful in drafting and reviewing documents and advising you on startup requirements in your area.

Accountant. As with the attorney, try to find a Certified Public Accountant (CPA) who knows something about health care accounting. Strongly consider a CPA rather than just a bookkeeper, and look for someone who is up to date on small business taxes. You should be doing the day-to-day bookkeeping yourself (or, rather, your office staff), and will need the accountant to review financials on a quarterly basis, to do tax planning, and to prepare your quarterly and year-end tax returns.

NOTE: You will need to include a brief statement on the type of practice you'll be starting (buy/start/independent contractor) in the General Business Description.

CHAPTER 8. CHOOSING YOUR PRACTICE NAME AND LOGO

Your Practice Name

You've probably been thinking about a suitable and attractive name for your practice since the first day of chiropractic school. Making a final decision on a name has many long-term financial and professional implications, so choose wisely and be sure you're completely satisfied before you make any commitments based upon a specific name.

Your practice name will be on all of your tax and corporate documents, all advertising, and anything printed that relates to your practice. Your name also needs to be flexible as your practice grows and changes and moves to a new location. A poor choice can be costly.

Some possibilities:

- Your name, if it's suitable – easy to remember, friendly, easy to find in the phone book
- A descriptive name, based on your mission statement or location
- A new created name – with meaningful connotations (like Apple Computers)

Some considerations:

- What is your practice mission/mission statement? Does your name communicate your practice mission?
- What is your Unique Selling Proposition (USP)? Does your name communicate your uniqueness?
- Do you intend to practice alone or with partners or associates? How about in the future? Would your name be suitable for future practice situations?
- What are the names of other practices in the area? Does your name sound like another practice name?
- The possibility of other practices using the same name. In one instance, two chiropractors used their own names, and only one letter separated them. Needless to say, one chiropractor sued the other.
- Is your name easy to remember, easy to pronounce?
- How does your name look on a sign? In the Yellow Pages?
- Be careful not to create false assumptions with your practice name: "Pain-Free Chiropractic Center" might be misleading.
- If you are in an area with a foreign-born population, be sure your name doesn't have any negative connotations (For example, when Chevrolet tried to market its "Vega" in Latin America, they found that "Vega" means "no go" in Spanish!)
- Choose a name that has powerful visual connotations, one with promotional possibilities, one that will create excitement and interest in the community.

Finally, be sure to do research in your state before selecting your name. If you choose a corporate or LLC status, your name choice will be researched through the office of the Secretary of State in your state. If you find a name, you can reserve the right to use this name in your state by paying a small fee. You will need to check before you make any final decisions; if the name is already being used, you will not be allowed to register it in your state.

Your Practice Logo

As difficult as it is to come up with the perfect name, it's even more difficult for many people to choose a logo that perfectly exemplifies their practice. I've seen students muddle over pages of logos with subtle differences, attempting to find THE ONE. Of course, like the name, the choice of a logo is one that stays with you for a very long time. Many of the same considerations apply with logos; they must exemplify your mission, be flexible for future situations, be easy to interpret.

Some additional considerations:

- Your logo should be clean and clear and unique
- It should reflect your USP in similar ways – a sports practice should have an active-looking logo; a pediatric practice should have a “warm and fuzzy” looking logo.
- Colors also reflect your style and should be chosen carefully. Greens, for example, can be either warm or cool, depending upon the hue or shade.
- It should be easy to reproduce and look good in a variety of formats. A logo that is extremely complex, with subtle elements and multi-colors, can be very costly to reproduce and can look jumbled in some advertising media.

Designing Your Logo

When you are starting into practice, it may seem to be ridiculous to spend lots of money to pay a professional graphic designer to create your logo, but this approach may save you a lot of headache in the long run. One new practitioner “hired” her best friend, who was an amateur artist. After the designs were created, none were what she wanted, but she didn't want to offend her friend, and ended up with something that was inappropriate. It was more costly in the long run to re-do the logo than it would have been to hire a professional in the first place. Check out the local community college or design school for an inexpensive designer.

Before you finalize your logo, take samples to friends and associates and, most important, non-chiropractic acquaintances, and ask opinions. Ask them: “What impression do you get from this logo?” Listen carefully to those who don't know chiropractic. A logo that might seem terrific to you might not be meaningful at all to those who are not involved in chiropractic.

NOTE: Your logo and your name are the visible image of your Unique Selling Proposition and your mission. Once chosen it is VERY DIFFICULT to change them. CHOOSE CAREFULLY! Consider trade marking your name and logo: See [Appendix H](#) for more information on trademarks and service marks.

CHAPTER 9. LOCATION AND LEASING CONSIDERATIONS

Many people in the real estate business say that there are three main factors in selling homes: location, location, and location. This is true to an even greater extent for a small business; location is of major importance to the success of your practice.

Determining Location

How do you determine the optimum location for your new business? Here are some considerations:

Personal preference (where you want to live and what kind of patients you want to see) is the first determinant. Ask yourself:

- Where do I want to live? What state? What city?
- What types of patients do I want to see? Families? Athletes? Pediatric? Elderly? A combination? You'll need to be sure the area has enough of each type.
- How much time would I prefer to spend with each patient? If you want to spend more time with each patient, you will need to practice in an area where patients can afford to pay the fees you'll need to get.

Let's look at these factors and take a wide view of location and then zoom in to pinpoint a spot. You may already have a general idea of the area in which you want to locate in, but there may be numerous possibilities within that area. Do you want to locate in your home town? In a place with a pleasant climate? Somewhere where you've heard that people need your services? The personal preference factor in location takes you to the general area in which you want to locate.

When you have determined the general area, you need to zoom in a little more and look at particular cities, towns, or areas of a large metropolitan area. Now you will need to begin looking at some detailed data to use in your decision-making process. Buy a map and begin to make your assessment of the population factors. For information about large metropolitan areas or regions, consult government sources and regional development administrations. The Internet can be a valuable tool in this research.

NOTE: Try this website to help you choose a location: <http://www.findyourspot.com> or try this one to get more information about a location: <http://www.ersys.com>.

Population Factors

Sales are made to people; the number of people in a particular area can be counted; of that number only a certain percentage are potential customers. Sometimes this is expressed as the population figure that a can support a chiropractor.

- Estimate the number of people in the area who may be potential customers.
- Then begin to look at the competition in the area. Pinpoint these people on the map.
- Obtain demographic information about the population and, if possible, particular sections of the population:
 - Who are these people?
 - What is the average income level?

- What is the average education level?
- What is the average household size (to give you some indication of the number of families, as opposed to singles or retired people)?
- How many elementary schools are in the area and what size are they? Are the schools well-supported by the community?
- What is the average new home/used home price?
- What are the area's major employers? What type of employees work there? (Blue collar? White collar? Technical? Professional?) Do their benefit packages include chiropractic care?
- What is the health care "climate" in the area? Is the medical community supportive of or receptive to chiropractors? What is the community attitude regarding chiropractic?

This information can be obtained from a number of sources; the local chamber of commerce is an excellent source of information about the community. Other sources are the local Small Business Administration office, your friendly local librarian, the school district office or web site, and the banker you intend to do business with. Any of these individuals can help you narrow down your search even further to specific communities or neighborhoods.

Review the information you've received to see if this is the type of population you are interested in serving. Ask yourself;

- Do these people have the discretionary income (above the minimum) that will enable them to purchase chiropractic services?
- Do these people have a lifestyle, education, interest in chiropractic?

As part of your search, check out the competition. Find out what other chiropractors are located in the area and their focus or specialization. You'll need to include information on the competition in your marketing plan.

One good web site for a listing of chiropractors by area: <http://www.superpages.com/>. Type in "chiropractor" and the city/state you want to search.

NOTE: Before you complete your search, follow up with "due diligence" to be sure the information you've received from individuals is accurate. Don't rely on hearsay; go directly to the source to determine if a statement is true.

Armed with this information, you also need to make some calculations. Take the population of the community you want to serve and divide it by the number of chiropractors already serving this area, to get an approximate figure of average population per chiropractor. Look at this number in relation to the 1/5000 estimate (used by some practice management consultants). Let's say you wanted to locate in Bettendorf, Iowa. You find the population of Bettendorf to be approximately 35,000. There are 17 chiropractors in the phone book with Bettendorf addresses. That means there is one chiropractor for every 2,058 people... formidable odds!

What is the purpose of this figure? It provides you with some idea of your competition and the number of people available to you within the geographical area you've selected.

Researching a Location

Other relatively inexpensive methods of obtaining information about the community are relatively inexpensive and can be very useful:

Drive around. Check out the nearest mall. Look for the addresses of other chiropractors you've identified. Also look for the nearest hospital and doctor/dentist complexes near it, to be near your referral sources. Check for new construction-- what type is it? New retail areas are good locations; an office park is another good possibility for attracting professionals.

Knock on doors. Find a neighborhood that looks interesting, take a business card, and go from door to door. Explain who you are and ask a simple question, for example, "Is this a good neighborhood for a new chiropractor?" By asking a non-threatening, easy question, you'll get some interesting answers! You will also be able to see how receptive people are to chiropractic, if they already have a chiropractor, if they have chiropractic needs, etc.

Get a map. When you find a community or neighborhood that looks promising, circle it on the map. As you narrow your field of vision, you will need to start narrowing down your location even more specifically.

Zooming In On Your Location

Look now at location as it relates to two other important factors: advertising and rent. These two are vital considerations in determining location, in the following manner: You pay more for rent in a desirable location, so you don't have to do as much advertising. If you have a low-rent location, it probably is not as desirable so you will have to do more advertising. Thus, location is a factor of rent times advertising.

If walk-in traffic is important to you as you are starting out, then paying more for a well-traveled location, such as in a popular strip mall, might be worthwhile. On the other hand, if you have found a place to locate that is not good for walk-ins, you will need to do more advertising and other forms of marketing to bring people in. Remember that service firms rely less on impulse buying than on accessibility, appearance, and customer loyalty. For first-time customers, accessibility is important--they need to be able to find your office easily. After that, the relationship you build up is more important in keeping people coming back to you.

One successful health care professional said he chose his location by finding a neighborhood he liked and drawing a three-mile circle around it. He knew most people in high population-density urban areas will not travel more than three miles to go to a health care office, so he wanted his office to be within that circle. Then he could discern whether there was enough population and the right type of population within that three-mile circle, in order to justify his location. You might have to do this a few times to get to the perfect location.

Now you're really zooming in. Look at streets and traffic patterns. Try to find an area where there are other professional offices nearby. Try to locate near, but not in, the mall, giving you the advantage of the mall traffic but not the high rent.

Somewhere along this time, you might want to start discussions with a commercial realtor. He or she can give you much more information about the community and direct you to potential locations. Be careful to select a commercial realtor, not just "a friend of Joe's" who may not know the commercial market in the area.

By this time, you should have zoomed in on your target, and have several potential locations in mind.

When evaluating different locations, consider such items as:

- Parking facilities (you need at least 200 sq. ft. of parking lot per car; look at how many slots you will need for patients and employees.
- Adaptability to your needs (can you make needed changes without major expenditures?); compare each location to your proposed floor plan
- Other businesses around you (will they add to or detract from your business?)
- Traffic flow, major roads, ease of entry/exit from the office
- Zoning and other local ordinances that may affect you.

Leasing vs. Buying an Office

Is it better to lease or buy an office? I'd suggest that you consider leasing unless:

- You are sure you will be staying in the community for many years, and
- You're sure you have the "perfect" location for a chiropractic practice, or
- You can find a building already set up for a chiropractic practice.

Purchasing is very final, and if you change your mind you may find it difficult not only to sell, but also to get out of the office what you put into it.

Business Lease Terms and Considerations

Business leases come in many varieties, depending on who is doing the leasing and the standard terms in a particular area of the country. At one end of the spectrum is the gross or full-service lease, in which the landlord pays all expenses. At the other end is the Triple-Net lease, in which the tenant pays all expenses.

NOTE: Leasing terms can expressed differently by different leasing companies; just ask "what's included in the lease and what is not?"

In graphic form, here are the different types:

Type of Lease/Fees	Utilities	Repairs	Insurance	Taxes	Maintenance
Gross	Landlord	Landlord	Landlord	Landlord	Landlord
Net	Tenant	Tenant	Tenant	Tenant	Tenant
Double Net	Landlord	Landlord	Tenant	Tenant	Landlord
Triple Net	Landlord	Landlord	Tenant	Tenant	Tenant

In a lease, any of the following can be allotted to you or to the lessee (the property owner):

Real estate taxes	Snow removal	Driveway, sidewalk, parking lot repairs and maintenance
Assessments	Electricity, Gas, Heat	Refuse collection
Water charges	Janitorial	Lawn Care
Sewer charges	Property, casualty, liability insurance	Structural and roof repairs, replacements
Lawn care, landscape maintenance	Non-structural repairs and maintenance/replacements	Mechanical systems repairs, maintenance, replacements

Some landlords have a specific type of lease that they provide; others will negotiate who pays which fees. It might be to your advantage to pay as many of the fees yourself as possible, to save money and have control of costs. Some landlords, particularly those with several tenants, want control over who pays these fees.

Determining Lease Costs and Increases

When you talk to a leasing agent, you'll probably begin by discussing square feet. You might say, "I am looking for 1,000 square feet. How much would this cost?" They might respond, "We are asking \$18 per square foot." Calculate your cost by multiplying the cost per square foot time the number of square feet. This is an annual cost, so you have to divide by 12 to get a monthly cost. In this case, the monthly cost would be \$1,500.

Some leasing agents use the term "leaseable or rentable square feet," which refers to the physical office space (the "usable square feet") plus a percentage of the common area (the areas used by all tenants, such as corridors, rest rooms, elevators). So what the agent has told you is that in order to have 1,000 square feet you must also pay for the common area. If the common area is 15% in this building, you are paying \$18 a square foot for 1150 square feet, or \$21.70.

After you've figured out the "true" lease cost, the next step is to discuss annual increases. Some leases increase by a fixed amount each year; others increase by a cost-of-living factor. If yours has a COL increase, ask how it is determined. Is the COL factor local, regional, national? What happens if the COL falls?

One major consideration in lease costs is the principle of “common area maintenance” (CAM), which includes costs for common hallways, restrooms, walkways, and other areas used by all tenants. If you have to pay for CAM costs, it will increase your cost per square foot substantially. Ask immediately if you’re expected to pay for CAM costs.

NOTE: Don’t forget the CAM (Common Area Maintenance), the amount you pay for common areas of the building. CAM costs in real estate taxes, utilities, and maintenance can increase your total lease costs substantially, up to \$5 a square foot. In this example, if you have 1,000 square feet, you would be paying \$416 a month for CAM costs.

Sometimes you can get a graduated lease over a long term, with lower initial payments and higher payments later, to give you lower rent as you are starting up. For example, let’s say you will have a five-year lease for a total cost of \$60,000 (average \$12,000 per year). A graduated lease might look like this:

Year 1:	\$8,000
Year 2::	\$10,000
Year 3:	\$12,000
Year 4:	\$14,000
Year 5:	\$16,000

Many chiropractors sublet space, either to other doctors or to massage therapists. Be sure your lease allows you to sublet within the space and time of your lease.

Leasing Considerations

Some considerations when looking for space to lease:

- *SPACE NEEDED:* How much space will you need? (The general consensus is that you will need between 1000 and 1500 square feet of usable space for your first one-doctor office.)
- *TYPE OF LEASE:* Who pays for utilities, maintenance, snow removal? See discussion above.
- *TERMS* How long is the lease? What are the annual increases and how are they determined?
- *BUILD-OUT* How much work must be done to fit the space to your specific needs (how much build out will need to be done)? How long will that take? Who will you contract with? Can you get any rent concessions while you’re making improvements and not seeing patients? Must the work be approved by the leasing agent or building owner?
- *X-RAY* Can you install an x-ray unit? Is 200-volt electric service available?
- *SIGNS* Can you put up signs? What kind? What are the restrictions on placement and size of signs? (Check local ordinances on this question)
- *PARKING* Is parking adequate for your patients? Are there enough handicapped parking spots?
- *VISIBILITY* Is your office visible from the street? Are walkways and the office building adequately lit?
- *RESTRICTIONS* Are there any restrictions on your access to the building (evenings, weekends)?

- *SECURITY* Is security needed? Does the landlord pay a security service or are tenants required to provide their own security system?
- *BREAKING THE LEASE* What are the penalties if you break the lease before it is done? Can you renegotiate before the lease ends for better terms?
- *SUBLETTING* Can you sublet to someone? Are there restrictions on the number of doctors who can practice with you?
- *SECURITY DEPOSIT* What is the security deposit?
- *EXPANSION* Can you expand if you want to?
- *INSURANCE* What liability insurance does the landlord have? What insurance must I provide?
- *NEIGHBORS* Are neighboring tenants compatible with your practice?
- *COMPLIANCE* Is the office and parking lot ADA-compliant? Are offices sound-proofed to be HIPAA compliant?

Here's a checklist to help you work through the decision process of locating an office to lease:

Checklist for Location and Facility:	6 months to a year before startup	3 months before startup	1-2 months before startup
Visit the area	<input checked="" type="checkbox"/>		
Do detailed demographic study	<input checked="" type="checkbox"/>		
Focus on specific area (city, metropolitan area)	<input checked="" type="checkbox"/>		
Narrow focus to specific area of the city		<input checked="" type="checkbox"/>	
Contact realtor and begin search for office		<input checked="" type="checkbox"/>	
Locate office; make lease vs. purchase decision		<input checked="" type="checkbox"/>	
Look at specifics of space and layout		<input checked="" type="checkbox"/>	
Work with realtor/contractor to determine build-out needs			<input checked="" type="checkbox"/>
Check out local ordinances, inspections			<input checked="" type="checkbox"/>
Review ADA requirements for handicap accessibility			<input checked="" type="checkbox"/>
Work on lease with attorney, rental agent			<input checked="" type="checkbox"/>
Sign Lease Agreement, Begin construction			<input checked="" type="checkbox"/>

NOTE: Before you sign any lease: Have an attorney review it to be sure that all terms and conditions are included and are stated clearly in writing. You must have your license to practice in hand before you commit yourself to making lease payments, or you can sign a lease with a contingency. What if you signed a lease for October 1 and your license didn't take effect until January?!

CHAPTER 10. NEGOTIATIONS: PURCHASING A PRACTICE

Let's say you've decided to purchase a practice, and you've found one which looks interesting. Buying a practice is a little like buying a racehorse--you want to check it out very thoroughly, but you really won't know what you're getting until it begins to run. Like a racehorse, a practice is only as good as the person in control. Before you sign, you must do a thorough analysis of present condition, and an appraisal of the future. This section will take you through the steps in the purchase process.

Past success or failure is not a sufficient foundation for a decision on whether or not to buy a given practice.

One way to check out a practice is to work as an Associate or Independent Contractor in the practice, so you can see exactly how the business is being run. Sometimes you can work out an agreement to come in as an associate with a "buy-out" after a year or so. Be sure to put a "right of first refusal" in the agreement, so the owner can't sell the practice without informing you and giving you first option to buy.

1. Interview and select your team of professionals who will be helping you make decisions.

A banker is the first person you want to consult (no money, no practice). You should begin to develop a personal relationship with the banker you've chosen. Be sure the banker is kept informed at every step.

You will also need the services of an attorney, someone who specializes in purchase of professional practices. The attorney may differ from the one you'll be using after you begin your practice, although you might look for a firm large enough to have several attorneys who specialize in various aspects of practice.

Your accountant will be your "right-hand" person during this process; seek someone who can work with the lawyer and you as a team. Accountants are conservative by nature, and some are good auditors, but not good advisors--seek one who is assertive but not aggressive.

You may also begin to talk with insurance advisors, from whom you will purchase business (property and casualty) insurance and malpractice insurance (from separate companies).

Some practice purchases are made through a broker. As with the sale of a home, the broker will receive a commission from the seller (up to 10%) for his/her work, payable upon closing. If a deal is handled through a broker, it has a good chance of coming to completion, so it may be worthwhile to find and work with a broker.

2. Do a preliminary investigation; write an offer or letter of intent.

Some preliminary questions to ask:

- Why is this business for sale?
- What is being sold--the business or the assets?
- What is it worth? what is the top price you're willing to pay?
- What are the intentions of the present owner? Will he/she sign a non-compete agreement? Do you want him/her remaining in the practice for a period of time?
- Are environmental factors changing? What about the neighborhood, the competition, the mix of patients? Is the area growing, stagnant, declining in population? Must the practice be moved to grow?
- Is the business operating efficiently at present? If not, how much would it take to get it in shape?
- What is the financial condition of the firm?
- How much investment is needed? Is funding available from the present owner? From the assets?
- Is the price in a reasonable range? Will it be possible to break the price down into components?
- How long would it take you to "make a decent living" at this practice?
- How many days and hours does the doctor work in the practice? What technique(s) are utilized in the practice? How much time does he take off yearly? How does this fit in with the way you will want to work?
- Is the building owned by the doctor? What terms does he want for sale or lease?
- If the office is leased, what are the terms, conditions, and expiration date of the lease? Is it acceptable and assignable to a new tenant?
- Is the parking adequate? Could it be increased if necessary?
- What does the patient base look like? How many active patients? What is the rate of patient drop-off? How many new patients are seen each month? Where do they come from?
- How much cash is tied up in receivables? How old are they? What are the practice policies regarding payment procedures, collections?
- Are charges competitive and fair? When were they last raised? (If a price increase is necessary, it should be done immediately after purchase.)
- How well is the office designed? Does it suit your purposes? If not, can it be modified for a reasonable amount of money?
- Are the employees an asset to the business? Are you willing to fire some or all of them? Is the owner willing to allow you to do this, even though he/she may still be involved in the practice? (Sometimes it is easier to start fresh with new employees when you begin.)
- Who has title to assets? Are titles transferable?
- Is there any pending litigation?
- Are there any outstanding claims for workers' compensation, unemployment compensation?
- Any previous or outstanding OSHA violations?
- Has the practice established any trademarks/service marks? Any copyrights or patents? (These should be purchased with the practice)
- What is the current zoning of the practice?
- What is the credit rating of the practice?

Create some preliminary figures to see if the purchase is financially feasible. Begin with three sets of projections (pro forma statements): most likely scenario, worst case scenario; best case scenario.

Practice Purchase Terminology

Here are some terms you may encounter in your purchase activities:

A ***letter of intent*** is a non-binding offer letter. Its purpose is to give the seller assurances of your sincerity and allow you to investigate the practice more thoroughly. You also want to be sure to leave yourself a legal opening so that, if you decide to back out, you can do it without penalty. The intent letter provides you with access to the records, and thus should include a confidentiality clause. It also precludes the seller from dealing with anyone else during this phase, so you don't have to worry about someone undercutting your offer.

The intent letter will probably include:

- Confidentiality clause - prohibits seller and buyer from discussing the purchase during the delicate negotiation process; it may also limit direct contact between buyer and seller, if a broker is involved.
- Amount financed and rate
- Escape clause or contingency if financing doesn't work
- Non-compete/consulting agreement
- Escrow amounts (earnest money)
- Personal guarantees
- No alterations to business (the owner must maintain "business as usual")
- No shop clause (the owner cannot continue to "shop" for other buyers during this process)
- Representations/warranties
- Details of closing

A ***purchase agreement***, on the other hand, is binding, specific, and includes all details, such as contingencies and covenants.

Contingencies (conditions precedent) are events that must occur before the sale is completed. Some common contingencies, from the buyer's standpoint:

- Favorable review of books and records
- Favorable review by legal counsel of the contract and all related documents
- Escrow deposit, which is held until all contingencies are removed
- Acceptable transfer of the lease
- Bank financing approval, at a rate acceptable to the buyer
- Passing licensing exam, if applicable

Common contingencies from the seller's viewpoint

- Favorable review by legal counsel
- Favorable review of the buyer's background and qualifications
- Approval of the buyer's financial condition, especially if the seller is taking money (financing)

Contingencies must be formally satisfied or the contract is null and void; they are removed by signing a form or by acknowledgement statements.

Covenants are promises made by one party to another--promises to do or not to do something. The most common are:

- The covenant not to compete, for a specific type of service, within a specific time within a certain geographic area, and
- Pre-closing, during the time between signing of the letter of intent or purchase agreement and closing to protect the buyer from changes in the business. During this time, the seller promises to continue running the business in a "normal" manner, for example, taking on no new debts, nor defaulting on contracts, nor doing anything which would cause patients to leave.

Representations and warranties are attempts to force the buyer or seller to truthfully and accurately present information. Some of the most common:

- All liabilities owed are presented in the purchase agreement
- Seller has full authority to sell assets
- Seller is not in default on anything
- All leases are in good stead
- All required tax returns have been filed
- No undisclosed liens, attachments, guarantees, litigation
- All financial data is accurate
- All permits, licenses, certifications are current and valid
- The seller may also be asked to represent a specified gross sales per week during the trial period, plus or minus a certain percent.

Other considerations that may need to be addressed in the letter of intent or purchase agreement:

- Discussion of the review of inventory
- Assumption of liabilities. Which liabilities are being assumed by the buyer? What about payments on leased equipment? Credit card processing contracts? Maintenance agreements/service contracts?
- Dealing with "hidden" liabilities, which show up after closing (such as malpractice or negligence claims)?
- In progress work: PI and workers' compensation cases (who gets the money?)
- Phone numbers, yellow page ads – can they be purchased or continued?
- Delivery of all records, patient account cards, etc.?
- Contact with patients - how will transition be handled and communicated?
- Assumptions about current employees – will they stay?

3. Negotiate price and terms

Your negotiation meeting with the owner may be more important than a job interview. Don't forget that this person is not just selling a business; he/she is selling a LIFE!

The most advantageous situations for you as the buyer are:

- Availability of seller financing
- Low down payment
- Historical information supports purchase price
- Presence of a broker
- Compatibility of buyer and seller
- Knowledgeable, efficient staff

The most common mistakes made by sellers:

- Unrealistic price
- Misunderstanding "hidden profit"
- Assuming that the buyer knows the area
- Lack proper counsel
- Misunderstood buyer motive
- Inadequate documentation

Probably the most common mistake sellers typically make is **Unreasonable Pricing** – asking too much for the practice. It is rare that a seller comes into the deal with a reasonable price. The question you should ask yourself is: Can I get this person to accept reasonable terms? The sooner you figure out the answer to that question, the sooner you'll know whether this deal will work.

Seller Financing

You may want to discuss the possibility of the seller financing a part of the purchase price. There are several ways to do this:

- An earn out, which links future payments to future actual gross sales revenue, future actual taxable income, or future actual number of patients. This allows the buyer to make payments in proportion to the realized performance of the company. Acquisitions that are high risk to the buyer may be salable only under such terms, and they create an added incentive for the seller to help the new owner succeed. The main difficulty is choosing a repayment mechanism that is fair to the seller.
- Seller carries a note, which the buyer must personally guarantee, and against which you may need to offer additional collateral. Terms of this promissory note might include late payment dates and penalties, default conditions, amount and type of collateral and guarantee, relationship between note payments and lease payments, clearly defined payment structure, interest rate, acceleration (due on sale) clause. The collateral, in order of preference, would be a security interest in the business assets, personal guarantee by buyer, and/or buyer personal assets (excluding the personal residence, which may be protected by homestead laws), or other additional collateral.

- Holdbacks. You may also want to consider holdbacks, which require the seller to keep part of what you pay (usually between 5% and 30%) in escrow to pay any "hidden" liabilities which might show up after the sale, for up to a year. You can also put an "offset" provision in the agreement which offsets future payments on the note against any undisclosed taxes or other debts discovered after closing.

4. Perform comprehensive due diligence

Due diligence is performed by the buyer and his/her accountant and attorney after the intent to purchase has been signed, but before the formal purchase agreement. The purpose of due diligence is to allow you to thoroughly examine the company so you can make an informed decision before purchasing. It's also a way to make your mistakes on paper first. Use your advisors, especially your accountant, to help you examine the books and records. You will want to see financial statements and tax returns for the past four to five years.

During this due diligence period, you should:

- Hang around the practice for a few days; talk to patients.
- Look at the competition and their positions. How are they advertising themselves? How are they doing financially?
- Talk to employees, if possible, or observe them carefully.
- Look at potential future repairs/modifications.
- Look at documents showing liens, encumbrances on the assets.
- Check OSHA and ADA requirements for the facility.
- Make sure there is enough cash flow.
- Look at all legal contracts entered into by the current practice, including lease arrangements and vendor purchase agreements.
- Ask yourself: where is the business really coming from? Will it continue?
- Prove the negative as well as the positive.
- Analyze the bad debts of the practice, the accounts receivable aging, and the present collection policy.

Some areas to focus on:

- Look at monthly gross income for at least three years. Check tax returns for the business for three years or more; cross-check all information against something else.
- Look at overhead (fixed expenses) against national averages (% of gross sales): DC salary 50%, employee wages 16%, rent 11%, equipment and supplies 12%, malpractice 4%. If any of these numbers seem out of line, check further. The owner may be "padding" overhead to minimize taxes.
- Look at employment tax data (941 forms, etc.) and salaries/wages paid out for the past 3 years. Are employment taxes being paid on a timely basis?
- Verify profitability by subtracting overhead and debt from gross income (before expenses). Check against owner's income from the practice.
- Verify income by tracking all appointments for a month at random. Check to see if any income is unreported.
- Verify the active patient base by checking last date seen for each patient.
- Prepare a list of questions; if you don't get answers, ask why.

5. Address pre-closing issues.

Firm up your financing, using the information from your due diligence.

Key elements to a successful sale:

- A cooperative, informal environment
- Understanding of the other party's needs
- Firmness yet flexibility, assuming the other party is interested in closing
- Moving quickly without giving the impression of desperation
- Focusing on areas of agreement, not disagreement
- Avoiding impossible, unrealistic positions
- PUT IT IN WRITING! ASAP!

Open communication and a constructive relationship is the glue that holds most deals together. Surprises and misrepresentations are deal killers. If disclosed, problems can be handled. If not, watch out!

6. Orchestrate the closing.

At the closing, a number of documents may need to be signed:

- The bill of sale, which is evidence of the ownership of assets, and is the formal document representing ownership of the business and its assets
- Security agreement (lien) which is evidence that the assets are encumbered by the seller until the note is paid
- Purchase agreement, which may have already been signed as a letter of intent.

The purchase price may be payable in different parts:

- Earnest funds (already paid) are deducted
- Balance of down payment is also deducted
- Assumption of liability or paid by seller portion deducted
- Remaining balance in promissory note.

Portions of the purchase price may also be allocated to: non-compete covenant, trade name, trademarks, consulting agreement, customer accounts, goodwill, in addition to assets.

7. Deal with transition issues

You should make every effort to remain on the best possible terms with the selling doctor, in order to effect a more congenial transition. Patient acceptance is greater when the outgoing doctor endorses the incoming doctor.

How will the owner participate in the transition?

Having the current owner stay in the practice for a period of time after the sale has benefits and drawbacks. A common mistake is allowing the seller to continue working in the practice for a longer period of time than the practice can support. On the other hand, protecting the initial cash flow of the practice by having the seller work for you can make sense in certain situations. It depends on the personalities and wishes of the two parties.

If you want the selling doctor to continue for a longer period of time, or if you are new to the profession or the community, you might want to consider a long-term buyout, in which you would "associate" with the retiring doctor for six months, and gradually work into the practice. This has benefits for both doctors, as it allows the new doctor to become familiar with staff, and provides a smoother transition for patients.

How will employees be informed?

They probably know something is up. Being open and communicating early and often is the best practice, even if they will be adversely affected by the sale of the practice. The drawback to communicating is that employees might be inclined to sabotage the practice. Your decision on how and when to communicate should be discussed with your attorney and, possibly, the selling doctor.

How will patients be informed?

Patients should be informed in a personal letter, and should have the opportunity to meet the new doctor as soon as possible. A "meet the doc" day could be set up so that patients could visit on an informal basis. Your procedure here, too, will depend on the particular circumstances.

How will the community be informed?

Most new doctors send out fliers, announcements, newspaper articles to announce the new practice. One possible transition plan:

- Have the seller notify active and inactive patients (who pays the cost for these letters?). The letter should encourage patients to meet the new doctor, and may be followed by a letter from the new doctor talking about the practice and the intent to continue to operate in the same manner (even if you're making significant changes!).
- At the first patient visit, have the outgoing doctor introduce the new one and discuss the case.
- At subsequent visits, the selling doctor should gradually see fewer patients and for shorter lengths of time, until you are seeing all of the patients.

Business Valuation Methods

Businesses can be valued in several ways, depending upon what part of the business is being valued (equipment, patient base, building and land), so let's clear up terminology here:

Fair Market Value (FMV) is used when determining the value of tangible assets (like equipment and leasehold improvements). MSN Money defines fair market value as "The price an item would sell for, assuming the buyer and a seller both have reasonable knowledge and are not under undue pressure." The term FMV assumes a "willing buyer and willing seller," what's termed an "arms-length" transaction between unrelated parties, and includes depreciation. *Another definition of FMV* (from investorwords.com): The price that an interested but not desperate buyer would be willing to pay and an interested but not desperate seller would be willing to accept on the open market assuming a reasonable period of time for an agreement to arise.

Determining market value of property (land and building) includes a comparison of other similar properties sold near the same time as the property in question. Determining FMV of equipment involves an appraisal.

Appraised value is the amount a certified appraiser estimates the property or equipment to be worth, considering its age, condition, location, and other factors.

Investment value is the ability of the business to produce a profit or provide the owner with a return on investment. It is sometimes termed "going concern value," which means the value on a continuing basis.

Liquidation value of a business is the price that could be obtained for the business and its assets if it were going out of business. This is usually a low price, since it assumes an urgency about selling out at the lowest possible price.

Goodwill is a term that, narrowly defined, means the difference between

Loan-to-value is a real estate term which is calculated by dividing the current loan balance by the lower of the sales price or appraised value on a purchase, or appraised value on a refinance.

The Concept of "Going Concern"

The purchase of a practice involves valuation of the practice as a "going concern," but what does this mean? A practice is a going concern if:

- It has CURRENT patients (seen regularly or within the last 6 to 12 months);
- It has staff members who know the patients and the business;
- It has equipment and furnishings for use in treating patients;
- It has verifiable profits, an income stream or cash flow, which can be used to pay the overhead and pay off the purchase price.

But how much of the practice will remain after the new doctor takes over? Will the staff remain? Will the lease be continued? Most importantly, will the patients remain? These factors are what determine the purchase price. Past performance and potential are plus factors, but they do not determine market value.

The three most common misconceptions about practice values are:

- There is a "magic formula" which can be used to establish a practice price. Each practice is unique, in a unique market, with unique circumstances and competition. Some general guidelines may be available but they are so vague as to be practically worthless. No two practices are alike. Even two general practices with the same volume and return, and operating out of the same building might have entirely different market values. Individual characteristics of a practice affect value.

- There is some *exact percentage* that you can discount for patient loss. This also is subject to many variables; some doctors actually increase the patient base after the purchase.
- There is some *relationship between past and future performance*. There is no way to use gross earnings to predict what a practice is or will be doing, because there are too many significant variables, such as leases, staff, and advertising. Net earnings are a better indicator, but these are still not accurate.

A “Typical” Practice Purchase

Although it’s difficult to characterize purchases, since no two are alike, here’s a typical scenario that I see often:

- The building and land are purchased through a mortgage, sometimes on a land contract (in which the seller holds the mortgage) or through a bank mortgage.
- The physical assets are purchased by a term loan through the bank or directly from the seller.
- The accounts receivable are typically not purchased; if they are part of the deal, the receivables are heavily discounted (lessened in value), since it’s very difficult to determine how much can be collected. If you wish to purchase the accounts receivable, don’t pay any more than 30% to 40% of the listed amount, and only for those less than 60 days old..
- The current patient base is purchased from the seller (usually financed by a loan) at some amount determined as a percentage of the last year’s collections (or the last two to three years’ collections). Sometimes the seller is paid for a non-compete agreement in exchange for the patient base. When you are trying to determine the amount for the patient base, look only at recent activity (within the last year or two), and try to determine how many ACTIVE patients are in the practice. An Active Patient, in my opinion, is one who has been seen within the past six to twelve months. Patients who have not been seen in over a year are INACTIVE. Ask this question: How much income can I expect from this patient on a REGULAR BASIS?

Tax Implications of Practice Purchase

The tax code considers a business to be a collection of assets, and someone who offers a business for sale is trying to sell all of these assets together, from the IRS’s point of view. Nevertheless, you may not want or need all of a business’s assets; you may want only the building, only the patient base, etc.

Form 8594 is a tax form that lists the purchase price and its allocation to the specific assets. Buyer and seller both file, and assets are classified as:

- Cash and cash-like -- money, petty cash, bank accounts, notes and receivables, marketable securities.
- Tangible property -- inventories, land and leaseholds, buildings, equipment, office furniture and fixtures.

- Intangible property -- usually a right to something, like patents and copyrights, trademarks, and client or patient lists, non-compete agreements. The IRS considers GOODWILL as an intangible asset, and counts it as the excess of price paid over market value of all the rest of the assets. Significant intangibles should be valued by your accountant.

Buyer and seller should agree on the allocation of the purchase price of the assets as part of the negotiation; there's almost always some flexibility in valuing assets.

You as buyer should seek deductions for payments you have made to the seller in order to restrain the seller from competing. Be aware that the seller will usually resist because he must declare this amount as ordinary income if you deduct. Check with your tax advisor on the implications.

If you are purchasing a corporation, you can purchase the assets themselves or you can purchase the stock and control the assets. As a buyer, you'd generally prefer to acquire the assets, in part so you don't end up buying hidden liabilities, like unpaid taxes. Also, you might not want all of the assets.

If you are buying a corporation, you may also be able to buy the business with its own funds or future earnings, where the corporation holds substantial cash which can be used to redeem part of the seller's stock.

Non-compete Agreements (Restrictive Covenants)

One last item that is important to consider is the non-compete agreement or the covenant (promise) not to compete. As mentioned above, this covenant should form part of the purchase agreement between you and the seller, and consideration must be given to the seller for this promise. Be very careful to specify in the agreement (a) the time period covered, (b) the area in square miles distant from the office, (c) the consideration (in terms of money or other concessions, and (d) the specific nature of the business or services which are restricted in the agreement. You will need expert legal counsel to help you wade through this alligator-infested swamp.

In general, this type of restrictive covenant must be reasonable, supported by adequate consideration, and designed to protect a legitimate interest of the seller and purchaser. You may have heard that "non-competes are illegal." Actually, they are perfectly legal as long as they are reasonable. Often the agreements are not upheld by courts because they are not "reasonable" in terms of time and distance, or because the consideration given was not "adequate." What is "reasonable" varies greatly and is based on the particular area in question. For example, what is a reasonable distance in a metropolitan area like Chicago might be totally different from "reasonable" in a rural area in South Dakota.

Another use of non-compete agreements is in the associate situation; many doctors require young associates to sign non-compete agreements to prevent the associate from practicing for a year or two, then quitting and taking patients away from the practice. As long as the agreement is not unreasonable for the employee, the doctor's right to require such an agreement is usually upheld by the courts.

Don't ever assume that you don't need a non-compete agreement because "the seller is leaving the area" or "the seller is retiring." There have been past instances in which the seller decided to UN-retire and return to the area. And don't hesitate to get an injunction against a seller who sets up shop down the street. If you don't stop the activity, the damage is done before you can go to court.

For an opinion on the enforceability of non-compete agreements from an online source:
<http://www.lawguru.com/articles/showarticle.php?id=3>

Below is a sample non-compete agreement for an employment situation. The same type of agreement would be used in a practice purchase situation.

This example is part of a larger agreement, such as an employment contract or an employee handbook. You can use it as a separate agreement or incorporate it into another, larger document.

Nondisclosure and Noncompetition. (a) After expiration or termination of this agreement, [employee name] agrees to respect the confidentiality of [company name] patents, trademarks, and trade secrets, and not to disclose them to anyone.

(b) [Employee name] agrees not to make use of information obtained in the course of work done for [company name] while employed by a competitor of [company name]

(c) [Employee name] agrees not to set up in business as a direct competitor of [company name] within a radius of [number] miles of [company name and location] for a period of [number and measure of time (e.g., "four months" or "10 years")] following the expiration or termination of this agreement.

(d) [Employee name] agrees to pay liquidated damages of \$[dollar amount] if any violation of this paragraph is proved or admitted.

IN WITNESS WHEREOF, [company name] and [employee name] have signed this agreement.

[company name]

[employee name]

Date:

[from about.com and officedepot.com]

CHAPTER 11. NEGOTIATING EMPLOYMENT CONTRACTS

In business, you don't get what you deserve, you get what you negotiate.

The most important trip you may take in life is meeting people half way. Henry Boyle

As mentioned in Chapter 7, you may decide to wait a while before starting your own practice and to go into a relationship with another chiropractor. The typical relationships are Associating (i.e., becoming an employee in a practice) or becoming an Independent Contractor (practicing independently within the framework of another practice. As you begin looking for situations, be sure to have your own expectations and requirements firmly in mind.

Here are some questions to ask yourself before exploring possibilities. If you answer “yes” to these questions, you probably want an Associate position:

- Are you expecting to work as an employee and be paid a salary?
- Are you looking for further training in a specific technique or just in running an office?
- Is this practice in an area where you would NOT expect to set up practice?
- Do you need a specific amount of base salary?
- Are you uncomfortable with the prospect of having to get your own patients?

If you answer “yes” to these questions, you probably want an Independent Contractor (IC) situation:

- Are you fairly confident of your ability to get your own patients?
- Do you have a good sense of how to run a practice?
- Are you unable or unwilling to finance a complete practice setup?
- Will you be practicing in an area that will not compete with the office you are considering joining?

Once you have determined the format you want to operate under, you can begin talking with doctors. Be aware that many DC's will talk to you about an “Independent Contractor” situation, when what they really are describing is an Associateship. Some don't understand the difference, but more often they are trying to hire someone without having to pay the employment taxes (Social Security, Medicare, unemployment, worker's compensation).

When you begin talking with a DC, try to discern the other person's expectations and wants. Is he/she looking for:

- income from another DC's efforts
- time off, relief from the demands of practice
- someone to solve a specific problem (patients want a woman, or complain that they have to wait too long to see the doctor)
- a way to increase the size of the practice
- someone to start a satellite office
- hire someone with specific expertise
- handle patient overflow

At the first phone call, ask “Why are you looking for someone?”

You should also be prepared to discuss what YOU can offer to this practice. Even though you may have just graduated, you bring a number of skills and benefits to the practice:

- Updated techniques
- Enthusiasm
- New business management skills
- Skills in recruiting patients
- Flexibility in hours

EVERYTHING IS NEGOTIABLE; you have much to offer a practice, and you should not be shy in discussing the advantages the doctor can gain in hiring you.

In general, a contract for employment or an IC should include the following provisions:

- Scope of services to be performed (A) /limits of usage of office (IC)
- Compensation (A)/payment (IC)
- Duration of relationship
- How agreement can be altered or updated
- Responsibility to maintain credentials/license
- Terms of on-call responsibilities
- Benefits, if any
- Time off
- Continuing education expectations/expenses
- Vacation time
- Work week
- Restriction on competition (during and after)
- Bonuses
- Reasons for termination, notification requirements

Here are some talking points to use during negotiations:

For an Associateship:

1. How will you be paid? What is the base salary? You can discuss a percentage, but it should be in addition to a base. How are additional percentages determined? Be sure you understand the determination process.
2. How often will you be paid? If you are on a percentage, you should receive a calculation of how the percentage was determined.
3. What happens if you are sick? Do you still get your base?
4. Who pays your malpractice insurance?
5. Do you get any holidays off?
6. What are your expected work hours?
7. Are you expected to recruit patients or just work in the office? Your work responsibilities should be explicit and complete.

8. Is the non-compete agreement reasonable? (See discussion in Practice Purchase chapter).
9. Is the doctor willing to pay you for continuing education seminars, including travel expenses?

For an IC:

1. What is the rent? You should pay rent, not a percentage of your gross income; percentage payments are looked upon by some courts as illegal “fee-splitting.” If you are forced to pay a percentage, it should be capped at a reasonable number. The income the other doctor receives from your work should be enough to offset overhead plus a reasonable profit, but not more.
2. What is included in the rent? The agreement should be explicit about usage of the facilities, equipment, staff, phones, filing space.
3. What is the expectation for seeing the other doctor’s patients? Are you expected to see his/her patients? Is he/she expected to see yours?
4. Who pays your malpractice insurance? You should be paying this, but providing information to the doctor that this insurance has been paid.
5. What name are you operating under? Do you have your own phone? Can you put up your own sign?
6. What is the expectation of the other doctor for your patients when you leave? Since you are operating independently, you should be able to take the patients with you or to sell the patient files to the other doctor. It’s helpful to agree on a selling price up front.

For both situations, the contract should include a discussion of the conditions and notification periods for terminating the relationship. Both parties should be required to give notice, although there may be circumstances under which an employer may terminate immediately.

When you have received a contract, I would strongly urge you to have an attorney review it. A legal review might cost a few hundred dollars, but it could save you much time and agony later.

Again, remember that you have much to give of value in this relationship, and you have a right, indeed an obligation, to get what you need from the relationship. If you sense that the other person is unwilling to negotiate, don’t be afraid to walk away and find someplace else.

CHAPTER 12. SOURCES OF FUNDING

New businesses have two main avenues on which to search for startup and operation funding—equity sources and debt sources. The type of funding source chosen by a particular business person depends on how much control he or she wants to retain and how comfortable that person is with risk, in the form of loans.

When you're considering what type of funding to seek, consider the following questions:

- Am I willing to give up ownership in return for capital? If not, you'll need to seek debt funding.
- Am I willing to have debt to repay? Will this keep me up at night? If you're not willing to worry about debt, choose equity funding.
- Am I willing to risk my other assets? If not, you will have to seek a co-signer or co-borrower.
- How fast do I want to grow? If you want to grow very quickly, you'll need more capital.
- How much do I have in personal funds that I can provide? A bank will probably want you to invest some of your own money. Where will you get this?

Equity Sources

Equity sources are those that trade cash for some portion of ownership (equity) of the business. Using equity sources of funding allows you to avoid debt, but means that you must give up some control and some share of the profits to others. Major equity sources for the startup professional practice might be:

- your own personal savings
- friends and relatives
- private investors
- partners

In seeking equity funding, you probably would not attract a true "venture capitalist", because they look for businesses with a technological idea and a possibility of large returns.

Even though you may have come out of school with large loan debt, you also may have accumulated some assets which you can use for collateral, such as the equity in a home or some savings painstakingly accumulated over the years. As we'll see, a lender will want to see that you are willing to contribute your own money to the business.

Friends and relatives are also good sources of funding for your startup. You may have to sign a note with Aunt Bessie, but it might be at a lower rate of interest than a bank. Remind her, though, that any formal lending agreement takes precedence over her note in terms of repayment.

You may also be able to attract a local business person who is willing to invest some money to help you get started. Even if you are dealing with Aunt Bessie, be sure to put everything in writing. To attract this person, you might need to structure the company as a corporation and allow him or her to buy shares, but be sure to keep the controlling interest (51%) for yourself. In the same manner, you may want to offer

someone the option of becoming a partner. Unless he/she is a D.C., be sure in this case that you make her/him a limited (silent) partner, with no say in the day-to-day operations of the business.

Debt Sources

Debt sources allow you to borrow money for your business and repay it with interest. Funding with debt allows you to retain control of the business, and not give up your profits. The major risk is that you may have to put up personal assets, provide a personal guarantee, or find a co-signer. Common debt sources are banks, commercial banks, and finance companies. As we discussed in the buy/sell chapter, you may be able to talk the seller of your business into "holding a note" for you. This person may be considered an equity investor if he/she takes a partnership share or stock share of the business.

Below is a brief overview of sources of financing, including the main types of information required by each and their relative advantages and disadvantages:

Debt Sources:	What they look for	Advantages	Disadvantages
Banks, lending institutions	Ability to repay (capacity), collateral, evidence of continuing positive cash flow	No share in profits, no obligation for ongoing relationship after payment; known repayment schedule	Difficult to secure for new business; must often pledge personal assets; financial obligation continues despite financial position
Loans from family, friends	Likelihood of repayment; your personal character; other personal conditions	Easier to secure; specific amount to repay;	Can jeopardize personal relationships; unsophisticated lender often nervous about money; you may get unsolicited advice and frequent input
Cash Advance on Personal Credit Cards	Ability to repay	Relatively easy to secure	High interest rates; limited amount of money; ties up and risks personal credit

Some suggestions in your search for a funding source:

- Establish the range of funds you'll need and the types of loans you'll be asking for before you have the initial conversation with a lender. This also establishes your credibility with the lender.
- Find an investor with interests and personality traits similar to yours, especially if the person will be taking a partnership or shareholding interest. You want to find someone you feel comfortable working with for the next few years.
- Find someone who is willing to take a long-range viewpoint. If the investor seems impatient for a payoff, you may both become frustrated quickly.

- Find an investor with more to offer than just money; he or she may have expertise in an area where you are weak (accounting, taxation), and you can save money on outside consultants.

Types of Loans

When planning your funding needs, you will probably need to consider several different types of loans:

- Short term loans, for temporary purposes, a period of a year or less:
- A working capital loan, to fund immediate startup needs, that will be paid off within a few months
- A line of credit, to provide a positive cash flow until the business can support itself
- Long term loans, for a continuing needs:
- Collateral-based loans, for equipment (sometimes in the form of vendor loans)
- Commercial mortgage, if you are purchasing the land and building
- Term loan, for business asset purchase

What do lenders look for when they evaluate potential borrowers? Lenders must be cautious; too many bad loans can cause failure of the lending institution. Most look for the "Four C's" of Credit:

- **Character** - demonstrated responsibility in bill paying; a good credit rating; high moral character of the entrepreneur and the management team
- **Capacity** - ability to pay back the loan, based on the projected income and expenses of the business; ability of cash flow to "service the debt," i.e., pay the loan back
- **Capital** - physical and financial assets of the business; a stable capital structure; not too much other debt (and where the bank loan will fit into that structure)
- **Collateral** - things of value they can claim if the business doesn't repay the loan. Sometimes this becomes your personal assets; you may need to personally guarantee the loan, or find a co-signer who can pledge assets as collateral.

Successful borrowers know banks view loan applications based largely on these points; accordingly, they highlight them in a clear, logical, and businesslike proposal.

Information you need to prepare before you visit your first bank:

Credit and Personal history (character): The best way to present yourself is with a well-written resume, emphasizing your previous business experience. In addition, a personal net worth statement and listing of bank and credit references is vital to your presentation.

Financial Information on the business (cash flow; your business plan, including financial projections, will be the source of this information.

Collateral: A listing of business assets to be purchased, including liquidation value of assets, should be included in your business plan.

Proposed loan: Include information about the amounts required, loan period, identification of guarantors, and collateral to be pledged, in your business plan.

Which is most important - equity or debt financing? Both are important. Equity financing is the buffer that protects creditors from loss in case of financial difficulty. Equity is riskier, though, because if the business gets into difficulty creditors have a legally enforceable claim on the assets, taking precedence over equity interests.

Debt financing entails substantial risk for the new business but debt financing has several advantages:

- The cost of interest is usually lower than the cost of outside equity, and the interest on business loans is tax-deductible;
- An entrepreneur may be able to raise more total capital with debt funding than from equity sources alone;
- Since debt payments are fixed costs, any remaining profits belong to the owners;
- Debt financing is not as intrusive as equity sources; a banker may want periodic reports, but he is not as likely to try to tell you how to run your business on a day-to-day basis, as Aunt Bessie might.

Vendor Financing

A third source of funds is leasing of facilities and equipment from vendors (sellers). Depending on the type of lease, some leased equipment may be depreciated as an asset, lease payments are tax deductible and a lease, particularly on a piece of equipment, is easier to secure for the new business person. Leasing technologically short-lived equipment such as a computer may allow you to continually upgrade at less expense than continued repurchase every few years. (And what do you do with the old computer anyway?)

Paperwork on a lease is also not as onerous as that for a loan, but you will have to sign a lease form, a UCC-1 registration form, and possibly state filing and verification of insurance forms.

One final suggestion: Some municipalities offer tax credits to businesses willing to locate in specified redevelopment areas; this reduces your business taxes and has the effect of a loan. Check into this with the city where you intend to relocate.

Think of the financing of your business as a "puzzle" in which various elements will come together to form the whole. Your funding may consist of: a small personal savings account, money from Aunt Bessie for startup costs, and a loan from the bank for the purchase of the business. There are as many ways to structure financing as there are chiropractors out there.

NOTE: Before you make a final decision, do a cost-benefit analysis of all available sources of funds. Include interest costs, particularly the "hidden interest" in vendor financing.

You should include a brief statement of funding request in the Executive Summary and a more detailed statement requesting specific types of funding for specific periods of time at the end of the financial section.

Finding a Banker/ Applying for a Business Loan

If you have come to the conclusion that you need to borrow money from a bank, you are probably apprehensive about what might be required, what questions the bank will ask.

Before you appear at your first bank to begin the loan process there is some information you will need to prepare and some questions you will need to answer.

- How much money do I really need?
- What information will the bank need?
- How long will this process take?
- What financing terms should be negotiated?
- How will the loan be structured?

Bank Financing

The advantages of borrowing from a bank are:

- Banks which have commercial lending departments specialize in small businesses and are used to dealing with financing of these entities. These lenders can supply financing plans that are comparatively affordable and well-suited to your needs.
- Banks can give you expert advice about similar businesses that they deal with.
- Borrowing from a bank is better for your credit standing than borrowing from other sources, such as government agencies.
- Banks offer a wide variety of loan packages and can be quite flexible.
- Banks offer other business services such as financial advisory services, check certification and other checking account services, and night depositories.

Some disadvantages of banks include:

- Their conservative approach to new businesses; banks are probably the most difficult loan sources.
- The technical requirements (financial spreadsheets, projected budgets) of presenting a loan. Usually, banks want to see more information, and more specific information, than other sources.
- Their ongoing monitoring of their investment. Banks have to be careful about their loans and will probably watch your business closely, asking for periodic statements, and evaluating your progress.

Checking out Banks

Knowing which banks to ask for money can be half the battle. No two banks are alike; neither are any two bankers. You have to find not only the best bank for you, but also the banker within the bank who has both the authority and willingness to grant your loan.

Banks, like most other businesses, have specialties. A bank that specializes in loans to small retail businesses will not have the same perspective or understanding as a bank that has dealt with health care providers. Ask some other local chiropractors which bank they use, to find a bank that knows the specifics of your business operation.

Some banks which specialize in small business loans are designated by the Small Business Administration as “Preferred” or “Certified” lenders.

Certified lenders are those who have been heavily involved in regular SBA loan-guaranty processing and have met certain other criteria. They receive a partial delegation of authority and are given a three-day turnaround by the SBA on their applications (they may also use regular SBA loan processing). Certified lenders account for nearly a third of all SBA business loan guaranties.

Preferred lenders are chosen from among the SBA's best lenders and enjoy full delegation of lending authority. This lending authority must be renewed at least every two years, and the lender's portfolio is examined by the SBA periodically.

For a list of SBA-preferred lenders by state, go to <http://www.sba.gov/localresources/>

If you're in the market for a loan under \$100,000, concentrate primarily on small banks. Matching the size of the bank to your loan is important. To a large metropolitan bank, you're likely to be considered nothing more than a small fish in a big pond.

Stay close to home. Banks may have legal restrictions or internal policies against lending to businesses beyond a given geographic area, and usually prefer to be close to their customers.

Remember that banks are more than brick and stone. They are operated by people, and people have likes and dislikes, prejudices and preferences. For example, there are an increasing number of banks that specialize in loans to women entrepreneurs.

NOTE: No two banks are identical; what one bank will turn down another may accept with enthusiasm.

Consider the following points in choosing a bank:

- Is the banker progressive? Has he/she kept pace with changing conditions and the developing requirements of the community?
- Does the management of the bank combine integrity, experience, ability and initiative?
- How does the banker approach your problems?
- Does he/she appear interested and helpful?
- Does the banker understand the particular needs of your business?
- How large is the bank?

Structuring the Loan

There are many types of loans; it's important to understand precisely the type of financing that will best serve your needs. It's also important to match the loan with the need on a time basis: short-term borrowing for short-term needs; long-term borrowing for long-term needs.

Short-term loans and lines of credit

Short-term loans are designed to help meet the daily operational needs of a business: salaries, rent, insurance, advertising, supplies, etc. These loans are a principal type of bank lending. Such loans are written for a short duration (30, 60, or 90 days) and are based upon the operating or business cycle of the individual firm. Operating loans vary in length of maturity since they are adapted to specific business patterns.

Many short term loans are lines of credit. These are useful because you are only charged interest on the amount you have borrowed, even though your credit line may be larger. For example, you might establish a startup line of credit for \$50,000 to use to pay bills until you have a positive cash flow. Each month, you would take out whatever is needed, and you would only pay interest on the total amount borrowed to that point. If you don't need the full \$50,000, you would save on interest expenses and would only have to pay back the amount borrowed.

Intermediate-term loans

These provide you with capital for other than temporary needs. For example, you may have the opportunity to expand by leasing the office next door, but lack the cash to pay for the necessary renovations and equipment. You can then produce income from the expansion to pay back the loan, and have collateral from the equipment and leasehold improvements to satisfy the bank. Intermediate-term loans are commonly used to purchase existing businesses, to help establish new ones, to provide additional working capital, and to replace long-term debt with a higher interest rate. They may be either secured or unsecured (no collateral). Payment may be made monthly, quarterly, semiannually or annually. Pay more often to reduce interest charges.

Accounts-receivable loans. Accounts-receivable financing can be used as a basis for short- or intermediate-term loans from your bank, and might be useful if you have a high percentage of receivables outstanding at any one time, which might be the case in a practice taking many personal injury or worker's compensation cases.

When you obtain an accounts-receivable loan, you pledge or assign all or part of your accounts receivable as security for the loan. The loan agreement specifies what percentage will be loaned to you, usually between 75 and 80 percent of sound receivables (those that have a high likelihood of being paid back). The agreement also sets forth your rights and liabilities, those of the lender, the conditions under which each assignment is to operate, and the charges, which may include both interest and service charges. Sometimes this process of borrowing on accounts receivable is called "factoring." Use this type of financing only if you're in a real cash flow "crunch," because you will never get much for your receivables.

Fixed asset loans. Fixed asset financing involves financing large capital items (improvements, land and buildings, equipment and fixtures) and is over a long term. In most cases loans secured by fixed assets are for a term in excess of one year. When you are purchasing equipment and using it as collateral, by making a down payment on the equipment and borrowing the rest from the bank, the bank takes a chattel mortgage. The chattel transfers ownership (title) to the bank while the borrower uses the equipment.

NOTE: Be absolutely certain that your numbers support your loan request. If your loan demands payments of \$1,000 per month, you will fail in your request if your cash flow statement reveals only \$500 in available income. Be prepared to defend your proposal vigorously; your banker is likely to ask many probing questions. The key is PREPARATION!

Negotiating loan terms

Once a bank looks favorably upon your loan request, there are several rules of thumb to follow to help save money.

- Negotiate interest rates: Some banks are flexible on this; some are not. You won't know until you ask. Banks will sometimes drop the interest rate by a point or two if your numbers look good or the business you are purchasing looks strong.
- Try to secure the longest possible loan. Long-term loans lower monthly payments and help you conserve cash flow, although they are usually more expensive in interest payments. You can always refinance later for a shorter term when your cash flow position improves or pay off your loan faster.
- If at all possible, pledge only business assets as collateral. Protect your personal assets; don't risk your own property. Business assets may be enough to keep the bank from going after your personal assets, but why take the chance?
- Never falsify your loan application. This goes without saying, but needs to be said anyway. False statements or inflated numbers can cause you big headaches. Same goes for your resume.
- Never settle for the first loan offer. Remember, banks can be found on every corner. Shop around. You may land a better deal at the bank next door.
- **Read and understand all parts of the loan before you sign, even if it has been read by an attorney. This is an important document, and your understanding of the terms it contains can be the difference between success and failure.**

When The Bank Says No

- Don't let failure at one bank discourage you. If you wander from bank to bank failing each time, you would be wise to ask yourself why. Once you detect the flaw in your proposal you can correct it.
- Rejection can actually be beneficial. It can pinpoint a weakness in your loan proposal or a fatal flaw in your business plan.
- Don't accept a loan rejection and simply stroll on to the next bank. First find out why the loan was declined. Some banks hedge on candid answers because they neither want to offend nor engage in long conversation. But push for an honest answer; find out the "real" reason as opposed to the stated one. This effort can save you much time and wasted effort.
- Look on your banker as your ally in evaluating the soundness of your plans. Listen closely. If the banker raises some doubts in your own mind, investigate further until you are satisfied.
- Sometimes banks say "no" when they really mean "yes," but to a different loan arrangement. Remember, they are in business to lend; that's how they make their money. If the banker doesn't propose an alternative plan, suggest one. Possibly a smaller long-term loan and a larger line of credit might work? Maybe more collateral would do the trick. Few deals are so fundamentally weak that they fail to qualify for any loan whatsoever.

Small Business Administration Loans

The Small Business Administration (SBA), formed in 1953, is a U.S.-government agency which assists small businesses; one of their programs provides assistance in obtaining financing through guaranteed loans. In these cases, the SBA acts as a co-signer, guaranteeing up to 85% of the loan. A business does not have to be turned down by several banks in order to qualify for SBA-guaranteed financing; in fact, in some cases you can be pre-qualified for certain loans.

Interest rates on SBA-guaranteed loans will be higher than conventional loans, and there will be additional charges for the loan, but it may be your best chance for a loan, if you don't have much collateral or someone to co-sign for you.

An SBA loan programs that might fit your circumstances is the The Low Documentation program, for small business loan requests up to \$150,000. The bank submits the request to the SBA, which provides a guarantee for up to 75% or 80% of the loan amount. The Low Doc program places less emphasis on the percentage of equity and collateral than on the borrower's character, credit history, and projected cash flow. Check the SBA web site for the application form.

NOTE: From the SBA web site's discussion of Low Doc loans: "Lack of available collateral will not be the sole basis for decline of any loan."

Applying for an SBA Loan

If your bank is an SBA approved lender, they may suggest you apply for an SBA guaranteed loan directly from the SBA, or they may have the loan package and assist you in filling it out. To prepare for this possibility, here are some of the pieces of information you will need to gather; the information is divided into six sections:

1. *Applicant*

- Use the legal corporate name if incorporated; use the "dba" if a sole proprietorship.
- You will need to request a federal tax I.D. number (EIN) from the Internal Revenue Service (form SS-4). If you don't yet have this form, note that it is being applied for.

Note: The SIC for Chiropractic is 8041; that is, chiropractic is classified as subcategory 41 under "Health Care" (general SIC 80).

2. *Use of proceeds*

- List each of the purposes for which you intend to use the loan proceeds.
- Be aware that the use of funds for personal reasons (like paying off your student loan) will invalidate the application.
- Check all your figures to be sure that the total loan requested is equal to the total capital requirements minus the funds you plan to invest in the business.
- Under term of loan, bear in mind that five to seven years is typical for working capita; fifteen years for equipment and machinery; and twenty-five years for commercial real estate. Be sure that the term of the loan yields a monthly payment that you are confident you can safely manage.

3. *Summary of collateral*

List all collateral on the Schedule of Collateral (Schedule A). This list will be closely reviewed by the SBA and the bank, because the safety of the loan relates directly to the value of the security for the loan. Remember that inventories and accounts receivable have a greatly diminished collateral value when compared with other forms of collateral because it may be difficult to convert them into cash completely and easily. Collateral might include shares of stock or bonds; furniture, fixtures, and equipment; land and buildings; your personal residence or auto; personal endorsements or third-party guarantees.

4. *Previous government financing*

5. *Indebtedness* (your personal financial statement and your business cash flow statement here)

6. *Management*

Provide the name of the primary owner or officer of the business, including name and address and percentage share of ownership. Because the SBA maintains statistical records to gauge disbursements to certain groups, they require you to list any prior military service, as well as your race and sex. Race and sex, however, do not have any bearing on whether your loan under this application will be approved.

SBA financing site "Finding the money you need":

SBA Loan guarantee program: <http://www.sba.gov/financing/fr7aloan.html#general>

Personal financial statement: <http://www.sba.gov/sbaforms/sba413.pdf>

SBA Loan application form: <http://www.sba.gov/sbaforms/sba4.pdf>

Equipment: Leasing vs. Buying

As with other pre-practice decisions, your decision to lease or buy equipment depends upon your personal situation. Let's look at the types of leases and then some considerations:

Financing/Capital Leases allow the lessee to purchase at the end (sometimes for as little as \$1), and are considered as purchases. This allows the lessee the tax and depreciation advantages of ownership, but usually they may not be cancelled.

Operating leases are set for a specific period of time; no ownership is implied. The lessee can deduct the monthly lease payments as operating expenses. At the end of the lease, you may purchase the equipment for Fair Market Value.

Since you are probably going to be purchasing clinic equipment for long-term use in your practice, a financing lease is probably best. You can typically include other purchase costs in the lease: maintenance, training, freight, and installation.

You may want to consider an operating lease for computer or office equipment (copier/fax) which is going to be outdated in a few years. At the end of the lease, you can turn the equipment back in to the vendor and begin leasing a newer model. Keep computer leases short (no more than two years).

Leasing Pros and Cons

Leasing is often a good idea for office equipment, because the lease will include a maintenance agreement. Leases for copiers, for example, are quoted as monthly rate up to a certain number of copies, and include periodic maintenance and service.

The main advantage to leasing is that it keeps your startup bank loan lower, which may be helpful if you are in a situation where you don't have much collateral. Leasing equipment allows you to free up your cash for other assets which must be purchased at startup or after you've started into practice.

Be careful of hidden interest costs in leasing. In one typical lease for chiropractic equipment, the equipment cost was approximately \$5000; the shortest lease was 3 years for a total of over \$6000; the additional \$1000 was for interest!

Bottom line: Whether you decide to lease or buy equipment depends upon

- The type of equipment (clinic or office)
- The purchase price and the interest rate
- Your ability to obtain bank financing for the equipment
- Who is doing the leasing

Before you decide to lease:

- Compare the interest rate on the lease to the rate you are getting from the bank
- Decide if you want to keep the equipment at the end of the lease, or turn it in for a newer model
- Look at all available lenders, to determine the one who will provide you with the best rate.

CHAPTER 13. STARTUP

Startup of a health care practice is unique in a number of aspects from other business startups. If you are just beginning practice, chances are you've become very proficient in your field, but you have not had much experience with the business side. You may have worked as an associate or employee, and this is a fine way to begin, but there's no substitute for first hand experience. You are only going to do it the first time once, so you want to be sure it's done RIGHT the first time!

David Bangs, author of *The StartUp Guide* says there are five myths of business ownership that you will need to unlearn before you begin:

"I can bootstrap it". Under-capitalization (too little money in the business) is probably the biggest cause of business failure. Fortunately, in your profession, many have gone before you so you don't have to reinvent the wheel. You can easily gather data from others on how much it will take to get started and how long you'll have to wait for a positive cash flow. USE THIS INFORMATION! Don't try to be Lindbergh.

"I can start living off the business immediately." Probably not. It usually takes six months to a year before you can begin to pull money out for living expenses. So you must be prepared to live off savings or a second job, or borrow more money!

"I'll be my own boss." You won't. The patients will be your boss; their demand will rule you for a while as you struggle to get to a comfortable place. After you get to a place where you can begin to breathe between patients, you may be able to stop long enough to re-evaluate and begin to wrest control back. But in the beginning, if you want to succeed, you'll be working for your patients.

"I have nothing to lose. I'll incorporate and then I won't have to worry." Of course, as you'll see, if you do this, you'll also lose control, and your corporate shield will not protect you against malpractice lawsuits and/or personal bankruptcy.

"It takes money to make money." Half-truth. A good business idea combined with enough capital, can bring some measure of financial success to your business. But you can make money with an IDEA and at a lot lower cost!

Lowering Startup Costs

Some ways to lower your startup costs:

Find a mentor and follow him/her around. CLOSELY watch what is done and ask lots of questions.

Plan ahead. Thoroughly research and prepare that business plan. It is inexpensive insurance, because it helps you focus on the important parts of your business, use your resources wisely and consistently, and save a lot of trouble.

Make sure you have your family's support. Warn them you'll be gone about 168 hours per week (not much different from being a chiropractic student, actually!)

Be prepared to become tired and discouraged and still persevere. Stamina is important. So is persistence, because when things get tough (and they will) it's very easy to give up. Experts like to talk about the five-yard line phenomenon in which a business owner presses on and on against huge odds, gets discouraged, and quits or makes a dumb mistake when the goal line is within reach. Don't let it get to you.

Use facts to substantiate your insights and hunches before acting on them. Decisions based on facts are far more likely to be good decisions than those based on whim. Your business is too important to risk on the consequences of a lot of hasty decisions. An idea that still seems sound after you sleep on it is probably a good idea.

Follow your strengths and interests. They will sustain your enthusiasm. Listen to yourself and be honest. If you don't like certain parts of the job, find someone else to do them for you and concentrate on what you like best and do best.

Don't be too proud to give up on an idea. You may be able to modify the startup plan, or switch to another practice, or change your name, or overcome whatever doesn't feel right. That's fine. There's a big difference between being persistent and being pigheaded. Be prepared to abandon an idea if the facts tell you it makes sense to do so. Part of the value of planning is that it reveals warning signs.

Timetable for Startup

As far in advance as possible:

- Begin to discuss possibilities with your family and advisors
- Talk to others who are in the business
- Research; find information and statistics on your profession, using professional societies, Chiropractic magazines, your school's Alumni Association
- Take business management courses and seminars
- Become familiar with technology; take a computer course
- Gather demographic information on your general location (library, chamber of commerce, regional or local planning commission)
- Determine your FOCUS - begin to define your firm and its mission as specifically as possible
- Who is your market?
- What is your service?
- What make your firm unique? Why would anyone want to use your service?
- Start writing your business plan
- Begin your location selection process (remember, rent= space cost + advertising)
- Select your professional advisors
- TRUST YOUR INSTINCTS!

Three to Six months in advance:

- Select your practice name and register it with your state
- Set up your bookkeeping, accounting, office management systems
- Select your location
- Decide on your legal form; begin paperwork on this with an attorney, if necessary
- Get your Taxpayer ID (EIN) number (SS-4)
- When you have this number, apply for Medicare provider status
- Determine your office equipment and computer needs
- Set your preliminary financial objectives and sales goals
- Begin to acquire preliminary numbers for your startup cash needs and cash flow needs
- Prepare estimates of amounts needed to borrow
- Prepare a preliminary business plan and take it to potential lenders
- Decide on your pricing strategy
- Determine your employee needs (when to hire the first CT/CA³, second CT, etc.)
- Prepare a marketing plan and from that determine image, advertising, promotion, publicity strategies
- Secure preliminary financing

One to Three months in advance:

- Determine your specific financing needs
- Finalize your business plan and use it to obtain specific financing
- Sign lease, begin work on leasehold improvements
- Order signage
- Order equipment (lease or purchase)
- Work with professional advisors on details
- Set up accounting system
- Secure insurance (malpractice and business)

Close to Opening

- Hire employees
- Purchase and receive equipment
- Set up the office, reception room, clinic rooms
- Order inventory of supplies
- Recheck and fine tune cash flow budget (not for the last time!)
- Check details with attorney, accountant, banker
- Prepare for opening
- Implement your opening marketing plan: advertising, promotion, publicity
- **REFINE YOUR MISSION STATEMENT, PRINT IT OUT, HANG IT ON THE WALL!**

³ A CT is a Chiropractic Technologist, someone who has completed a course of study and obtained a diploma and other licensing. A CA (Chiropractic Assistant) has received some on-the-job training or has experience in an office. I'll be using the terms interchangeably in this book.

After you begin

- Recheck your cash flow budget against the actual; make adjustments
- Don't change your business plan without a good reason
- Budget your time
- Fine tune your service; keep an eye on employee morale
- Maintain good communication with bankers, investors

Business Licenses and Fees, Other Forms

Business License

Before you open your doors, you will need to determine if you can operate on your chiropractic license or whether you will need to obtain a business license from the locality in which you will be practicing. Contact the local business license department to find out how to obtain the license, which grants you the right to pay a fee and operate in that city or town. When you file your license application, the municipal planning or zoning department will check to make sure your area is zoned for your use of that building and that there are enough parking spaces to meet codes (including handicapped parking). You may not operate in an area that is not zoned for your type of business unless you first get a variance or conditional-use permit.

Investigate zoning ordinances carefully if you plan to operate a business from home. Residential neighborhoods tend to have strict zoning regulations preventing business use of a home, because they want to restrict traffic and noise. Even so, it is possible to get a variance (an approval from the city to break zoning rules). To do so, you'll need to present your case before the planning commission in your locality. In many cases, variances are quite easy to get, as long as you can show that your business won't disrupt the character of the neighborhood where you plan to locate. You may also need to gain the acceptance of neighbors before going before the local planning or zoning board.

In addition to your state license to practice chiropractic in that state, here are some other licenses and fees you may be required to obtain (depending upon your location):

Fictitious Business Name Statement (or "dba" "doing business as"). Businesses must pay a fee to register the name under which it is doing business; by doing so, you are declaring the name under which you are doing business.

Federal Tax ID number. This number is required for all businesses which have employees, and sole proprietorships without employees are also encouraged to obtain this form. The form (SS-4) is available from the IRS. A copy (in PDF format, readable on Adobe Acrobat) is included in [Appendix G](#). You may also apply for an Employer ID Number (EIN) by phone (see the SS-4 form on the IRS web site for information):

[IRS: information for SS-4 application](#)

Resale/Sellers permit. If you plan to sell products (vitamins, pillows, etc.) you will be required to obtain a permit from the state in which you are operating, so that they can keep track of (and collect!) the sales taxes you collect.

Occupancy permit. Depending upon the type of facility and the locality, you may be required to obtain an occupancy permit from the local planning office. If you have done some leasehold improvements and construction on the property, you will probably also have to undergo an inspection in order to obtain the occupancy permit.

You may want to include a Startup Timetable in the Operating section of your business plan, to show your lender that you have the organizational skills required to begin in business.

NOTE: IMPORTANT! Keep track of all expenses related to starting up your practice, including costs associated with trips to explore practices (mileage, airline tickets, hotels, etc.), phone calls, faxes, legal fees for reviewing contracts. Keep a log of all trips involving your practice planning. Give these to your CPA when he/she is figuring your taxes for the first year.

A Suggested Checklist for Fees/Licenses

- First, obtain your EIN, even if you don't plan to have employees for a while
- Then, obtain a business license for your location
- Then, obtain your business checking account
- You can then write checks to make purchases and begin setting up the practice
- When you have obtained your license to practice, you'll be ready to begin!

Federal, State, Local Taxes

Here's a breakdown of tax filings you might need to check on, depending on which state you are in:

Federal

- Obtain Employer ID Number (see above)
- Federal licenses and permits

State

- Your professional license
- Tax registration – State Department of Revenue (For sales tax, if you are selling merchandise)
- Workers Compensation
- OSHA
- State Employer ID Number

Local

- Local property taxes
- Local (city? County?) business license
- DBA application
- Health, environmental permits
- Building codes
- Zoning ordinances

CHAPTER 14. STARTUP CASH AND FINANCIAL SPREADSHEETS

Probably the most important element of startup planning and the business plan is the financial plan. These are the elements you'll need to work on, beginning about six months in advance, because they must be in place when you take your business plan to a lender.

When preparing financial data, be sure to title all financial statements and to label all numbers. Make your statements absolutely clear to your reader.

Startup Spreadsheet: Day 1 Requirements

As you begin to plan your startup, you will need to collect information on all the items necessary for the first day of your practice and put them into a startup spreadsheet. Let's assume you have an office that you are either renting or purchasing, so you know the approximate layout. Now you can start to list all the items you'll need to purchase for that office and the fees and supplies you'll need to pay. (If you are buying an existing business, you will need a list of all the office and clinic assets you are purchasing.) Your list should include descriptions of items and approximate purchase cost.

The more detailed you can be, the better your chances of coming up with an estimate that will be close to what you will actually spend. In your mind, go room by room through your office and think about all the big and small items that will be needed for that room. Use the detail worksheets in the Practice Spreadsheets to help jog your memory.

The Startup Spreadsheet is an important supporting document to include in your business plan, because it provides the equipment and supplies you'll need to get started, and it determines the amount of your request for funds to begin practice.

Let's say you've come to the end of your list and you have a total of \$35,000 in startup needs. This is the "Day One" listing that you will present to a lender or equity investor to let them know how much you'll need.

In order to determine the monthly payments on this loan, you'll need to do some calculating (use a loan calculating program; there are many on the Internet, such as: <http://www.amo-mortgage.com/amortization.html>):

Determine the monthly amortization (payment) schedule by going to the "[loan amortization calculator](#)" on the CD.

For this calculation, you'll need

- (a) the amount,
- (b) the time period in months, and
- (c) the interest rate.

For example, for \$35,000 for three years (36 months) at 8.5%, the monthly payment is approximately \$1100. When you have calculated this amount, note it to use in determining your monthly cash flow.

Monthly Cash Flow Worksheet

The next step is determining your month-by-month cash needs, by looking at how much cash will enter the practice in the form of receipts each month and how much will need to be paid out. Typically, most startup practices will not have a positive cash flow for several months, because most of your expenses are fixed, and your receipts will not be enough to pay the bills. Since you don't really know what's going to happen, you have to estimate.

NOTE: As a general rule of thumb for this exercise, estimate CASH IN on the LOW side and CASH OUT on the HIGH side. BE CONSERVATIVE!

Prepare a table for the first 12 months of the practice, or until you can show a positive cash flow (sometime within the first year, we hope!). Include this table in the financial section of your business plan.

Step One- Cash In

First, estimate the number of patients you will be seeing each month and the average fee per patient, to get a total "Fees Charged" for each month. You can use any fee schedule you'd like, and you might want to include this fee schedule in your business plan, in this section or the Operating Plan section.

If you have no idea how to estimate your charges, hang on; we'll get to this in several ways [below](#) in a [later chapter](#), and on the Income Projections Worksheet.

Then, assume what your cash receipts will be from these fees. It will NOT be 100% even if you have a total cash practice. For now, assume that receipts will be 80% of sales. So, if you estimate Fees Charged as \$3000, you might collect \$2400 for the month.

For the second month and every month thereafter, you can also assume you will be collecting a portion of the receivables from the previous month. For Month 2, you might have \$4000 in sales, collect \$3200 on this, and, in addition, collect another \$200 from the previous month's receivables. Add together the Fees paid and Receivables paid to get your "Cash In" for the month.

Your Cash In might look something like this:

	Fees Charged	Fees Paid	Receivables Paid	Total Cash In
Month One:	\$3000	\$2400	0 (since this is the first month!)	\$2400
Month Two:	\$4000	\$3200	\$200	\$3400
Month Three:	\$4200	\$3500	\$100	\$3600

Determining Your Average Sales

Here's one fairly simple way to determine your monthly charges: Let's say you will be open 35 hours a week and you feel you can see 8 patients an hour. That is 280 patients in a week. At an average of approximately \$25 for each patient (a totally random number), you could estimate \$7,000 per week. Of course, you will probably not see 8 patients every hour you are open, so you will need to use a lower figure. If you see on lower average 4 patients an hour, you will have \$3,500 a week in sales. The \$25 average per-patient fee also does not take into account new patients, which would be higher. Somewhere between \$3,500 and \$7,000 a week might be a realistic sales figure.

Your calculations of Monthly and Annual Sales will be used in the financial portion of your business plan, as the "Fees Charged" in the Cash Flow Statement.

Step Two - Cash Out

For each month, list all your estimated cash expenses. Many of them will be the same or approximately the same each month. Some may increase; some, like insurance, may be paid quarterly. Each figure, and especially each increase, must be documented somewhere in your plan.

A listing of cash expenses might include:

- Rent
- Utilities
- Phone
- Office Supplies
- Clinic Supplies
- Dues and Subscriptions (don't forget those magazines for the reception area!)

- Advertising (This is where you will insert the Advertising Budget totals you have calculated, including Yellow Pages ads)
- Malpractice Insurance (it's best to put this in the month actually paid, if it is paid quarterly or semi-annually)
- General Business Insurance (same as malpractice insurance)
- Legal and Accounting
- Taxes and Licenses (show quarterly estimates on income tax here)
- Continuing Education
- Loan Payment (here's where you include the \$1100 for the startup loan)
- Salaries and Benefits (Include the total amount you owe employees, and add between 18% and 30% for benefits, including government-mandated ones such as FICA/Medicare.)
- Draw (this is the money you are taking out of the business for your own personal use)
- Include an amount for Miscellaneous (estimate high)

NOTE: DO NOT LIST YOUR STUDENT LOAN HERE! This is a personal expense, and should be paid by you from your personal checking account, not from the business account. It should be included in the personal budget expenses you use to determine an amount for your Draw.

From this list, determine a total Cash Out figure.

Step Three - Cash Over/Short Calculation

For each month, subtract Cash Out from Cash In. If this is a positive number, you have cash left OVER. If it is a negative number, you are cash SHORT. You will probably be SHORT for the first few months.

In addition, you will need to get a figure for ACCUMULATED CASH SHORT until your cash flow becomes positive. This is determined by adding your CASH OVER/SHORT figures for each month throughout the period

Here's how this works:

	Cash In	Cash Out	Cash Over/Short	Accumulated Cash Over/Short
Month One:	\$2400	\$5000	(\$2600)	(\$2600)
Month Two:	\$3600	\$5500	(\$1900)	(\$4500)
Month Three:	\$4200	\$5500	(\$1300)	(\$5800)

After you've done this for six months to a year, at some point you should see a positive cash flow, and the Accumulated Cash Over/Short will begin to diminish.

Your last step in this chart is to find the Accumulated Cash Over/Short that is the GREATEST. This is the amount you want to borrow on a line of credit. Add 10% to 20% to this amount to provide you with some "cushion" for Working Capital.

You can also perform this exercise using three different sets of numbers: Best Case Scenario, Worst Case Scenario, and Average (or Expected) Scenario, so that a lender/investor can see that you are being realistic.

To help you estimate expenses, here's information on average **annual** expenses:

Office space	\$15,519
Advertising/marketing	\$6,198
Business supplies	\$5,872
Equipment leases	\$4,849
Utilities	\$3,874
Continuing education/travel	\$2,535
Other professionals (CPA, attorney)	\$2,333
Malpractice Insurance	\$1,728
Staff	\$43,923

Here's how the first Quarter would look on this worksheet:

Cash Flow Projections	Month			Qtr 1
	1	2	3	
	Cash In			
Fees Charged	\$ 5,000	\$ 5,000	\$ 5,000	\$ 15,000
Fees Paid (assumes 85%)	\$ 4,250	\$ 4,250	\$ 4,250	
Receivables Paid (assumes 95% of previous month's balance)	\$ -	\$ 713	\$ 713	
Total Cash In (CI = Fees Paid + Receivables Paid)	\$ 4,250	\$ 4,963	\$ 4,963	\$ 14,175
Cash Out				
Rent	\$ 1,000	\$ 1,000	\$ 1,000	\$ 3,000
Utilities	\$ 150	\$ 150	\$ 150	\$ 450
Phones	\$ 100	\$ 100	\$ 100	\$ 300
Postage meter	\$ 20	\$ 20	\$ 20	\$ 60
Credit card machine	\$ 15	\$ 15	\$ 15	\$ 45
Equipment Lease Payments	\$ -	\$ -	\$ -	\$ -
Office Supplies	\$ 50	\$ 50	\$ 50	\$ 150
Clinic Supplies	\$ 50	\$ 50	\$ 50	\$ 150
Dues/Subscriptions	\$ 25	\$ 25	\$ 25	\$ 75
Advertising	\$ 150	\$ 150	\$ 150	\$ 450
Marketing/Patient education	\$ 50	\$ 50	\$ 50	\$ 150
Malpractice Insur.	\$ 100	\$ 100	\$ 100	\$ 300
Business insurance	\$ 100	\$ 100	\$ 100	\$ 300
Legal/Accounting	\$ 150	\$ 150	\$ 150	\$ 450
Licenses	\$ -	\$ -	\$ -	\$ -
Continuing Education	\$ -	\$ -	\$ -	\$ -
Employee Pay/Benefits	\$ 2,000	\$ 2,000	\$ 2,000	\$ 6,000
Misc. Expenses	\$ -	\$ -	\$ -	\$ -
Monthly Loan Payment	\$ 1,000	\$ 1,000	\$ 1,000	\$ 3,000
Total Cash Expenses	\$ 3,960	\$ 3,960	\$ 3,960	\$ 11,880
<u>Owner's Draw</u>	\$ 1,900	\$ 1,900	\$ 1,900	
Taxes			\$ 1,746	
Total Cash Out (CO)	\$ 5,860	\$ 5,860	\$ 7,606	
Cash Over/Short (CI-CO)	\$ (1,610)	\$ (897)	\$ (2,643)	
Accumulated Cash Over/Short	\$ (1,610)	\$ (2,507)	\$ (5,150)	

CHAPTER 15. OTHER PROJECTED FINANCIAL STATEMENTS

When you bring your business plan to a bank, you will be expected to include information on your pro forma (projected) financial position for several years in the future. Different advisors will suggest you include different financial projections in the financial section of your business plan. In addition to the worksheets discussed in the last chapter (the Startup Listing and the Cash Flow Projection), two other statements are often required by lenders: an Income Statement and a Sources and Uses of Funds Statement.

Pro Forma Income Statement

This worksheet, which is described below, provides details on sales and income from your business and an estimation of your tax liability. You should include at least one year's projections; some lenders may want you to estimate for two or more years.

You already have most of the information you'll need to prepare this statement, which will be reported on a quarterly basis. We'll assume you'll be preparing this for the first year of your practice.

Include a pro-forma financial statement for at least one year in your Business Plan. Many lenders require two to three years of financial statements.

First, you will use the sales (professional fees and other fees and sales) figures from the cash flow worksheet and combine them into quarterly (3 month) segments, with a total for the year.

Second, list all the expenses you included in the cash flow worksheet, EXCLUDING draw. This section concerns only those expenses which are used to determine taxes, and draw is not a deductible expense.

Separate your expenses into two categories: FIXED and VARIABLE. FIXED doesn't refer to the amount of the expense, but to expenses that are fixed to the business, no matter how many patients there are.

FIXED EXPENSES are sometimes referred to as "overhead," because they are always over your head.

Some examples of fixed expenses:

- Mortgage payment
- Rent payment
- Utilities
- Phone
- Malpractice and Business insurance payments
- Some advertising expenses (Yellow Page ad, for example)

VARIABLE EXPENSES are those that may be deferred or which vary greatly. These are expenses that you can do without if your income is reduced. Some examples of variable expenses:

- Advertising (except contracted ads like Yellow Pages)
- Continuing education
- Dues and subscriptions
- Salaries and benefits

Third, determine an amount for depreciation for the assets of your business. Determining depreciation for a variety of assets with different useful lives may be a difficult task; a precise determination can only be made with the assistance of a CPA or financial advisor. In order to minimize your time in preparing this statement, prepare an estimate as follows:

- Add up the total \$\$ for all assets (office furniture, office equipment, clinic equipment, etc.)
- Divide this total by 10 (an estimated 10 years' useful life) to get a total for one year. Place this figure under the Total Year column.
- Divide the Total Year depreciation by 4 to obtain a figure for each quarter.

NOTE: These depreciation calculations are included are general estimates only; depreciation amounts vary depending upon the asset, according to schedules set by the IRS

Fourth, calculate a total pre-tax income for each quarter and the year by the formula: Revenue minus expenses = income.

Fifth, estimate your taxes for the year. Your income tax rate will vary according to your filing status and income level (see above). Divide this total by four to obtain an estimated tax for each quarter. After you've calculated your taxes for each quarter, put these into your cash flow worksheet.

Finally, subtract the estimated tax from the pre-tax income to obtain a figure for net after-tax income for each quarter and for the year. Note that, even if your business does not show a profit for the first few quarters, your tax advisor will probably suggest paying estimated taxes for the year.

ProForma Spreadsheet

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year Total
Revenue					
Gross receipts	\$ 14,175	\$ 22,471	\$ 18,221	\$ 18,430	\$ 73,298
Other Income (see below)	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenue	\$ 14,175	\$ 22,471	\$ 18,221	\$ 18,430	\$ 73,298
Expenses					
Total Expenses (from Cash Flow worksheet)	\$11,880	\$11,880	\$11,880	\$11,880	\$ 47,520
Annual Depreciation					\$ 834
Total deductible expenses	xxx	xxx	xxx	xxx	\$ 48,354
Net Pre-tax Income	xxx	xxx	xxx	xxx	\$ 24,943
Provision for Taxes	\$ 1,746.02	\$ 1,746.02	\$ 1,746.02	\$ 1,746.02	\$ 6,984
(See below for calculation):					
Net After-tax Income	xxx	xxx	xxx	xxx	\$ 17,959

Sources and Uses of Funds Statement

Even if a banker doesn't ask you for this statement, it is a good idea to prepare it for your own use, so you can see the relationship between the funds you are requesting and the sources for those funds.

To prepare this worksheet,

- List all the costs for startup (INCLUDING those you will be providing):
 - Assets – equipment, supplies, advertising
 - Facilities costs, including 1st month's rent or mortgage on building/land
 - Other startup costs, like initial advertising expenses and business setup fees
- List other costs:
 - Working Capital, to keep business running for 6-12 months (estimated from accrued cash over/short on Cash Flow worksheet)
 - Other purchase costs that may be needed but not included in the loan request
- Then, list all of the collateral you will be providing, including:
 - Equipment you will be providing
 - Other personal assets, such as cash value of life insurance, personal savings
 - Other assets from family, friends (cash, value of property, other assets)
- The amount you want financed by the bank should be the difference between the total funds needed and the amount you and others are providing.

NOTE: The value of the USES should equal the value of the SOURCES:

Startup Sources and Uses of Funds Statement

Uses of Funds

Startup Assets: Equipment	\$	3,206
Startup Assets: Supplies/Advertising	\$	863
Startup Facilities Costs	\$	6,141
Other startup costs	\$	1,725
Total Startup Costs	\$	11,935

Working Capital - six months (from Cash Flow Statement)	\$	5,000
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Total Funds Required	\$	16,935
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Sources of Funds

Startup equipment, supplies, etc.	\$	197
Cash value of life insurance	\$	2,000
Personal savings	\$	1,000
	\$	-
	\$	-
	\$	-
Total Owner collateral	\$	3,197
Bank financing	\$	13,738
Total Sources of Funds	\$	16,935

NOTE: You will need to include the Working Capital requirement, based on your own estimates, and the personal sources of funds you'll be providing as collateral.

CHAPTER 16. PREPARING YOUR MARKETING PLAN

The Four Strategic Marketing Elements

Marketing is not just advertising. A total marketing plan includes many elements, which can be divided into four categories, sometimes called "the four P's" -- Product, Price, Promotion, and Place.

Product/Service: This is your USP (your Unique Selling Proposition), the benefits of your product/service to the purchaser, the perceived value. It is the focus of the other sections of your marketing effort.

Price: The price you set will affect the decision of consumers to purchase your service

Place: This is your location, which affects purchase. Place also includes signs and direct mail and telemarketing.

Promotion: Promotion has four elements--advertising, public relations, personal selling, and specialty items.

We will discuss each of these four elements of the marketing plan separately in the **Operating Section** of this book. Remember that all four elements must be considered in your overall marketing plan.

This section takes you through the construction of a marketing plan. Keep these steps in mind as you are putting together your marketing plan. It should include:

- Your message; what you are marketing (your USP), as we discussed in Chapter 5.
- Your market; who you are marketing to (Demographic information)
- Your competition; who is out there marketing similar services
- How you will make your customers aware of your service (your Promotion campaign)
- How you will secure actual sales (patients)

Your Circle of Practice

Before you begin this section, you will need to define a geographical area in which you will market. This defined area is your "circle of practice" – the area from which you can reasonably draw patients. If you remember from the discussion of location, the best way to determine an area of practice is to pinpoint your office and draw a circle around it to define the radius that you feel is appropriate. The size of the circle depends on the population density of this area. If you intend to practice in a large metropolitan area, where there are many people, you will only draw a small circle, say 3-5 miles in radius.

If you're practicing in a more rural area where there are few people, you would draw a larger circle, as much as 25-30 miles in radius. You are attempting to determine how far people will come to see you. Let's call this your "*circle of practice*;" we'll be using this concept as a basis for information gathering in this section of your plan.

To make this “circle of practice” concept more explicit, let’s take two examples:

- Kayla Smith wants to practice in Chicago and has pinpointed the suburb of Naperville, in DuPage County, with a population of 135,000. Her circle would encompass only a part of the city of Naperville, because there are many people, and many other chiropractors, in this area.
- Jerry Jones wants to practice in Benton County, Iowa, with a population of 25,000. He may include the entire county in his circle of practice.

Describe your Circle of Practice in a brief few sentences in your Marketing Plan.

Now that you’ve established your Circle of Practice, you can begin to gather additional information about this circle.

Sources of Demographic Data

You can obtain this information from one or more sources:

- The office of Institutional Planning and Research at XYZ Chiropractic College has information about states and some localities within states.
- The Chamber of Commerce or local Development office for your area (city, county) will have much information.
- The Internet is a valuable source of information. Often, the Chamber of Commerce or Development Office will put their information on a web site, so you can download or print it off easily. For the population information above, I went to a search engine, specifically Google, and typed in “Naperville Illinois population” and “Benton County Iowa population” and received demographic information from the web sites listed for each location.

NOTE: Try this website, which has excellent information on most U.S. cities: <http://www.city-data.com/>

Create a Consumer Profile

In this section, you will be gathering information about the potential customers within your Circle of Practice and using it to describe the people who will be your potential patients. As you look for information, be careful that you stay within the circle of practice as much as possible. You may need to break down your data in order to avoid errors.

For example, if Kayla is looking for information about Naperville, she will need to be careful not to include all of DuPage County, some parts of which may be outside her circle of practice. She will need to include information about the entire city of Naperville, recognizing that not everyone in the city would be potential patients. Jerry may be able to find information about Vinton, which is the county seat of Benton County, but he may not be able to find certain information about the entire county.

Attempt to obtain demographic data about the smallest unit of population, the one that's closest in area to your Circle of Practice.

What you are looking for in this section is information about potential customers within your circle of practice and matching this to your ideal patient . A variety of information is available, but you should concentrate only on the most useful. You should attempt to find information on the following:

- Median age and age distribution: This information tells you how many young people, how many families, how many elderly.
- Median family income, estimated per capita income or some other income level measure: Higher income indicates greater discretionary income (above that needed for necessities) and usually a greater willingness to accept chiropractic care.
- Ethnic distribution of population: You may want to consider this, particularly if you intend to serve a specific ethnic group; language factors also may need to be addressed.
- Statistics on average price of homes: This also addresses the income level question.
- Major employers: Types of employers indicate types of employees (professional, blue-collar, etc.) and how many of these people may fit into your ideal patient profile.
- Number of family households: If the area you're looking at has this information, it can be very valuable, because people usually purchase in family units.

What you're looking for here is the ability to make some general statements about the population within your Circle of Practice, to see if these people fit your ideal consumer profile.

More importantly, the demographic information you've collected gives you a picture of the available potential patient population. How many potential patients is enough? That's a difficult question; it depends on a number of factors, including the total numbers but also other factors:

- How many direct competitors in this area?
- What is the general attitude toward chiropractic care in this area?
- What is the general income level and education level in this area?
- What is the number of children, who do not choose chiropractic care?
- What is the number of elderly, who may be on Medicare?

This is not an exact science; some sources will quote a figure of one chiropractor for every 5,000 population, but the other factors mentioned above are equally important.

In your Marketing Plan, describe the population in your area in a few paragraphs, highlighting those demographics you feel are most important, and discussing any other factors that influence the potential number of patients.

Describe your Competition

For your Circle of Practice, determine the numbers of chiropractors who will be in competition with you. The best place to obtain this information is from the Yellow Pages of a city or county phonebook. You'll have to count up the chiropractors, but also note their specialties, their techniques, and the features of their practices that they emphasize.

Review both direct and indirect competition. Direct competitors are other chiropractors, especially those who practice the same techniques as you do. Indirect competitors are chiropractors in other specialties, osteopaths, orthopedists, and other health care practitioners. Don't forget that the general population is not well-versed in chiropractic lingo. To them, a chiropractor is a chiropractor. To many people, your special technique is not as important as other factors, like reputation and service.

Describe the competition within your Circle of Practice, including not only numbers but details about the features they emphasize and the techniques which directly compete with yours.

Include detailed information about your competition in the Marketing section of your Business Plan.

Your First Year Marketing Plan

The Marketing Plan section of your Business Plan should follow this outline:

Product/Service Plan

- Here is where you describe the unique aspects of your practice, your USP. Include details on what makes your practice different from other chiropractors.
- You may include a BRIEF description of chiropractic here, but limit it to a paragraph or two, Remember, your reader doesn't know the difference between SOT, NUCCA, and Gonstead, nor do will they understand a long discussion of Innate.
- Discuss the types of patients you want to provide service to, and the services you'll be providing (hours of operation, rehab services, billing and payment plans, "new patients seen same day," and other BENEFITS to patients).

Circle of Practice

- Define the area you will be using as your Circle of Practice. Discuss this area and the people in it.

Competition

- Include information about your direct competition (other chiropractors, others practicing the same technique) and discuss what makes you different. If your area has a high concentration of chiropractors, discuss why there are not too many in the area.

NOTE: Don't be tempted to leave out a discussion of competition, thinking "I have no competition." Some bankers specifically request competitive data.

Population Demographics

- Provide as much information as you can about the population in the area around your practice. Include overall population statistics and also information such as: average income level, education level, number of households ... you may also include information about hospitals and other health care providers in the area, largest industries and businesses, other striking facts about the area.

Marketing and Promotion Strategy

- How specifically will you market to this circle of practice? Discuss your overall marketing strategy for the first 12 months of practice, emphasizing the external strategies and mentioning internal strategies and including all four Promotion areas:
 - Advertising
 - Publicity
 - Sales Promotion/Specialty Items
 - Personal Selling

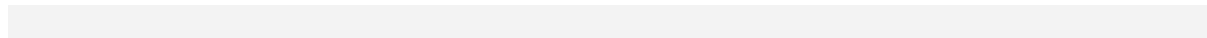
Go to Chapter 23 for more details on what to include in this section of your plan.

Promotion Budget

- Include a month-to-month review of your promotion activities and costs. Total each month's activities.

Activity	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Yellow Pages	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150
Brochure		\$500						\$500				
Newsletter			\$250			\$250			\$250			\$250
Pens	\$100						\$100					
Health Care Classes	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25
TOTAL	\$275	\$675	\$425	\$175	\$175	\$425	\$275	\$675	\$425	\$175	\$175	\$425

NOTE: Yellow Pages advertising costs are included from the beginning month, although you may not be able to get into the local Yellow Pages for several months, depending upon their deadline.



In Summary, here are the steps in preparing the Marketing Plan portion of your business plan:

1. Describe your USP; include your Mission or Vision Statement, if you wish.
2. Describe the area you want to practice in, including the concept of “Circle of Practice.”
3. Include demographic information about the population in your practice area.
4. Describe the competition in your area and include a brief description of how you are different from your competition.
5. Describe the activities you will use in your first year of practice to promote your practice, both internally and externally.
6. Include details of the costs of these Year One promotion activities.

CHAPTER 17. YEAR ONE PROMOTION PLAN

In this chapter, we will discuss the details of promoting your practice during the first year and creating your Year One Promotion Plan. We will cover both External Promotion: Getting Patients, and Internal Promotion: Keeping Patients. Both are important during this startup phase.

Before we begin, we should look at the varieties of activities that might be included in Internal and External Promotions. We will also discuss the two kinds of activities: procedures and special events. Then, we'll work on putting these together in a coherent "package" of activities on a month-by-month and quarter-by-quarter basis, including the months prior to your opening. Finally, we'll prepare a promotion cost worksheet.

The key to a successful promotion campaign is not the number and kind of activities you include; it's how you put everything together. That is, it's PLANNING.

NOTE: Procedural events are those that are done routinely, over a time period, like Yellow Pages advertising. Special events are one-time or no more often than once a year events. In general, publicity is special events; specialty items, personal selling, and advertising should be procedural.

External Promotion Activities

Since the various types of external promotion activities are discussed in detail in Chapter 24, we will merely list them here with a note about whether they are procedural or special events, and how often you might want to include this type of activity.

Activity	Procedural / Special Event?	How often?
Yellow Pages ad	Procedural	Continuous
Newspaper ad	Procedural	Run at least 20 times
Direct Mail	Special event	Yearly
Billboard	Procedural	Run for 3-6 months
Flyers	Special event	Use as announcements
Grand opening	Special event	Only once
Kids' Day America	Special event	Yearly
Speaking at local clubs (lay lectures)	Special event	Schedule as often as possible
Water bottles	Procedural	Hand out at sports events
Health Fair booth	Special event	Once a year
Care at local sports events	Special event	Quarterly
Sponsorship of Little League team	Procedural	Yearly

The items on this list are intended to represent categories of events to show how they will fit into the overall plan. The activities you select are limited only by your imagination and personal interests. It's possible to take on too many activities, so be careful what you commit to during this first year.

NOTE: Think about what events you want to use before opening to stimulate interest in your new practice.

Internal Promotion Activities

In this category are those activities designed to help you keep current patients interested and motivated. We'll do a table listing of these also:

Activity	Procedural / Special Event?	How often?
Health Care Class	Procedural	Once a week
Birthday cards	Procedural	Send out monthly
New Patient Orientation	Procedural	For all new patients
Patient Appreciation Day	Special Event	Twice a year?
Refrigerator magnets	Procedural	Give to all new patients
E-mail Newsletter	Procedural	Bi-monthly
Patient education protocols	Procedural	Always

Year One Promotion Planning Process

Here are the steps in the process of planning the Year One promotion events:

First, choose 3 activities you can use prior to opening to generate interest in your new business. They might be:

- A publicity announcement about your new business
- A flyer to be posted around the area
- Check on publication of Yellow Pages advertisement

Second, select 4 Special Events for the first year, 2 Internal and 2 External. You will set up one Special Event each quarter during the first year, alternating between Internal and External events.

Third, choose Internal and External Procedures, as many as you think you can accomplish during the year, considering budget and your interests and the community. Once established, some of these procedures are pretty much self-sustaining, but you'll need to review them periodically to assess whether they are working the way you want them to.

Fourth, use the Event Planning Calendar in the Practice Worksheets to schedule these Special Events and Procedures during the year.

Finally, determine costs for each event. Don't forget those little costs (like cookies and drinks for a Health Care Class), which add up quickly and can break your budget.

Sample Promotion Planning Calendar

Here's a portion of a sample Promotion Event Planning Calendar for Year One (PTO = Prior to Opening)::

<i>External Marketing</i>	3 Months PTO	2 Months PTO	1 Months PTO	PTO Totals	Month 1	Month 2	Month 3
Yellow Page ad				\$-	\$124	\$124	\$124
Direct Mail				\$-	\$500		
Fliers	\$250	\$250	\$250	\$750			
Grand Opening Party				\$-	\$500		
Metro Tele-marketing			\$250	\$250	\$250	\$250	\$250
Business Cards					\$50	\$50	\$50
Free Exam and X-ray Food Drive					\$250	\$250	\$250
Totals	\$250.00	\$250.00	\$500.00	\$1,000.00	\$1,984.00	\$794.00	\$774.00
<i>Internal Marketing</i>	3 Mo PTO	2 Mo PTO	1 MO PTO	PTO Totals	Mo 1	Mo 2	Mo 3
Health Care Class Mon 7p.m. and Wed 12Noon							\$50.00
Free Adjustment on Birthday							
New Patient orientation					\$60.00	\$60.00	\$60.00
Weekly Doughnuts					\$60	\$60	\$60

CHAPTER 18. THE OPERATING PLAN AND THE MANAGEMENT PLAN

Managing a business requires you to be more than just a chiropractor. It demands dedication, persistence, the courage to make difficult decisions, and the ability to manage both employees and finances. Your Operating Plan and Management Plan, along with your Marketing and Financial plans, sets the foundation for and facilitates the success of your business.

Management Plan Preparation

Your management plan should answer questions posed by lender in the following areas:

About you as the owner:

- How does your background and business experience help you in this business?
- What are your strengths as a business owner?
- Will you have partners, associates? (Describe plans for including others in the practice)
- How and when will you meet state licensing requirements in order to begin practice?

About your management team:

- Who will be your principal advisors (accountant, tax consultant, attorney)? (Provide brief resumes for these people, or describe their experience in a paragraph or two)
- How will they assist you in opening your practice?
- How will you use their services to support your business on an ongoing basis? (specifically describe what each of these individuals will do)
- Will you utilize the services of a practice management firm? What financial obligations does this service entail and how will it contribute to the success of your practice?

About your employees:

- Who will assist you in the first months of your practice? (spouse, employee?)
- What are your plans for hiring employees? (When will you hire? What will their duties be?)
- What salaries and benefits will you provide?
- What will their duties be?

Write up your Management Plan to answer the questions above. You might want to include a brief professional biography here in addition to your resume in an appendix.

Operating Plan Preparation

An operating plan provides your reader with a sense of your ability to manage and run a business office, including daily operations and policies. After the financial and marketing plans have been completed, you should spend some time thinking about how your business will function. If you can observe at a chiropractic office for a few days, it will help you to see the structure of operations of a typical practice.

Your discussion of the operating plan should include:

1. Office layout

Describe your office – how many rooms? What type? A generic office layout is not terribly useful, but if you know exactly what your office will look like, include a layout or blueprints.

- Reception area (DON'T call it a "waiting room"!)
- Front office, break room, rest rooms
- Examining rooms
- Report of findings/consultation room
- X-ray room
- Doctor's private office

2. Patient flow and practices

- Describe the "typical" patient visit to your office;
- Include a description of your new patient procedures
- Briefly describe patient education procedures

3. Record keeping, scheduling, collections procedures

- Describe appointment scheduling and patient record keeping protocols
- Detail your financial policies, including billing, accounts receivable collections, insurance processing

4. Computer equipment and procedures

(You may decide to include this section with the previous section)

- What hardware and software will you utilize for record keeping, accounting?

5. Collections Management Plan

- What procedures will you put in place to assure that payment is received at the time of the visit?
- What billing processes will you use
- How will you collect money from "uncollectible" accounts?

Include these five elements in your Operating Plan and place it in your Business Plan.

CHAPTER 19. CONSTRUCTING YOUR BUSINESS PLAN

In this final chapter of Section One we will discuss the actual construction and assembly of your plan. We'll use the outline discussed in the "Steps in Preparation" section and combine other sections we've discussed and we'll follow the "Elements of the Plan" section of that same chapter.

You can use any format you like, but remember:

- Keep the plan as consistent as possible in appearance. Use the same font and margins throughout. Keep section headings the same.
- Check as you go for spelling errors; review for spelling and grammatical errors. A few minor errors would probably be acceptable to your reader, but many errors would detract from the effectiveness of your plan.

Here are the elements of the plan in the order in which they will be presented.

1. Executive Summary. As we discussed in the "Executive Summary" section, this part will be written LAST, after you have completed all other sections.

2. General Company Description

Include:

- Mission Statement and USP of the Practice
- Overall description:
- Name of the business
- Location (city, street address)
- Ownership
- Opening date
- Size (square feet) and type of location
- Legal form (sole proprietorship, Sub-S corporation?)

3. Products/Services Plan

This is the place for your USP and the contribution your practice will make to the community. Include a brief description of the type of patients you will be serving and the technique(s) you'll be using.

4. Marketing Plan

- Begin here with a description of your Circle of Practice, the area which you will be serving.
- Then discuss the competition – who else is practicing within this area and what will you do to compete with them.
- Include an analysis of the market for Chiropractic care, if you have good information.
- Discuss the four elements of Marketing--Product, Price, Place, Promotion--in detail. Include a description of the specific promotion elements you plan to use and budgets for each. Here's the place for that promotion budget grid you prepared.

5. Management Plan

- The management plan portion describes your organization to answer the question, “Who’s in charge?” Describe the legal framework and how you will be setting up the legal portion of your practice.
- Describe your background and your training which will enable you to succeed in this business.
- Describe those individuals who will be making day-to-day decisions.
- Include brief one-paragraph resumes of each of your management team and advisors, if you’ve identified these individuals. Include your accountant, attorney, and other financial advisors. If you will have partners, include brief biographies on each partner.
- If you already have employees, include brief statements of their background and describe briefly what they will be doing in your practice. Include your plans for future employees and describe the criteria you’ll be using to decide when to hire.

6. Operating Plan

In this section of the plan, you may describe:

- a. The layout of the office, including an optional map of the office space, and technology (computer) requirements
- b. The day-to-day operations of the office. Describe how new patients will be handled, the “flow” of patients through the office during a visit, and how you will handle billing and collections procedures.
- c. Your collections management plan

7. Financial Plan

The financial plan will incorporate all the financial documents you’ve prepared so far, linked together with a narrative explaining where you obtained your information. It’s most important in the financial plan to explain the assumptions behind all of your significant figures. You might want to do this in a separate section or in a two-column format. Some of your assumptions may have already been explained in the narrative above (the advertising budget, for example, or the timing of hiring new employees). If so, direct the reader to the appropriate section.

- a. Begin with the **Startup asset listing**. Describe the major assumptions behind the construction of this list, and how you arrived at the final figure. If you decided to lease some assets instead of purchasing them, discuss this. Also discuss any assets you will be providing yourself, such as computer or office furniture.
- b. Present the **cash flow analysis**, explaining all figures. For example:
 - Explain or include a spreadsheet to show how you determined monthly pay and benefits for employees
 - Explain your calculations for monthly mortgage payments and other monthly expenses
- c. At the end of this section, discuss your working capital needs and how you would like to arrange to cover these expenses.

- d. Present the **pro forma income statement**. Again, include assumptions such as tax rate and depreciation.
- e. Finally, discuss your **overall financing needs** and the potential sources for each. If you have personal assets or contributions from family/friends, include these. Present a “bottom line” financial requirement for the first year of operation.

Questions to ask yourself as you are preparing your business plan:

General

1. Is this a startup, buyout, or expansion?
2. Has this business already begun operations?
3. What is the mission statement?
4. When and where was the business started?
5. What is the basic nature and activity of the business?
6. What are its primary products/services? What is its “specialty” (USP)?
7. What customers are served?
8. What is the current and projected state of the chiropractic profession?
9. What is the history of this business?
10. What changes have been made in structure or ownership?

Service Plan

1. What specific services are you offering?
2. What are the unique characteristics of your service?
3. What are its special advantages?
4. What additional services/products are contemplated in the future? When?
5. How does your service compare with that of competitors?
6. What makes your service superior?

Marketing Plan

1. What is your target market? What is the geographic area you are serving?
2. What is the size of your target market?
3. What market segments exist?
4. What is the profile of your target customer?
5. How will customers benefit by using your service?
6. What share of the market do you expect to get?
7. What are the market trends and market potential?
8. What are the reactions of prospective customers?
9. How will your location benefit your customers?

Competition

1. Who are your strongest competitors?
2. What indirect competition do you have?
3. Is their business growing or declining?
4. How does your business compare with that of competitors?
5. On what basis will you compete (that is, your USP)?

Marketing Strategy

1. How will you attract new patients?
2. How will you identify prospective patients?
3. What type of sales promotion, advertising, and publicity will you use?
4. What direct (personal) selling procedures will you use?
5. What pricing policy will you follow?
6. What credit and collection policy will you follow?
7. How do your marketing policies compare with those of competitors?
8. How will you handle seasonal variations in your sales?

Management Plan

1. Who are the members of your internal management team?
2. What are the skills, education, and experience of each?
3. What other active investors or directors are involved, and what are their qualifications?
4. What vacant positions exist, and what are the plans to fill them?
5. What employees will you have initially?
6. How will employees be selected, trained, and rewarded?
7. How will personnel be motivated? What benefits will be given?
8. Who are the members of your advising team?
9. What will your organization chart look like?

Operating Plan

1. How will your office operate on a day-to-day basis?
2. What office procedures and forms will be used?
3. What is the per-day expected patient flow through your office?
4. What is your proposed office layout?
5. How will office procedures be used to motivate patients?
6. How will patient records be kept?
7. What operating advantages do you have from this layout and procedures?
8. What are the major costs of this operating plan?
9. Who are your suppliers?

Financial Plan

1. What assumptions are used for financial projections?
2. What are your estimated startup costs?
3. What revenue level is projected by months and years?
4. What expenses are projected by months and years?
5. What cash flow is projected by months and years?
6. What is your estimated financial position after six months, one year, two years?
7. When will the business break even?
8. What additional funds will be required? When?
9. How will these funds be used?
10. How much has been invested and loaned to the business by you and other investors?
11. What additional potential sources of investors will be explored?
12. What proportions of funding will be debt and equity?
13. What type of loans are required? When are they required? What will they be used for? What collateral, if any, will you offer?

Legal Plan (may be incorporated into other sections)

1. Under what legal format will you operate?
2. If incorporated, will the business function as a regular C- corporation or as a Sub-S corporation?
3. What attorney or legal firm has been selected to represent the firm?
4. What licenses/permits may be required?
5. What insurance will be taken out on the business, the employees, etc.?

SECTION TWO: OPERATING YOUR PRACTICE

Section Two discusses the operations of your practice after startup. It includes information about:

- Financial operations
- Marketing plans and procedures
- Personnel Management
- Purchasing Insurance
- Employment Issues

CHAPTER 20. FINANCIAL MANAGEMENT STRATEGIES

The purpose of money is to pursue that which is useful and interesting" (B. Franklin)

Financial Management

The goal of financial management is to aid in the maximization of wealth, or more simply, the maximization of profits. Profits are, after all, the bottom line. The concept is the same whether we're discussing a person or a business. In a larger perspective, financial management has two goals: profitability and viability; the firm wants to be profitable and it also wants to continue in business. It is possible to be profitable and yet fail to continue in business.

Profitability

In maximizing profits there is a tradeoff between risk and return. The greater the risk we undertake, the greater the anticipated profit we demand. We make many financial decisions on the basis of whether the return on a specific investment is great enough to justify the risk involved. When you make personal financial decisions, you ask, "Are the extra profits worth the risk?"

Viability

You have no desire to go bankrupt, so one of your crucial goals in managing your business finances is to ensure the continuity of the business. This goal is often measured in terms of liquidity and solvency. Liquidity is a measure of the resources of a firm that are cash or are convertible to cash in the near term, to meet upcoming financial obligations. Solvency is simply the same concept from a long-term perspective (more than one year); it's the ability to meet future continuing obligations. You must plan for adequate solvency well in advance.

CASH IS KING! Without cash you cannot continue. The problem with cash (a "liquid" asset) is that it brings the lowest return. In your financial planning, you must consider how to best balance your goals of profitability and viability; if you want to be more profitable, you might have to be less liquid, in order to gain a higher return.

Profitability and viability are not synonymous. As mentioned above, a firm can be profitable every year, yet go bankrupt anyway. This is frequently the result of rapid growth and poor financial planning. Growth implies outlay of substantial amounts of cash; you need to plan for solvency along with growth.

Accounting Concepts

Accounting centers on concept of the business as an entity(being), the unit for which you wish to account. From an accounting point of view there are two crucial aspects of the entity concept.

First, once you have defined the entity, you should not mix resources and obligations of that entity with those of other entities. If you have a business entity (Cosgrove Chiropractic Clinic) you should not mix funds with your personal entity (Carol Cosgrove).

Second, you should view all financial events from the entity's point of view. If your firm buys office supplies "on account," this purchase creates an obligation of the entity, and an "account payable" BY the entity TO another entity. If a patient owes you money, that is an "account receivable" BY your firm FROM another entity (the patient). As another example, if Carol Cosgrove (personal entity) takes money out of Cosgrove Chiropractic (business entity), the records of two different entities are affected, but the two are still separate and distinct.

Once you have established your business entity, you can begin to keep track of its financial events as they happen. Each financial event, or "transaction," involves an exchange of value. Examples of transactions: the exchange of a chiropractic service for payment; the exchange of a chiropractic service for a promise of payment (which also has value); the exchange of cash for supplies; the exchange of cash for rent; the exchange of loan proceeds from a bank for a promissory note or mortgage.

Note that we must use monetary denominators for recording all financial events, even if no cash is involved. In a business entity, EVERY TRANSACTION, no matter how small, must be recorded, for several purposes:

- So you can keep track of how much money you have ("I can't be overdrawn; I still have checks left in my checkbook!") and how much profit you've made
- So you can accurately show your financial position in order to obtain loans or report to others
- So you can accurately prepare tax returns

The basis for all financial accounting is the Accounting Equation:

<p>Assets - Liabilities = Net Worth (for personal entities) Assets - Liabilities = Owner's Equity (for small business entities)</p>

Assets

Assets are items of value owned by a firm or person; an asset can be cash, a car, an X-ray machine, office furniture. Amounts of money you have pre-paid (such as insurance) are also assets. Money owed to you by others (accounts receivable) is also an asset, and a logo, which can be trademarked, can have its value established. Even though you may have intangible assets (your good credit rating, your personality), only tangible (physical) assets can usually be considered in accounting. Note that the value of assets decreases over time due to depreciation.

Liabilities

Liabilities, from the word liable, represent the obligations that an entity has to those to whom it owes money (creditors). The most common liabilities are accounts payable (money owed to suppliers), salaries/wages payable, loans payable, and taxes payable. Note that liabilities are "payables." Although there generally is no specific one-on-one matching of specific assets with specific liabilities, the assets taken as a whole represent a pool of resources available to pay the firm's liabilities.

Net Worth/Owner's Equity

Equity means "ownership," and the value of a business or personal entity is the difference between what it owns and what it owes. For a person, we speak of this value as "net worth;" for a sole proprietorship, it is "owner's equity;" for a partnership it is "partners' equity," and for a corporation, it is "shareholder's equity." Your personal net worth is calculated by listing all of your assets and liabilities and calculating the difference between them. So when we say that "Bill Gates is worth \$33 billion," we mean that his assets exceed his liabilities by that much.

The Accounting Equation and Financial Statements

The Balance Sheet

All transactions of a business are recorded in the "books" of the business, and are used to prepare financial statements, which are based on the Accounting Equation, expressed as follows (note that this form is slightly different from the way it is expressed above, but the equation is still essentially the same):

$$\text{Assets} = \text{Liabilities} + \text{Net Worth} \div \text{Owner's Equity}$$

The left side of this equation represents the resources of the entity; the right side of the equation represents the sources of these resources or the claims on the resources. The total of the right side of the balance sheet must always equal the total of the left side.

For example, if you purchase a car with a value of \$20,000, and you pay \$4,000 as a down payment, with a \$16,000 car loan, the Accounting Equation for the car would look like this:

$$\begin{aligned} \text{Assets} &= \text{Liabilities} + \text{OE} \\ \$20,000 &= \$16,000 + \$4,000 \end{aligned}$$

The Accounting Equation, as expressed in this section, is the basis for the most common financial statement-- the Balance Sheet. A Balance Sheet represents the financial position of an entity on a specific date. For businesses, this date is the end of an accounting period (month, quarter, year).

It is important to note that, since this is an equation, both sides must always remain the same, "in balance." The job of a bookkeeper is to record all of the transactions of the entity so that the accounting equation remains in balance. This is accomplished through the procedures of double-entry bookkeeping.

The basic components of a Balance Sheet are described in Exhibit 1 (next page). Note that assets are listed in order of liquidity (how easily they can be turned into cash), and liabilities are listed according to term, from short-term liabilities (those which must be paid within a year) to longer term liabilities.

Exhibit 1: Balance Sheet

**Cosgrove Chiropractic Center
Balance Sheet
as of January 30, 2009**

Assets	\$	Liabilities	\$
Current Assets		Current Liabilities	
Cash	12,315	Accounts Payable	3,700
Accts. Receivable	27,250	Current portion of long-term debt	7,200
Prepaid Expenses	1,250	Taxes payable	5,250
Supplies	1,000	Other	3,640
Fixed Assets		Long-term liabilities	
Furniture & Fixtures	29,200	Notes payable	12,000
Clinic Equipment	35,650	Loans Payable	0
Leasehold Improvements	1,200	Total Liabilities	31,790
Less Accumulated Depreciation	(13,200)	Owner's Equity	
		C.Cosgrove, Capital	63,145
Total Assets	94,935	Total Liabilities & Owner's Equity	94,935

The Income Statement ("P&L")

You may have been wondering how this discussion relates to the "profits" of the business. The financial statement that shows profits is called the Income Statement (sometimes called a "P&L" statement for profit and loss). This statement compares the revenues, or income, of a business with its expenses during an accounting period.

- Revenues are the monies received; expenses are the costs incurred in order to generate revenues.
- Profit (net income for a business entity) is simply the difference between revenues and expenses.

Unlike the balance sheet, which is a photograph or snapshot of the entity's financial position at a point in time, the income statement is like a video, telling what happened to the entity during the time period noted, such as a month or a year.

Income Statement and Balance Sheet are linked by the profits, which are calculated in the Income Statement and then transferred to the Owner's Equity section of the Balance Sheet. Profits are Income minus Expenses. The "profit" of the business comes directly to you as the owner of your personal

business and increases your equity (ownership) in the business.
An example of an Income Statement is shown below.

Exhibit 2: Income Statement

Cosgrove Chiropractic Center
Income Statement
For the month ending January 31, 2009

	\$	% of Sales
Revenue		
Professional Fees	14,500	95.0
Supplements	795	5.0
Total Revenue	15,295	100.0
Expenses		
Rent	1,200	7.8
Utilities and Phone	580	3.8
Insurances	290	1.9
Depreciation	435	2.8
Salaries	3,190	20.8
Benefits/Payroll Taxes	1,117	7.3
Advertising	545	3.6
Supplies	325	2.1
Miscellaneous	118	0.8
Total Expenses	7,800	50.9
Net Income Before Taxes	7,495	49.0
Taxes	2,546	16.6
Net After-tax Income	4,949	32.3

First-Year Accounting

When you begin to set up your accounting system, you'll probably want to obtain the services of an accountant or (preferably) a Certified Public Accountant (CPA). This professional will help you determine accounting systems and get you started correctly so that you can avoid problems later with taxes. Here are some subjects you'll probably discuss:

Keeping personal and business finances separate. Set up separate checking accounts for personal and business use. It's also helpful to have separate credit cards, or to mark each credit card statement showing which expenses are for the business and which are personal.

NOTE: For business purchases by credit card, deduct the expense in the year it is CHARGED, not the year it is paid.

Cash vs. accrual accounting. Your accountant will probably advise you to select the cash method, which records income when payments are received. Accrual accounting records income when it is earned (that is, when you perform the service and charge the patient). Since you may have some time between charge and collections, you'll want to record income only when it has actually been collected. (See a more complete discussion in the [next chapter](#).)

Business meals, cars, mileage. The IRS looks closely at business entertainment expenses. Be sure to record the purpose for every meal which you intend to deduct as a business entertainment expense. Another way to record these expenses is to use your personal appointment book or PDA to note purpose for these events. Don't forget to record expenses for presentations, like Health Care Classes. Keep a log of your daily business miles. You probably won't be able to deduct miles to and from the office, but other mileage (trips to seminars, to a banker's office, for example) should be deductible. Note the purpose, mileage and the date. (Another good use for your PDA.) When you prepare your taxes, you can determine whether it's better to take the actual expenses or the standard mileage deduction.

Retirement Savings Plans

During your first year or two of practice, you may not have much time or money to consider retirement savings from your business, but it's something you should consider as soon as possible. Contributions to a self-employed retirement plan are tax-free until they are distributed, and you can make larger contributions to these plans than to a personal IRA. It's also a nice way to reward your employees for loyal service while giving you a tax deduction for this benefit.

SEP-IRA (Simplified Employee Pension). This plan can be set up for both you and your employees, but only you (as the employer) can contribute to the plan. The annual maximum for each employee is currently \$25,500. The SEP-IRA is treated like other IRA's for tax purposes, giving you the ability to defer the taxes until you begin taking out the funds, after age 59 ½.

SEP-IRA information: <http://www.irs.gov/publications/p560/ch02.html>

Other common plans include Keogh, money purchase, profit sharing, and deferred benefit plans.

See IRS publication 560 – Retirement for Small Business for more information:
<http://www.irs.gov/pub/irs-pdf/p560.pdf>

Depreciation

Depreciation is a common financial term, but one that is often misunderstood. To understand it, look at the difference between buying an asset like an adjusting table and buying supplies or paying an expense. The supplies are used up ("expensed") within a short time after purchase; expenses are also used up very quickly. These expenses can be deducted from sales to determine profit for tax purposes.

In contrast, the adjusting table is going to be used for several years. How do you determine the expense of using the table? You could take the whole expense in one year, but why not spread it out over the years you'll be using it. This is depreciation—the expense of using an asset spread out over its useful life.

In order to match revenue with expenses used to earn the revenue, the cost of an asset should be allocated to an expense over the asset's useful life. In each fiscal period that asset is used to earn revenue, a portion of the cost is transferred to an expense account called "depreciation."

Depreciation has no relationship to deterioration. An asset may physically wear out over time; this is physical depreciation or deterioration. An asset also becomes obsolete, un-useful. Newer computers and adjusting tables come on the market and cause the old ones to become obsolete. This is also termed "functional depreciation."

Depreciation is determined by taking the purchase price of the asset and dividing it by the number of years of useful life. For each type of asset, accountants and the IRS have set up tables and calculations showing its useful life. For example, the useful life of a computer might be three years, while the useful life of an adjusting table might be 20 years.

Several depreciation methods are used by businesses, but the most common is straight line, which assumes an equal amount of depreciation each year. (Other methods, such as double declining balance and sum of the years' digits, are not discussed here.)

One other factor is considered in determining depreciation—salvage value. Whatever value is left over at the end may not be depreciated. So the complete calculation for depreciation is (Cost-salvage value) divided by the number of years of useful life. For a \$10,000 adjusting table, with a salvage value of \$1,000 and 15 years of useful life, the annual depreciation would be \$600.

On a balance sheet, both the original cost of the asset and the accumulated depreciation to date are shown, so the reader the statement can see exactly how much value is left in this asset. This undepreciated balance, the difference between original cost and accumulated depreciation, is the book value of the asset. Note that book value will never be less than the salvage value; at this time the asset is considered "fully depreciated" or "off the books." This does not mean that an asset cannot continue to be used, only that it cannot be further used as a depreciation expense. It may not be physically obsolete (i.e., it still works), but it is functionally obsolete (it has reached the end of its usefulness).

When setting up financial records, a log for each asset should be established, including

- the original cost, with all transportation, installation fees, miscellaneous charges associated with the purchase and set up of the asset;
- a log showing depreciation taken to date, including the calculation used;
- salvage value indication.

When an asset is sold or scrapped or traded in on another asset, the asset log should indicate the sales price or trade-in value, and the item should not thereafter be shown on the balance sheet.

Business Taxes

In a sole proprietorship, the business income is taxable to the owner personally. This means that you, not any corporate entity, must pay the taxes on your profits from the operations of your practice.

Your profit is determined by using a Schedule C “Profit or Loss from Business/Sole Proprietorship.” On this form you must include:

Part I: **Income**, including Gross Receipts or Sales and Gross Profit

Part II: **Expenses**, including

- Advertising;
- Bad debts;
- Car and truck expenses (only if you drive between several offices or back and forth to other business-related activities);
- Depreciation on long-term assets;
- Employee benefits (including in-kind benefits);
- Insurance payments (malpractice, business);
- Interest on mortgages and other loans;
- Legal and professional services;
- Office expenses;
- Pension and profit-sharing plans for employees;
- Rent or lease payments;
- Repairs and maintenance;
- Supplies;
- Taxes and licenses;
- Travel, meals, and entertainment (only 50% of meals and entertainment may be deducted);
- Utilities;
- Wages/salaries of employees;
- Other expenses such as bank fees.

Then your net profit or loss is calculated by subtracting allowable expenses from income. This net profit figure is transferred to line 12 of your 1040 form and used along with your other income to determine your income tax. You should note that, since nothing has been withheld for this income, you will probably have to begin to make quarterly estimated tax contributions as soon as you begin in business.

In addition to income tax, you will also owe Social Security for Self-employment taxes (the full amount of FICA and Medicare) for yourself. A Schedule SE must be completed and sent with your tax return, along with a check for the self-employment tax payable for the last year, based on your business income.

See IRS publication 334 – Tax Guide for Small Businesses <http://www.irs.gov/pub/irs-pdf/p334.pdf> for additional information on business taxes.

Tax Forms for Legal Entities

Here's a table showing the important income tax forms for each of the legal entities:

Legal Form	Tax Return
Sole proprietorship	Personal Tax form 1040
Partnership	On 1040 for each individual plus 1065 (Information Return) for Partnership
Corporation	1120 or 1120 A (for smaller corporations)
S- Corporation	1120 S
LLC - taxable personally	On 1040 for each individual plus 1065 (Information Return) for LLC
LLC – taxable as corporation	1120 or 1120 A

CHAPTER 21. FINANCIAL RECORDKEEPING

“The only irreparable mistake in business is to run out of cash. Almost any other mistake in business can be remedied in one way or another. But when you run out of cash, they take you out of the game.”
(Harold S. Geneen, former Chairman, ITT)

As the owner of your business, you must be personally involved in the RECORDKEEPING aspects of the business on a regular basis, not only because you need to be aware of what is going on, but also in order to keep control over expenditures and practice good internal controls.

Record keeping provides information on the financial “health” of your business. It enables you to

- Keep track of what you own and what you owe to others
- Regulate the cash going into and out of your business
- Provide reports for yourself and others about the business
- Provide information on trends that are taking place in your firm
- Provide information for tax purposes

Record keeping begins as soon as you start to organize your business. Many of your initial expenses are deductible if you have begun to actively pursue the business process and the search for your business (for example, keeping track of travel and hotel expenses; costs of faxing and copying documents; services of an accountant and/or attorney; phone calls).

Spending Money

A business spends money for two reasons:

1. **To purchase assets** with a continuing value, which are needed to run the business. Common business assets include furniture, office equipment (phone, copier, fax machine, files, office supplies, clinic equipment (x-ray machinery, adjusting tables, other items in clinic examining and adjusting rooms), and miscellaneous (coffee pot, reception area plants, signs on doors).
2. **For expenses**, all the other ways you spend money in the course of business. Expenses may be described as money spent on a regular or occasional basis for business purposes. Expenses may be classified as:
 - **Fixed** – those general expenses you incur as a result of being in business, even without having any customers. Sometimes this group of expenses is called “overhead” or “administrative expenses.” These are typically rent, loan payments, licenses, telephone and utilities, insurances, and contracted expenses like maintenance..
 - **Variable** – related to the selling of your service and the level of patient volume: advertising, additional salaries and payroll expenses, expense of operating the clinic equipment (x-ray machines, for example).

Most common business expenses are tax deductible, so you want to be sure to capture all of them, so you can have the maximum tax advantage. Even very small expenses, like those donuts for the staff meeting, or the parking meter during your meeting with the banker, can be deducted and must be captured. All expenses incurred in the operation of your business are deductible in the year in which they occur and these expenses reduce your net income for tax purposes.

Cash vs. Accrual Accounting

Financial records for your business may be kept on either a cash or accrual basis, although most small professional service businesses use the cash method.

Cash accounting is the reporting of revenues and expenses at the time they are actually received or paid. If you use the cash accounting method, you are considered to have made a transaction when the cash is physically received or paid out for services or products.

Accrual accounting recognizes revenues and expenses at the time they are earned or incurred, regardless of when the cash for the transaction is received or paid out. If your business has many customers who don't pay immediately, accrual accounting would not be practical, because you must record the income at the time of the charge, even if you don't receive the money for it until many months later.

Double Entry Accounting is a bookkeeping and accounting method in which every transaction is recorded twice, based on the premise that every transaction has two sides. A sale, for example, is both a delivery of services and a receipt of payment. For every transaction, one account is debited and one is credited. (NOTE: The terms "debit" and "credit" are not used in the same way as a bank would use them). The two halves of the double entry always have to be equal, and the books always have to be "in balance" (remember the discussion of the balance sheet above). This method is used to assure that all transactions are recorded correctly and that business records are accurate at all times.

Some smaller businesses use a single-entry form of accounting, with only income and expense accounts. It is easier to understand and maintain and can still be accurate. Your accountant will translate your single-entry records into double-entry for reporting purposes.

Accounting Services

You will probably need the services of an accountant for:

1. Setup of the books, to be sure all expenditures and income are accounted for correctly;
2. Payroll, to be sure reports and payments are made on a timely basis; and
3. Tax advising, and to represent you if you're audited.

Work closely with the accountant in the setup of your financial records, so you will understand how the records are organized and learn to read and use them for decisions.

Bookkeeping Setup

Some of the tools you'll need to set up your accounting system:

- A computer with accounting software; then learn to use it!
- A chart of accounts, listing all the accounts you will be using to keep track of your business expenses and income, assets, liabilities, and your equity in the business
- A checking account and payroll account (you'll probably be using the bank from which you are borrowing funds)
- A pegboard system for daily work, or some way to note daily charges and payments
- A cash box and petty cash fund

Choose a business checkbook that is large and opens flat, with check stubs to the left. You will need to be able to divide checks into several categories on the stubs (for example, your phone bill may include yellow pages advertising, which is a separate expense account from phone expense). Duplicate checks are also available for businesses. Checks should be pre-printed and numbered with the business name, address, and phone number.

Purchase an endorsement stamp which includes the business name, "for deposit only," and your checking account number. You do not have to sign each check if you use the endorsement stamp.

After your financial system has been set up, you need to establish procedures for regular review. One suggested checklist:

Cash Management

Cash is your most important asset. Without it, you cannot function on a day-to-day basis, so it is important to manage your cash wisely. Companies usually hold cash for one of three reasons:

- Transactions - in order to conduct normal business transactions, like paying employees, making loan payments, purchasing supplies or equipment, paying rent, phone, etc. Transaction cash is the most important.
- Precautionary - in order to meet anticipated and unexpected cash needs and bridge the gap between cash inflow and outflow.
- Speculative -- to take advantage of unanticipated business opportunities, such as the prepayment of a bill to take advantage of a discount or to buy something that comes on sale.

Since cash, and its movement into and out of the firm, are so important, many companies work to improve cash flow. You will probably want to synchronize cash in and out. This might be done by sending out bills and collection requests at several times during the month, instead of waiting until the end of the month. At the other end, you might regulate cash out by staggering bill payments throughout the month. A good financial calendar (on a software program) can help you even out the cash flows.

Another way to manage your cash and other assets is to set up a financial calendar and periodically review activity:

Daily

- Cash on hand - be sure deposits are made daily and that you have a backup of all items deposited
- Bank balance - be sure stubs contain current balance
- Day sheet - daily summary of sales/receipts
- Petty cash record – keep a record of all small expenditures from your cash drawer

Weekly/Monthly

- Accounts receivable -set up a weekly or bi-weekly review; send out bills on a weekly schedule; take action on slow payers.
- Accounts payable - take advantage of discounts where possible.
- Payroll - be sure employee records are up to date and pay information is recorded correctly.
- Tax payments - be sure tax deposits (payroll and business income) and reports to state and federal governments are up to date.
- Bank statements – reconcile each one as soon as it is received; be sure your journal balance is in agreement with the reconciled bank balance.

Monthly reporting

- Be sure all journal entries are classified to appropriate accounts and posted before preparing financial statements
- Balance petty cash and record expenses in the journal
- Prepare income statement and balance sheet, analyze and make adjustments
- Prepare an Accounts Receivable aging report and work on collections

Keeping Books

Business bookkeeping, as stated above, is based on the concept of the “transaction,” a financial event that involves the exchange of value. It may be an exchange of money for service, the purchase of an asset, payment on a loan, investment into a business, payment of expenses, collection of accounts receivable, or any number of other events.

Record-keeping Cycle

In double-entry accounting, a business transaction occurs, and documents are generated. The entry for the transaction is recorded in a Journal and then posted to the individual accounts. At the end of a financial period, these account balances are used to prepare financial statements. Most businesses work on a monthly financial period, and this will be assumed in the following discussion.

The monthly financial cycle:

Transaction occurs < document prepared <entry recorded in journal<entry posted to individual accounts < account balances updated after each entry< at end of month, account balances used to prepare financial statements and reports.

For a business which is using double-entry accounting, the following record books are needed:

- General Journal, which records each transaction in chronological order. Each transaction record contains: date, amount, to whom, for what purpose
- General Ledger, which has a page for each account.
- Petty cash record, which records information about small transactions made from office cash drawer
- Asset records, for each asset owned by the business, containing information about date purchased, amount, from whom, and other expenses associated with the purchase (installation, etc.). The asset record also contains information about depreciation expense against that asset.
- Accounts Receivable information. These records may be in the form of patient account cards, with a record for each patient indicating when charges were incurred, amount and type of service, and when payments were made.
- Accounts payable information, recording information on vendors with whom the office has an account, like an office supply store or a clinic supplier.
- Payroll records, including payroll registers (information on each payroll), and employee payroll records.
- Expense logs, for business expenses such as travel, entertainment, seminars, etc.
- Business checkbook, in which checks for purchases are written.

Keeping information about individual accounts allows you to prepare financial statements. There are five types of accounts:

- **Assets** – items of value owned by a business. Assets include cash, accounts receivable, pre-pays, supplies, equipment, leasehold improvements, furniture and fixtures, land and building, and other investments.
- **Liabilities** -- amounts owed to creditors, including accounts payable, taxes payable, short term notes (due within 12 months), long-term debt and loans, and mortgages.

- *Owner's Equity* (of a sole proprietorship) or *Retained Earnings* (of a corporation) – the amount representing the owner or shareholder's ownership of the business. In a sole proprietorship, the capital account is used for owner's equity, and a drawing account is also set up from which the owner can draw out funds for his or her personal use.
- *Revenues* – professional fees, sales, other income like interest on savings accounts or money market funds.
- *Expenses* – amounts spent to maintain the business. Expenses are the most extensive type of account, from advertising to utilities. You will need to separate expenses into fixed (overhead) and variable for reporting purposes.

NOTE: The records discussed here are all found in the common business accounting programs.

Accounts Receivable and Credit

We are a credit society. Everyone buys on credit. At the local flea market, all the artisans have their card machines and can check your credit before you purchase that antique desk. The use of credit cards for purchase of health care is also becoming ubiquitous.

Credit is a benefit to buyers, allowing them to make purchases they otherwise would not have been able to make, and giving them greater convenience. For you as a seller, credit provides you with a marketing tool, encouraging purchase, and is necessary for you to remain competitive. It also tends to smooth out sales peaks and valleys since people purchase throughout the month, not just on payday.

Begin by preparing a written credit policy. This assures consistency in granting credit and provides for uniform treatment of patients.

You will need to establish a relationship with several credit card companies (MasterCard and Visa, primarily) as you are setting up your business. When you agree to take credit cards, you will be paying a 3-4 percent fee on every charge to the credit card company, which is why some practices give discounts for paying cash.

You may also set up your own credit plan or payment plan for patients. If you allow patients to pay over time, you must adhere to the requirements of the federal Truth in Lending act, which requires you to give the consumer specific information about the purchase and the terms. Even if you are not charging interest, a Federal Truth in Lending statement must be filled out.

You also may not discriminate against anyone applying for credit, except on the basis of ability to pay. Ask yourself,

- “Can this person pay?” (This is a question of capacity; does the person have the financial resources to pay?)
- “Will he or she pay?” (This is a question of character; something intangible that may be very hard to determine)
- “If so, when?” (If you have to extend payments out too long, it may not be worth it), and
- “If not, can he or she be forced to pay?” (What means will I need to use?)

Credit Laws Affecting Small Businesses

Here are some laws regarding credit which you should know:

- **Fair Credit Billing Act** - offers protection to credit customers on credit cards, and establishes procedures for consumers to follow in making complaints about billing errors.
- **Fair Credit Reporting Act** –discusses rights of applicants regarding credit reports and other information about credit records.
- **Equal Credit Opportunity Act (1974)**- prohibiting businesses from discrimination in granting of credit based on sex, marital status, race, color, religion, national origin, or age. If you do not grant credit to someone, you must notify them in writing within 30 days, including reasons for the denial.
- **Truth in Lending Act** relates to credit terms for consumer loans and applies to businesses that extend credit to consumers if the credit is subject to a finance charge or is payable over more than four months. Information that must be provided to the consumer includes the cost of credit. Finance charges and interest rates must be quoted in terms of an annual percentage rate and must be calculated on a uniform basis.
- **Fair Debt Collection Practices Act (1977)** - bans intimidation and deception in collections. Among its prohibitions:
 - You cannot communicate with a debtor at unusual or inconvenient hours
 - You cannot communicate with a debtor who is represented by an attorney
 - You cannot use conduct that is harassing, oppressive, or abusive, such as threats of violence or obscene language
 - You cannot use false, deceptive, misleading representation or means (e.g., by letting the person think you are from an attorney or credit bureau or from the person’s employer).

Know the Collection Laws:

You are prohibited by law from:

- Pretending to be someone you are not (an attorney or government official)
- Using a fake ID on letterhead
- Sending out notices that look like they have been sent by an official agency or government department
- Attempting to collect charges that are not legally due (according to a contract)
- Charging late fees without informing people at time bill is due
- Making threats you don't intend to carry out or which is not used in your business (for example, threatening to turn accounts over to an attorney if you have no attorney)
- Harassing people by calling too often, too early or too late (before 8 a.m. or after 9 p.m., for example)
- Attempting to ruin someone's reputation by telling others of the amount owed to you (for example, sending postcards that anyone can read, putting something on the outside of an envelope)
- Threatening to communicate the debt to the person's employer or anyone else
- Furnishing information about someone without permission
- Disclosing or threatening to disclose disputed debts
- Using intimidation to collect (abusive language, threats of violence)

Collections⁴

Before you turn a patient's account over to an outside collector, you should make every possible effort to collect the account yourself. Going to someone else to assist with collections is costly. A collection agency or attorney may take a large portion of the account--from 20% to as high as 50%. Some agencies will charge only a minimum fee if they can collect with only one phone call; some attorneys will work on a flat rate for letter writing only services.

Generally, you have three options for collection methods/services:

1. ***Collection agencies*** may be local or national; the local firm will often give more personal attention to your problem, but the national firm may have more resources for tracking a patient who can't be located and who may have moved away.

An advantage of referring an overdue account to a collection agency is that the agency will work on the matter promptly to ensure collection. Generally, if the account is more than 90 days overdue and your efforts have been ineffective, the account is a candidate for a collection agency.

⁴Some portions of this information are from "When to Use Collection Agencies, Collection Attorneys, Credit Reporting Agencies and Small Claims Courts" by Ces Soyring, C.A. in Chiropractic Products, September 1996.

Use this method primarily if a patient has lied to you, if there is a history of serious problems with the account, or if you can't locate the person.

One of the best reasons to use a collection agency is their ability to provide "skip tracing" (finding missing debtors). The more information you receive when the person first enters your practice, the better the information the collector will have to work on.

The fees charged by collection agencies are generally on a contingent basis; i.e., only charged when the debt is successfully collected. Some agencies have a flexible scale, charging a higher rate for the first \$300 to \$500, a lower rate for up to \$2,000, and a lower rate still on amounts over \$2,000.

You can also use a credit agency to report an outstanding debt. This can be an effective collection alternative for those people who are concerned about their credit rating. Merely the thought of having this debt on their record may induce payment. In order to use a credit reporting agency, you must subscribe or use the services of a collection agency that subscribes to one. Of course, if you subscribe, you can also use it to check on new or current patients requesting credit.

2. ***Collection attorneys*** work in much the same way as collection agencies, although they often work primarily through letters rather than over the phone, and they may not have the skip tracing service provided by a collection agency. Attempt to get the attorney to work on a contingency basis, in which they only get paid when they collect.

With either the agency or attorney, document your agreement in an engagement letter, specifying the services to be provided and who will be providing them, when the services will be rendered, and details of the fee arrangement.

The best way to find an agency or attorney is to ask other health care professionals. You might also want to ask about collection practices; some attorneys or collection agencies use questionable tactics that might cause you embarrassment or lawsuits.

If you decide to use a collection agency or attorney, be prepared by providing complete information about the debtor and your previous efforts to collect. Make sure they are aware of any extenuating circumstances. Demand monthly progress reports.

3. ***Small Claims Court.*** Some professionals believe that going to court to enforce a debt is a bad idea; others think it is very good. Don't go to court if you plan to have any further dealings with the debtor, or his/her family or friends, again in your lifetime. Going to court destroys any chance of a professional relationship.

When to Sue/When to NOT Sue:

Suing makes sense when:

- a. **You determine the patient never had any intention of paying the bill**
- b. **It is clear you will no longer do any business with this person**

Never sue when

- a. **The amount is trivial,**
- b. **You merely want to get even or embarrass the person, or**
- c. **When the costs exceed the benefits.**

The amount limit for taking a claim to small claims court varies from state to state; many states limit small claims to \$2,000 or \$3,000. The advantage is that you do not need a lawyer; in fact, in most states you cannot be represented by one.

Begin the process by obtaining a Complaint form from the local county courthouse. This form notifies the patient that action is being taken against him. You must take this form back to the courthouse and pay the cost of serving this action against the person. You will receive notification of the date of the hearing.

If the defendant does not respond or does not appear at the designated time in court, you may receive a default judgment (you WIN!). You will still need to show details of the amounts charged to the patient.

If the defendant answers the petition or appears at the courthouse, the hearing will proceed. As the plaintiff, you have the burden of proof and must show that your claim for services rendered is legitimate, so come to the courtroom armed with all necessary documentation. The court routine is straightforward, with the judge asking both parties to state their position.

If the judgment is in your favor, the patient will be ordered to pay the bill plus court costs. Normally a time limit is set for payment. Be aware that the court does not collect the judgment for you nor can they force the defendant to pay.

After a period of time without payment, you may petition the court to either put a lien on the person's real property or issue a garnishment against wages. There is still no guarantee of collection.

The advantage of small claims court is that it is relatively inexpensive and involves only a minimum of inconvenience (one court session). The disadvantage is that it may be impossible to collect. In the circumstances described above, it can be an effective alternative collection technique.

Internal Controls

Before we leave this section on accounting procedures, we need to discuss internal controls. These are the measures used by a business to guard against waste, error, and fraud and to ensure the reliability of accounting data. Most of the internal control procedures in a professional practice are put in place to

protect the owner from fraud by employees, although every business owner should check for wasted time and effort. Most internal controls have to do with cash, which is the easiest asset to defraud with (it's a little difficult to run off with the accounts receivable!).

The two most important rules for accounting controls are: *divide and monitor*.

1. ***Divide up duties***; the employee who has access to an asset should not have access to the accounting records of that asset. If two or more employees are in collaboration, fraud may still occur, but separation of duties among employees decreases the chances of dishonesty.

For example, the person who writes the checks or makes the deposits should not be the same person who does the bank reconciliation. An employee should not be permitted to handle all aspects of a transaction.

2. ***Be watchful; monitor activity***. The best method of internal control is MBWA (managing by walking around). Be sure your employees know that you are going to be eternally vigilant, and that you can AND WILL be checking on everything, not because you don't trust them, but because it's part of your responsibility as the owner of the business. Routine (or surprise!) spot checks reveal much. One chiropractor didn't realize that one of his employees was discounting patient bills (essentially giving them free care) because she felt sorry for them, until several months and several thousands of dollars later.

Another useful rule of thumb for internal control is that every employee MUST take a vacation. The employee who does not want to leave on vacation because he or she is "loyal" may have another reason for staying. Be suspicious of the bookkeeper who never takes time off or who comes in on weekends and evenings to work on the books when no one else is around. He or she might be the most conscientious employee in the world, but also could be hiding something.

You may not be able to hire many employees, and you will need to trust them, but you can certainly monitor their activities. The larger the office, the more opportunity for employees to steal and cover themselves, but in a smaller office a "trusted" employee who is given much responsibility can cause much financial damage.

Some ways employees steal:

- Stealing petty cash and covering by using false vouchers
- Stealing cash payments made by mail
- "Lapping" cash – using today's receipts to cover yesterday's embezzlements
- Purloining stamps (which can be sold)
- Manipulating payroll, including salaries for fictional or discharged employees
- Forging company checks to one's own order, destroying the check when returned by the bank
- Cashing company checks made out in payment of fictitious bills from nonexistent suppliers
- Altering legitimate bills to get additional payment
- Lowering the amount of a patient's bill in the book entry and keeping the difference

- Adjusting or writing off patient accounts, sometimes in collusion with the patient (be alert for patients who are related to your staff)
- Stealing company supplies or stock

In review, some of the fundamentals of cash control are:

- Keep your personal transactions completely separate from those of the business; use separate bank accounts.
- Deposit all cash receipts daily into the company account. Do not leave deposits in the office overnight.
- Pay all business bills and expenses by company check.
- Try to take advantage of bill payments offering cash discounts for prompt payment.
- Make disbursements only when you have received a valid invoice and have checked to be sure the goods were actually received.
- Reconcile bank statements immediately after receiving them, by someone other than the person writing the checks.
- If you have to make expenditures using personal checks, cash, or credit cards, make sure you promptly submit expenses to the business for reimbursement.
- Never write checks to “cash.”
- Keep blank checks locked up, use only numbered checks, and account for all voided checks.
- Rotate staff who are involved with cash.
- Require more than one signature on checks.
- Some offices even go so far as to bond cash-handling employees, to protect against fraud.

Avoiding Bad Check Problems

It's one of the most frustrating issues in office management: the patient pays with a check and the bank says it cannot pay on the check. Now what do you do? You can:

- Forget about it, hoping it won't happen again
- Ask the person to pay, which may or may not happen
- Institute a “bad check” charge which is added to the bill of any patient who writes bad checks
- Take the person to court

Your best solution is to prevent these charges in the first place. Some suggestions:

- Require that checks be signed in front of the Office Manager or CA/CT
- Accept checks from local banks only
- Don't accept checks for more than the amount owed
- Don't accept third-party checks (those written to someone else, that your patient is endorsing over to you)
- Don't accept post-dated checks (made out for some time in the future)
- Set a limit on the amount of checks

- Encourage credit card payments
- Establish and post charges for “bad” checks; follow through with these charges
- Incorporate a patient financial responsibility statement in your new patient paperwork; enforce these standards.

When you receive a bad check:

- Call the patient immediately and kindly suggest that they need to make the check good
- Know the law in your state for maximum damages for bad checks (for example, in Iowa the limit is three times the amount, for a maximum of \$500)
- If you don’t receive a check immediately, write a letter demanding the check; make it “return receipt requested” so you know the person received the letter
- Contact the bank, to see if the check is now good
- If you still don’t receive the check, you can decide to prosecute through small claims court or a collection agency.

In conclusion, you will find that your time is well-spent in setting up good bookkeeping, cash, and collections systems in your office, so that you can concentrate on the clinical aspects of your practice.

You might want to include a description of your collection policy and the internal controls procedures you will institute within the Financial section of your Business Plan.

CHAPTER 22. BENCHMARKING

When you begin your practice, your primary concern is survival. But soon you'll start asking the question "How are we doing?" If you don't ask it, your lender probably will! This question is the focus of this chapter. **The key to answering the question about the financial health of your practice is: "Compared to what?" "Relative to what?"**

If you said your firm had \$30,000 in collections last month, how would you know if that is good or bad? What were collections the month before? If they were \$20,000, you might be on the right track. If they were \$40,000, you might wonder what happened between these two months.

How do you want to measure your financial health?

- Against your projections?
- Against your business in prior periods?
- Against other comparable practice?

The answer is: All of the above. You want to be able to assess your financial health in relation to what you had set as estimates. You also want to know if you are doing the better than last month, last quarter, last year. Finally, you may want to know if you are doing as well as other chiropractors who are practicing in a manner similar to you.

Internal Benchmarking

Budget vs. Actual

When you set up your cash flow and income statements, you are providing benchmarks. If you use EXCEL or another spreadsheet program, you can insert actual data to provide a comparison, or you can use your firm's business software (like QuickBooks) to provide a report on cash flow and income. This is usually termed Budget vs. Actual.

Prior Periods

In addition to looking at actual business activity compared to estimated or budgeted figures, you should look at your activity compared to prior months, quarters, years. Compare your activity this month with last month. Are your sales growing? Are your expenses holding steady?

When you have gone through an entire year, begin looking at this month this year vs. last year. For example, how did you do this May as compared to last May? You will find that your business may be slightly cyclical, going up and down with the passing seasons. For many businesses, for example, December is a slower month, as people focus on getting ready for the holidays. Is this December better than last December?

Pay close attention to the Income Statement produced by your accounting software. It should show expenses as a percentage of sales (collections). Run comparisons of this month vs. last month, this year vs. last year. Look at certain key numbers, like miscellaneous expenses and office supplies. Are these increasing as a percentage of sales?

The more information you can gather, the better you'll be able to budget and the better your reports will be to your lender.

External Benchmarking

Most businesses are measured against certain standard financial ratios. These ratios are used
To provide a better understanding of the financial position of the firm
To analyze strengths and weaknesses of the firm
To interpret results of financial operations

The most common ratios measure:

- **Liquidity:** the ability of the firm to pay its debt obligations
- **Profitability:** the ability of the firm to generate adequate profits for the owners
- **Debt:** the ability of the firm to finance its long-term debt
- **Return:** the ability of the firm to provide a return to the owners

Liquidity means "cash" and is measured in two standard approaches:

- **Approach 1** – compare current assets (cash, receivables, supplies, and inventory) against short-term debt (due within the year). The measurement is the current ratio:

$$\text{Current Ratio} = \text{current assets/current liabilities}$$

An acceptable current ratio is usually 2:1, meaning twice as much in assets as liabilities, since assets may not totally convert to cash.

The more stringent liquidity ratio is called the "acid test" ratio which measures only cash, receivables, and supplies against current liabilities. Since you have little to no inventory, your practice would have to meet the "acid test" ratio.

$$\text{Acid Test Ratio} = \text{cash, receivables, supplies/current liabilities}$$

- **Approach 2** – measures the ability of a firm to convert accounts receivable into cash on a timely basis. It is measured in two ways:

How long does it take on average to collect receivables? This ratio is the Average Collection Period = accounts receivable / average daily sales. In this case, the lower the number, the shorter the collection period, the better.

How many times are accounts receivable “rolled over” during a year? Accounts Receivable Turnover = yearly sales/accounts receivable. In this case, the greater the number, the more turnover, the better.

Profit Margin is calculated by dividing sales by net income, and is usually expressed as a percent of sales. If gross sales are \$250,000 and expenses are \$200,000, then net income is \$50,000. Net income divided by sales would be 20 percent.

Debt Ratio measures the amount of debt a firm has compared to its assets. It is calculated by dividing total debt by total assets. If the firm has \$200,000 in debt and \$500,000 in assets, its debt ratio is 40 percent. This means 60 percent of its assets are NOT financed by debt, but by equity (ownership). If the assets had to be sold to pay the debt, there would be a comfortable amount of money even if the assets were not sold at full price.

If a firm has most of its assets financed by debt, we say it is highly leveraged. This can be good if the debt is financed at a low interest rate, but it means the owner doesn’t have much of a stake in the business. This is why most lenders want borrowers to put 20 percent down on a loan.

Return on Investment and Return on Equity measure income compared to the firm’s assets. ROI = net income / total assets. If net income is \$50,000 and the assets are \$500,000, the return is 10 percent. Return on Equity = after-tax profit / owner’s equity. If after-tax profit is \$15,000 and owner’s equity is \$300,000, Return on Equity is 5 percent.

External Comparisons

It’s difficult to obtain accurate and timely figures for chiropractic practices; returns are usually reported only for medical offices and “other health care practitioners.” Some information is available on the Internet, but it is out of date; one source is bizstats.com, which provides information specifically on chiropractors.

Here are some industry averages for other medical and health services providers:

Net income and payroll costs as a percent of revenue:

	Net income before payroll	Payroll costs
Proprietorships	54.1%	10%
Small corporations	41.3%	30.1%
Partnerships	29.3%	20.3%

Since unincorporated businesses do not deduct salaries or wages to owners, proprietorships and partnerships report lower payroll costs than corporations. Sole proprietorships report the highest net income percentage because these are generally the smallest businesses and the owner is often the only employee.

Operations Expenses as % of Revenue for Proprietorships (Other Health Care Providers):

National Average

Advertising	1.2%
Legal/Professional Service	1.2%
Interest expense	1.2%
Office Expenses	2.2%
Pension/profit sharing plans	.2%
Rent on machinery/equipment	.7%
Rent on business property	4.8%
Repairs	.7%
Salaries/Wages	10.0%
Supplies	2.6%
Utilities	2.4%
Net income to owner	44.1%

So what does this mean? Look at your expenses compared to these averages. If yours are lower, congratulate yourself. If they are much higher, take a close look. Maybe you're spending too much on advertising, for example. You might want to ask other chiropractors what they spend on advertising, supplies, and utilities to determine if you could reduce these.

For chiropractic practices operating as sole proprietorships, as a percent of Sales (from bizstats.com):

Net income	39.0%
Cost of labor	28.7%
Net Income before payroll	51.9%

For chiropractors operating as corporations:

Debt/equity ratio	2.05
Sales to assets	3.87
Net income as % of equity	88.7

In conclusion, benchmarking is an ongoing process which you should set up and review periodically, with your accountant and on your own. Make it a part of your business planning.

CHAPTER 23. CUSTOMER AWARENESS AND MARKET ANALYSIS

If we want to know what a business is we must start with its purpose ... There is only one valid definition of business purpose: to create a customer. What a business thinks it produces is not of first importance--especially not to the future of the business or to its success. What the customer thinks he is buying, what he considers "value" is decisive--it determines what a business is, what it produces, and whether it will prosper. --Peter Drucker (1954)

Anything that won't sell, I don't want to invent. – Thomas Edison

It sounds very obvious, but the obvious is also true. **No customers: no business.** It is not what you think you're selling that's important; it's what your customers think they are buying that is important. To begin our discussion of marketing we must look the people who will be buying your service-- who they are, what they see, what they want. Remember, perception is truth in the eyes of the customer.

We need to begin by distinguishing between customers and consumers. The *consumer* is a general concept, describing one who utilizes economic goods. Consumers are categorized generally for the purposes of marketing. For example, Baby Boomers and Generation X'ers are categories of consumers. The *customer*, on the other hand, is a specific individual who may purchase your product or service. We will be looking first at general characteristics of consumers, then at the buying behavior of customers.

NOTE: Although you may be used to thinking of people coming into your practice as "patients," or "clients," or "members," the term "customers" is used in this section because they are NOT patients UNTIL they enter your practice. Thinking of them as "customers" will help you develop a marketing viewpoint.

Through many years of psychological studies, marketing and management experts have developed sophisticated patterns and models of consumer behavior. We need to look at some of these models to understand our potential chiropractic customers.

Here's what we know about consumers:

1. Why do consumers buy?

To fill biological needs	To satisfy sensibilities
To gain security	To lessen anxiety
To get status	To save time
To gain recognition	To imitate others
For profit	For convenience
For comfort	To save money
To gain an advantage	For self-expression
To gain knowledge... and on and on.	

2. **Why do consumers NOT buy?** In most cases, the customer believes that the perceived risk is greater than the perceived benefit. Some of the most common perceived risks:

- | | |
|------------------|--|
| 1. Functional | "It won't work" |
| 2. Physical | "It will be harmful" "It will hurt" |
| 3. Financial | "It isn't worth the cost" "It will take too much time" |
| 4. Social | "I wouldn't want my friends to laugh at me." |
| 5. Psychological | "I am scared" |

3. **What is the internal decision-making process that consumers engage in?** Marketing analysts have determined that consumers go through a six-step decision process. Sometimes all six steps are used in making the decision; at other times, steps are bypassed or considered only slightly. At each step a decision is made whether to continue or stop the decision process.

Step One: Stimulus. A stimulus is a cue or a drive meant to motivate a person to act. Some of the most common cues are:

- | | |
|------------------|---|
| 1. Social | an interpersonal source not affiliated with the seller (a friend or relative) |
| 2. Noncommercial | a message not from the seller (a government report, a magazine article) |
| 3. Commercial | a message from the seller (TV or radio ad) |
| 4. Physical | cold, hunger, pain |

Consumers usually find physical and social cues to be the most credible or believable sources, followed by noncommercial sources. Consumers are least likely to believe a commercial source, although advertisers continue to bombard consumers with ads.

Step Two: Problem Awareness. The person, as a result of the stimulus, decides he has a problem. "I was in an accident and my neck hurts. I saw a TV ad that said a chiropractor could make me feel better." or "I didn't realize a chiropractor could fix that problem until Sue said Dr. Jones' treatment worked for her." Notice that, if the person doesn't see a problem, or denies the problem exists, he doesn't continue with the decision steps.

Step Three: Information Search. The consumer will begin to seek information about how his problem might be solved. Can a chiropractor help? How many chiropractors are there in Davenport? How do I know which one is good? People seek information from the same sources as served as the cues in step one: friends and relatives, Yellow Pages advertisements, Better Business Bureau, and others. The search may be very formal, as in the purchase of a home or car, or relatively informal (talking to people). During this process the characteristics of each alternative are gathered, leading to

Step Four: Evaluation of Alternatives. During the search process, the consumer is beginning to evaluate, weed out, discriminate between features of different alternatives. That doctor is good, but too expensive; the other one is too far away; a third I heard was not good with children. Notice that

FEATURES are evaluated against performance standards, and a ranking process (formal or informal) occurs. If no satisfactory choice emerges, the consumer may abandon the process at this point.

Step Five: The Purchase. Finally, the consumer decides to exchange money for the service or product. The purchase decision may contain several elements: (1) place, (2) terms of payment, and (3) availability. Even at this point, if one of these elements is not satisfactory, the consumer may make a decision not to buy. If the price is too high or the product is not available or too far away, the purchase decision could be "no."

Step Six: Post Purchase Behavior. Even after the purchase, the consumer is continuing the decision process, by re-evaluating his purchase. Did I make the right choice? Should I have bought the other one? "Buyer remorse" is a term often used for the negative feelings of consumers who purchase a product or service and then are sorry. "Why did I buy that one? It broke two days out of the box." or "I don't know if I want to go back to that office; they weren't very friendly."

Decision Process Types

The complexity of the decision process depends on several factors: risk, amount of money involved, complexity of decision, amount of experience in previous similar decisions. Three types of decision processes have been identified:

Extended. This process involves all six steps and considerable time is spent on each; it is used for purchases of high risk, high complexity, a large amount of money, little experience (or a combination of these factors). Extended decision process is used in the purchase of homes and cars and in the decision to "purchase" an education.

Limited. This process uses each step, but not much time is spent on each. In these cases, there is some past experience, moderate risk, an emphasis on evaluation of a list of known alternatives. This "shopping" process is used in purchasing clothing, gifts, home furnishings and appliances.

Routine. In this process, the consumer buys out of habit, skipping or minimizing steps. It is used for regular purchases, with little or no risk, small amounts of money. Grocery shopping, haircuts, and other frequent purchases are routine purchases. The key here is problem awareness and brand loyalty is usually involved.

How do you apply this decision process to the purchase of chiropractic services?

- In the Stimulus and Problem Awareness steps, notice the importance of good references and good advertising. Many new patients come from referrals.
- In the purchase step, note that terms of payment and availability, if strongly negative, can stop the purchase (or limit repeat purchases).
- You and your staff have a great influence on the post-purchase behavior of a consumer.

Great ads may get him in the door once, but SERVICE (minimizing buyer remorse) is what will keep him coming back.

- For a new consumer of chiropractic, this is an extended decision, full of risks, and limited knowledge of the subject. Your job is to turn the purchase of chiropractic into a routine purchase, stimulating "brand loyalty," so that problem awareness immediately triggers purchase "My knee hurts again; I need to go to Dr. Smith."

Brand Yourself

Another way to look at this Service vs. Product problem is to consider chiropractic as a "commodity" vs. a "brand." A commodity is an item that is indistinguishable from others of its kind; corn flakes are corn flakes, for example, and buttermilk is buttermilk. You want people to consider your service as a "brand" (i.e., unique and special), not just a commodity (vanilla chiropractic). So you must "brand" yourself, set yourself apart from the others in some way.

Remember, it's your CUSTOMER'S perception of you as a brand, not YOUR perception. Don't make the mistake of figuring that because YOU think you're different (because of your technique, for example), that your customers will know the difference. If they are unsophisticated about chiropractic, they WON'T know the difference; YOU will have to TELL THEM HOW you are different. This is where your USP (unique selling proposition) comes into the picture; we'll talk about this concept more in the next chapter.

Since referrals are probably the most common sources of new patients, a few words might be said about the importance of word of mouth. It is most important when:

- The product is visible and behavior is apparent
- The product is distinctive from the competition
- The product has just been introduced (Have you been to the new chiropractor yet?)
- The product is important to the group's norms and belief systems (especially with loyal chiropractic patients!)
- Consumers see the purchase as risky, and seek additional information.

All of these sound like they could be referring specifically to decisions regarding chiropractic services! Here is some additional information on consumer behavior that you should consider. Consumers are most likely to be involved with, identify with a product when:

- It is important to them, like their health or self-image
- It is continually of interest (fashionable, "in")
- It entails significant risks (perceived risks, as above)
- It has emotional appeal (you create an emotional attachment to the person)
- It is identified with norms of a group (Everyone goes to the chiropractor ...)

Products vs. Services

Finally, before leaving the subject of consumers, one more subject needs to be considered: the difference in "consuming" a product vs. a service. How are a product and a service different?

- A product is tangible; it can be touched, felt, smelled, seen. A service is intangible; it cannot be physically possessed. Its value is only based on EXPERIENCE.
- Many products are not perishable; they last for a period of time; services are "perishable", even more so than milk. They cannot deal with unused capacity or be stored up until needed. You can hide tuna cans under the bed in case of nuclear attack, but you can't get six adjustments before leaving town for six weeks.
- The product may be separated from its provider; a service cannot. The chiropractor is the product.
- Products can be standardized, tested so that they don't vary over time (a can of tuna is a can of tuna); services are variable. They are difficult to standardize, since they are provided by people, who are not the same each and every day. Services must be provided by persons of greatly varying skills, and even the skills of one provider may vary (ever had a bad day?).

You may think you're selling a SERVICE, but your customers think they are buying a PRODUCT.

Some suggestions:

- Like the insurance companies, attach your service to a symbol to give it tangibility. Insurance is an intangible, but the insurance companies have managed to give it substance: Prudential Life Insurance's "the rock"; Traveler's "the umbrella"; Allstate's "good hands."
- You can make your service more imperishable by providing more times when it is available.
- Take advantage of the fact that consumers identify you with chiropractic. Promote your image as the "guru" of chiropractic wisdom.
- Work to standardize your operations as much as possible. Everything in your office should be the same every day. If you, or your staff, are having a bad day, don't bring it to the office.

Consumers like products, for the reasons mentioned above; they are difficult to satisfy and can change their minds at a whim. Your goal is to minimize opportunities for consumer dissatisfaction. *The importance of careful and consistent attention to customers cannot be overstated.*

I'd like to conclude this section with two comments:

1. ***THINK LIKE A CUSTOMER.*** Read Bill Esteb and consider the patient's point of view. This is the best way to get and keep patients.
2. ***EVERYTHING you do in your practice is MARKETING.*** EVERYTHING contributes to getting and keeping patients (or to LOSING patients!), from the dress of your employees, to the way they answer the phone, to the magazines in your reception area, and on and on and on. If you remember these two points, you'll have many customers (patients) for many years!

MARKETING IS EVERYTHING YOU DO TO GET AND KEEP PATIENTS!

CHAPTER 24. MARKET ANALYSIS

What is Marketing? It is "human activity directed at satisfying human needs and wants through the exchange process" Marketing includes:

Anticipation	research
Stimulation	arouse consumer wants through persuasion
Facilitation	make it easy to purchase
Regulation	spread demand for your service throughout the year
Satisfaction	performance; quality service

The purpose of marketing is to create customers

In order to really understand the concept of market analysis, begin by analyzing your service. What are you selling? Yes, you're a chiropractor, but *what are you REALLY selling?* Are you selling pain-free living? Good health? What is it? Charles Revson, founder of Revlon, said he wasn't selling perfume, he was selling "hope." Consider this question carefully; it begins this process of focus.

Consider the analogy of the focus button on an overhead projector or camera. The focus keeps shifting until the best, clearest, picture comes into view. It may take a while for you to see the clear picture, but keep working at it; it's worth the effort. The clearer your picture of your business, its services and patients, the better your marketing plan, and all the other elements of your business plan, will be.

Once you've decided what you are really selling, the next question is: *To whom are you selling?* Close your eyes: what kind of people do you see sitting in your reception area? What do they look like? Are they young, old? With children/without? What are they wearing? Blue jeans? Suits? Dresses? The more clearly you can picture these patients, the more closely you can define your customer base, the better will be your market projections.

The Concept of Target Market

Your target market (the people you want to sell to) must be:

- Definable, with specific characteristics. What do these people have in common?
- Meaningful. How do these characteristics relate to the decision to purchase? For example, if you have identified your market as having many senior citizens, how does this relate to their choice of chiropractic care?
- Sizable. Large enough to profitably sustain your business. This relates to the competition and the view of chiropractic among this population.
- Reachable. It should have a definite size and lead to affordable and effective ways to market to this group.

You can look at these people, these potential consumers of chiropractic, in three ways:

- ***Demographically:*** Demographics are statistics about people; we've examined this aspect in previous chapters. Demographic information about a group of people includes information about

age, gender, occupation, marital status, education, location, housing, income, and expenditures. From the mental picture you've created of your reception area, what kind of statistics do you need about the people in the area where you want to locate your practice?

- **Psychologically:** Psychological information about groups includes information such as:
 - What are their attitudes about chiropractic?
 - How much of a risk do they perceive in your service?
 - How important is the purchase to them?
 - How willing are they to take risks, do something new?
 - How willingly do they follow opinion leaders?
 - Who are these opinion leaders?
- **Socially:** Sociological and lifestyle information about groups includes such information as:
 - What social class do they belong to?
 - Where are most of these people in the family life cycle?
 - What is their cultural background
 - What socioeconomic level are they at?

The more you think about these questions, the better your focus will become. All of these factors affect the decision to seek chiropractic care, and you will want to look carefully at this group, as you've tried to picture them, and consider all these factors before you can make estimates about their buying habits.

In a previous chapter, you gathered information on your target market (within your Circle of Practice) and your competition. Now it's time to refine this process of marketing analysis.

Once you have data on population and competition, you're ready to begin some calculations. Let's say you've determined that there are 25,000 people in the area you'll be serving. There are two other chiropractors, an osteopath, and a hospital with an orthopedic group. Of those 25,000 people, you might decide that 15,000 will never go to a chiropractor. Of the other 10,000, the other two chiropractors and the osteopath, you estimate, have about 8,000 as patients (don't worry; there are still plenty left). And don't forget, some are going to change to your office when they find out how great you are!

So that leaves you about 2,000 potential patients. But you may not want all 2,000; you're going to be picky. Remember the reception room we described above? Of those 2,000, maybe only half - 1,000 - fit the description of your "perfect" patient. These 1,000 are your target market segment.

Now you can begin to work on your marketing plan to bring these people in to your practice.

**Who is your market? They are:
Potential customers with purchasing power and with unsatisfied needs.**

The goal of your marketing plan is to come to a definite figure: The SALES FORECAST. The sales forecast is a prediction of the amount of a product or service that will be purchased by the market for a defined period of time (in \$\$ or units). For example, your sales forecast might be \$35,000 in sales for the next six months. It should be as specific as possible, so you might want to break down that \$35,000 into a month-by-month figure.

Income Projections Calculations

You can use your sales forecast to create a more detailed estimate of your anticipated income, using the Income Projection spreadsheet in the Interrelated Spreadsheets. The first portion of this spreadsheet is included below so we can see how this process works:

PATIENT VISITS

Types of Office Visits (OV)

Estimated New Patients Each Month:

	<u>Visits/Mo/Patient</u>	<u>Month 1</u>	<u>Month 2</u>
Estimated New Patients Each Month:		8	15
Estab. Patient OV month 1	10	80	48
Estab. Patient OV month 2	6		198
Estab. Patient OV month 3	3		
Estab. Patient OV month 4	3		
Estab. Patient OV month 5	1		
Estab. Patient OV month 6	1		
Estab. Patient OV month 7	1		
Estab. Patient OV month 8	1		
Estab. Patient OV month 9	1		
Estab. Patient OV month 10	1		
Estab. Patient OV month 11	1		
Estab. Patient OV month 12	1		
Total Office Visits per Month		88	213
First Month Pt. Retention (85%)		68	127.5
Retention Of Estab. Pts. (85%)		68	168.3

PATIENT BILLING

New Patients

	<u>Fee Amt.</u>		
New Patient Detailed Exam	85 \$	680.00 \$	1,275.00
X-Ray Full Spine (80%)	180 \$	1,152.00 \$	2,160.00
New Patient Therapy (30%)	25 \$	60.00 \$	112.50
Total New Patient Billing		\$ 1,892.00	\$ 3,547.50

Established Patients

Established Patient Adjustment	40 \$	2,720.00 \$	6,732.00
Estab. Patient Therapy First Month (30%)	25 \$	510.00 \$	956.25
Focused Exam After Month 1	30 \$	- \$	204.00
Focused Exam After Month 4	30 \$	- \$	-
Total Billing For Established Pts.		\$ 3,230.00	\$ 7,892.25

Total Billing For All Services \$ 5,122.00 \$ 11,439.75

In this spreadsheet, you can include your estimates of numbers of new patients each month to obtain a total billing figure for your Cash Flow worksheet. Here's how it works:

- For each month, put your estimate of the number of new patients who will enter your practice. In this worksheet, the assumption is that the first visit is a New Patient Visit; thereafter, all visits are Established Patient visits.
- In the column titled "Visits/Mo/Pt" enter the number of times you expect to see a new patient each month, from Month 1 through Month 12. This estimate is based on your protocols; it certainly will vary by patient and condition, but it's included here just as an estimate.
- In the column titled "Fee Amt" enter the fees you will charge for the New Patient visit and for Established Patient visits.
- Once you've completed with your data, you should be able to see the result of your calculations on the "bottom line" (Total Billing for All Services) for each month. You may want to enter this amount in the Cash Flow Worksheet in the "Fees Charged" row.

Remember, these are just estimates and their primary value is to give you a broad idea of how much to expect in billings each month, depending upon the number of patients you will be seeing. You might want to save several copies of this spreadsheet and label them "Best Case" "Worst Case" and "Expected Case," using different numbers for New Patients in each, just to see how you might do in several scenarios.

CHAPTER 25. PROMOTION AND SELLING

To give real service you must add something which cannot be bought or measured with money, and that is sincerity and integrity. – Donald A. Adams

Since promotion is the most complex of the four elements of marketing, it will be considered in detail in this chapter. Promotion is defined as the "encouragement of the progress, growth, or acceptance of something."

The Promotion Mix

The Promotion "MIX" includes

- Advertising paid promotion, on TV or radio, in newspapers
- Public relations unpaid promotion, sometimes called "publicity" or "PR"
- Personal selling external marketing, lay lectures, door-to-door selling
- Specialty items everything from pens and t-shirts to brochures and business cards

Promotion is important, because it enables your firm to:

- Establish its image
- Create awareness of your services
- Justify your price
- Keep your service in people's minds
- Generate enthusiasm for your service
- Place your firm in a favorable light in relation to competitors
- Communicate special features (your USP)
- Answer consumer questions
- Provide "after-service" to encourage patients to return

Promotion Myths

Three myths of promotion:

1. **You can rely on "word of mouth."** Maybe, but be aware that studies have shown that happy customers tell, on average, 7 other people; unhappy customers tell 12-20 others! And word of mouth works best after you've established a solid patient base. Word of mouth is not a very fast way to gather in new patients when you're just beginning in practice.
2. **Only very creative clever advertising works.** Advertising can be very clever and creative and still not achieve the desired affect. The world's largest advertising agencies are always working on clever, creative ad campaigns and many of them don't work! The problem is this: ***Advertising gurus believe that about 50 percent of advertising works; they just aren't sure WHICH 50 percent!*** It is better that your advertising campaign be ON TARGET with your goals than that it be clever and creative.

3. *You can save money by doing it on your own.* You aren't an advertising expert; you can spend a lot of money doing it wrong on your own. Ineffective advertising is expensive; ads that work are worth the initial cost.

David Ogilvy, founder of Ogilvy and Mather ad agency, wrote that of all the things his advertising agency had learned, the most important was positioning. Positioning is a marketing method in which you determine what market niche your business should fill, and how you should promote your services. The niche concept is basically the marketing concept of your USP.

You begin with the USP; then you determine what niche you will fill. A market niche is much like a target market except that it describes how you would reach that market. If your target market is athletes in your area, your niche is "We're the best sports chiropractor".

Targeting Promotion Efforts

Target promotions to target markets, by use of your marketing effort. Then, set up an "image" to clarify who you are and make all of your promotion efforts consistent. The best advertisers use image advertising to great effect. Find a catchy logo and distinctive style of lettering and a short phrase that defines who you are, and put it on EVERYTHING. If you don't think logos and images work, think of Coke; think of Nike... the list could go on and on. **IMAGE ADVERTISING WORKS!**

Consider your target market in relation to the "Promotion Pyramid":

Acts
Convinced
Comprehends
Aware of your company
Unaware of your company

Since you know who your prospects are, you can determine where they are on the Promotional Pyramid. Then you can move them along step by step. If they don't know who you are, you can make them aware. Then you can bring them to an understanding of your service, then convince them, so they will act. The point is that you can't jump in and convince someone to act if the person has no knowledge or comprehension of your service. Especially with chiropractic, all these steps are necessary for the new patient who has never had chiropractic care before. Work with your advertising agency to determine the best methods of promotion, based on this pyramid.

Promotion is Time + Money.

Time: You must set aside time for short- and long-term promotion planning, discussion and evaluation of promotional activities, implementation and scheduling, development of materials, and personal follow up. **Money:** Money must be set aside for all four elements and specific campaigns incorporating all four.

Advertising

Advertising is paid promotion, to specific markets, over specific periods of time. The benefits of advertising include:

- Ability to attract a large and geographically dispersed market (the "shotgun" approach)
- Availability of a large number of media (types of advertising)
- Owner control over what is presented
- Prepares the public for personal selling and supplements publicity
- Advantageous placement, in conjunction with editorial content
- The costs and drawbacks to advertising include:
- It is hard to adapt standardized messages to consumer differences (sometimes you don't need a shotgun; you need a rifle)
- Some media are very costly
- There may be a high percentage of waste (many people who would not use your service are reached by ads)
- Your time may be limited, limiting the amount of information you can present
- Feedback is difficult (you're not going to know audience response in many cases).

Advertising, then, is great if you can use the right form for the right audience. Let's analyze the varieties of advertising media you can use, including their relative cost, waste, and benefits. Be aware that cost alone is not as important as cost per person reached, which includes the concept of waste. For example, a direct advertising mailing, even though it is very expensive, can reach your target market more specifically than a Yellow Pages ad, which is more expensive. Waste must be factored in when considering the cost of advertising; the more selective the medium, the less waste.

Yellow Pages ads are your first line of advertising. You may not get a large number of callers, but you will get one now and then. Yellow Pages companies will attempt to sell you the biggest and splashiest ad; try to resist. Check the ads for your competitors and decide what will be most effective for you; remember, you'll have to pay for it every month for a year, so don't get talked into the biggest ad!

Radio is one of the most focused types of advertising. Much information is available on demographics of listeners (what kind of people listen to what station), and most stations will work with you to design, record, and place an ad. Radio is fairly expensive but, if chosen carefully, yields less waste than television. You may have to advertise on several stations, though, to reach the audience you want.

Television is the most expensive medium and has the most waste (it broadcasts to thousands of people who are far from your office). If your city has a television station, you might benefit from TV ads. If your practice is in a small town which is part of a large TV market, you probably will not benefit from TV.

Newspapers can be effective in drawing in new customers. A regular ad in the paper (which section?) can keep your name in the public's mind. You may be able to choose from several newspapers in your area; try to choose the one with limited range and closest to your office. No sense advertising to people two cities away. Check with your local newspaper to see if it has any upcoming special sections (like one on health care).

"Shoppers" are the weekly papers that are delivered free to people in certain areas. As with subscription newspapers, they may be an effective and regular source of patients.

Specialized phone directories, like the ones for Christian businesses or ones put out by the Chamber of Commerce, may also be a good source of new patients. Check around to see if there are any of these in your area.

Specialized newspapers or newsletters, such as the high school or college newspaper or the newsletter of a local civic or non-profit organization, might be a worthwhile advertising vehicle, if you want to target that market.

Billboards can be effective, because they target people in a specific geographic area and can support other advertising media. Just be sure the billboard is tasteful and not tacky; lots of people will be driving by it on a regular basis for several months.

Magazines, unless they are local interest publications, are not effective for local advertising. They are too expensive, have a long lead time, and have far too much waste.

Direct mail advertising is expensive, but it is the most efficient method for gathering in new patients. You can obtain lists by zip code and other specific demographic data, like income, and then send directed letters or brochures.

Telemarketing. Before you groan, ask yourself this question: Why do so many companies use telemarketing? Answer: It works! I have talked with several chiropractors who say that a tasteful, well-planned telemarketing effort is their key marketing strategy.

NOTE: Telemarketing is considered by some legal authorities to be solicitation and, as such, is illegal. Check your state chiropractic board for its opinion on the legality of telemarketing.

Other types of direct mail advertising you might want to consider:

- Newsletters to current patients
- "Special customer" offers
- Coupons or bill stuffers

To review, here are some of the advantages and disadvantages of advertising media:

Medium	+	-	Waste factor
Daily Newspapers	Wide circulation; quick access	Nonselective audience	Moderate
Direct mail	Market selectivity	High cost per exposure	Low
Radio	Market selectivity; quick access	No visual appeal	Moderate
Television	Dramatic impact; appeal to senses	High cost; nonselective audience	Very high
Outdoor	Market selectivity (geographically)	Limited message	Moderate
Yellow Pages	Wide circulation; responds to consumer need; business necessity	Limited number of responses; nonselective audience	High

Public Relations or Publicity

PR, as it is sometimes called, is unpaid advertising. It is very useful but in a limited number of situations, and you cannot control it in the same manner as advertising. In order to publicize your firm, you have to have something noteworthy happening that the newspapers, radio, or television can treat as "news". Your grand opening would certainly qualify as a newsworthy event, as would your first anniversary or the addition of a new doctor to your firm. But you cannot "go to the well" too often.

The other disadvantage to publicity is that you cannot control its usage. You might send out a press release on your grand opening to all the newspapers, radio and TV stations in your area, but they choose whether or not to run your release and timing and placement of the release.

Other forms of publicity can also be effective: If you like public speaking, you could go on TV or radio talk shows to promote chiropractic in general (and your office, in particular), and giving seminars on chiropractic-related subjects can also be considered publicity. You can publicize these chiropractic seminars in the community bulletin board section of the newspaper or radio/TV station.

If you are a joiner, use membership in such organizations as Rotary or Kiwanis or the local chamber of commerce as a way of gaining publicity for your firm. One caveat here: Be careful that you don't join too many organizations and spend too much time on their activities. You do still need to see patients to make your practice successful.

Specialty Items

Specialty advertising includes the brochures you produce and all the items that identify your practice that you might use to promote your firm, such as "subluxated pens," matchbooks, key chains, calendars, and date books. It also includes discounts, such as those for referrals and "buy ten get one free". Be careful with these; you don't want to cheapen your service by implying that your service is not that valuable. It's ok with bagels but might not work with chiropractic! Flyers, posters, and handouts also are sales promotion items.

Putting together some posters or a booth to use for health fairs, county fairs, and other exhibits is another form of sales promotion. Be sure it looks professional, and include brochures, some models, other visuals to attract people to your booth and keep them interested when they get there.

Personal Selling

This is your direct effort to influence the buying decision. As a new chiropractor you may need to do a certain amount of this. Some doctors enjoy it; others do not, but most chiropractors find that at least a minimum amount is necessary. Personal selling includes door-to-door, mall screenings, public speaking.

Personal selling and techniques of persuasion will be discussed in the next chapter.

Cooperative Advertising

Something we haven't discussed is cooperative advertising or publicity. You may be in an area with other businesses that has its own regular advertising that you can join in on. You also may share publicity efforts with other local merchants or other chiropractors for more effective and less expensive advertising and publicity.

Promotion Planning and Budgeting

As you have read through the list above, you've probably been thinking, "I'd like to do that," or "I probably won't try that." You should begin to list the promotion activities from each of these areas that you want to include in the overall promotion plan. Consider (a) your mission statement and USP and (b) your target market and sales projections. Narrow down the list to those that fit in with these requirements.

Most advertising agencies will strongly suggest you find a theme, probably based on your mission and USP, as the "hook" on which to hang all these efforts. It might be a statement or slogan or a visually appealing picture or just a graphic representation with a few words that conveys what you want to express in all your promotion efforts. This is usually the most difficult part; once you've found the "hook," everything seems to fall into place.

The other piece of this puzzle is your promotions budget. How do you determine how much to spend on advertising and promotions?

Three techniques, in combination, are used by companies to set budgets for advertising and promotions:

- Percentage of sales; this is simply taking your projected sales and figuring what percent you want to spend on advertising. It is not very flexible but does provide a baseline for your calculations. Don't forget that advertising comes before, during, and after sales.
- A flat dollar amount. based on "how much can we afford" is the technique used by most small businesses, but doesn't leave you any flexibility. You may need to spend more initially, pulling dollars from other accounts, to get your sales started. Later you may be able to cut back as word of mouth kicks in.
- A flexible amount, somewhere in between the percentage of sales and the amount you think you can afford, is probably going to be most effective, but be prepared to increase it if you decide on a special promotion effort or project.

After you've determined the promotions you wish to undertake, you should prioritize them and obtain costs and begin to look at them in conjunction with your budget. At this point, you'll need to begin talking with individual media, or through your advertising agency. Working with an ad agency is not as expensive as you might think, and it may yield you a better return on your time and money than running around trying to do everything yourself.

Using an Advertising Agency

An advertising agency can:

- Prepare a professional-looking unified image
- Save you time looking for the right media to contact
- Give you better rates because of its contacts with local media
- Direct your efforts to those that will be most effective immediately

As you're selecting media, consider

- Cost
- Reach (how wide an area; how many people in this area)
- Frequency (how many times will the ad run; what is the most effective number)
- Message permanence (how long will it stay in reader's minds)
- Lead time (how long will it take to reach viewers)

You can begin creating the ads you wish to use; the media themselves can be very helpful in this area. Decide on the timing of the ads, place the ads, and wait for results.

Promotion Audit

You must know where new business is coming from; otherwise, you have wasted your promotion dollars. Your advertising and promotions budget will be less efficient if you fail to evaluate the results before, during, and after your promotions efforts. To acquire this information, establish a promotion audit as one of the key procedures in your practice.

You can do a Promotion Audit most simply by asking each new patient where he or she heard of your business. A good idea is to put this on the new patient information form. If patients come from referrals, be sure to send a thank you to the person who referred.

To prepare your promotion plan:

1. Set your objectives, including your sales goals
2. Set your budget
3. Develop a theme, based on your USP
4. Select the media you want to use
5. Create your ads and publicity releases; order sales promotion materials
6. Time the appearance of ads
7. Consider cooperative efforts with others
8. Evaluate success/failure, using the Promotion Audit
9. Implement revised plan

You might want to include a paragraph in your Business Plan describing how you will prepare your Promotion Plan and Promotion Audit, as part of your Marketing Plan section.

Setting Price

Since pricing is a marketing component we will discuss it here in the Marketing section.

How do you decide what price to set? The determination of price is both more complicated and more simple than you might think. It's more complicated because there are many factors that go into the pricing decision; it is more simple because your price may be set for you by external market forces.

Price is a seller's measure of what he or she is willing to receive in exchange for transferring ownership of a product or service. It represents the perceived* value of a product or service to both the seller and buyer.

It has been said that PRICE = image + service + product + overhead + profit + risk.

Some of the factors in the pricing decision are

- perceived value (image) - if your customers feel the value of your service is high, they will be willing to pay more (why buy a Rolex when you can buy a Timex?)
- price sensitivity - if there is a lot of price competition, your prices may be sensitive; (i.e., you may not be able to raise prices if others are charging less)

- differentiation - the more unique your service is seen to be, the more freedom you have in raising prices; if you are just like all the others, you won't be able to price any more than they. Here's where the USP comes in, and I believe this is a MAJOR FACTOR in helping you determine price for your services.
- location - another factor which can affect your ability to change prices
- attitude about price within target market - if the market feels "those darn chiropractors charge too much" you probably won't be able to change your price
- cost/profit - this is the least effective way to set prices; you want to be able to make a profit, but you should not set your price based solely on an expected profit percentage; it may put you out of the market..

Lack of courage in pricing is the biggest fault of small business owners.

This statement is emphasize because it is essential that you keep this in mind when considering setting prices, both in the beginning of your practice and as you go along. If you have a great service and people are satisfied with it and your patient base is expanding, you should not hesitate to raise prices if you feel it's necessary.

Other pricing considerations:

- Should you give discounts to cash-paying patients (NOT those with insurance, though!)
- When should you change prices? Should you watch the competition and change with them?
- What affect will price increases have on your sales?

By the way, there are two ways to raise prices:

1. Gradually, little by little, so that, you hope, no one will notice. This isn't very effective, first because people will notice and complain that "Dr. Smith is always raising prices," and second, because it doesn't keep you ahead of the game.
2. Seldom but substantially. At first glance, this might seem to be a negative and might turn people away. If they are satisfied, it will not. And if you present the price increase in the best light possible, including with it some mention of the benefits of your practice, and your concern with raising your prices only when necessary, it should not have to be a negative.

CHAPTER 26. SELLING

"He liked to like people, therefore people liked him." -Mark Twain

Most professionals don't see themselves as salespeople. They feel uncomfortable with the idea that they should have to "sell" someone on the concept of chiropractic. But your personal approach to chiropractic can be one of the most valuable pieces of your promotional campaign.

In this chapter we will discuss three different sales situations:

1. The personal, direct conversation,
2. The group presentation,
3. General sales strategies, as they affect your promotion plan.

Personal Sales

Let's discuss personal sales and approaches to take to maximize your sales efforts in dealing with someone who is new to chiropractic and who is not sure he or she really wants care.

Selling is the attempt to influence a purchase or persuade someone to buy a product or service. So selling is persuading. The essence of persuasion is overcoming initial resistance. If there was no resistance, no persuasion would be necessary. So how is this resistance overcome? Some of the most common ways to persuade people are:

1. ***Through facts and figures, logic, statistics.*** For example, people might be persuaded to get chiropractic care if you showed them the success rate of chiropractic over surgery for a certain type of problem. Unfortunately, the chiropractic profession has few "proofs" to recommend it. In another example, if you were trying to persuade someone to quit smoking, you might show them statistics on the higher rates of cancers and pulmonary problems incurred by smokers.
2. ***Through appeals to emotions.*** For example, in the smoking example, a smoker might respond better to stories about the terrible consequences of smoking on the person's health, on family and friends. Even scaring them by warning of death is an emotional appeal.
3. ***Through considerations of internal and external benefits.*** Benefits come in two varieties: intrinsic and extrinsic. Intrinsic benefits are those that are internal, that come from the thing itself. Extrinsic benefits are external, and come from outside, are added on. The internal benefit from chiropractic care is wellness, or a reduction in health care costs; an external benefit might be a coupon for a free adjustment. In the smoking example, the intrinsic benefit would be decreased coughing and increased breathing capacity; extrinsic benefits might be some kind of monetary incentive.

Intrinsic benefits usually work better than extrinsic ones, in the long term. The smoker may be able to quit for a short time to win a bet, but this effect will probably not last. This is why dieters

also backslide; they have used an extrinsic benefit and haven't worked on the intrinsic benefit.

In most cases, it takes a combination of these factors to persuade someone. This should give you insight into planning your one-on-one patient presentations. You also should listen to the person's comments as you are talking, to gauge which direction to take.

Sales Presentations

You might be asked to prepare a presentation for a group or a seminar, you may want to deliver a health care class, or you might need to persuade a potential patient to get treatment. It's a good idea to prepare and practice a sales presentation.

Consider this format:

1. Begin with a general description of chiropractic - don't make it too technical; don't discuss "innate" in the beginning; use terms like "vertebral subluxation" only after you define them and give examples.
2. Compare chiropractic to allopathic medicine, chiropractors to MD's, including the benefits of chiropractic.
3. Relate case histories; discuss successes you or others have had with care (make it specific to the type of patient, if you're talking one-on-one with someone).
4. Some people are persuaded by facts; if you can give statistics or supported evidence you stand a better chance with this type of person.
5. Ask the person what he or she expects to gain from the treatment--you may be surprised by the result, and it will give you further information about the person's expectations.
6. Admit and counterbalance. In a debate, one of the best techniques is to "anticipate the counter"--discuss the most damaging objections and deal with them in the best way you can. If you don't discuss the objections, the listener will continue to think about them and use them against your positive arguments.
7. Make the objection boomerang, by converting it into a reason for buying.
8. Use the "yes, but" technique: "Yes, you have a point, but in your particular circumstance, other points are involved too."
9. Finally, and most important, do what the successful sales people do: Ask for the sale. All of your efforts will have been wasted if you don't directly ask the person to become a patient. Ask as if the positive answer were already assumed: "So, which day is better for beginning treatment--Thursday or Friday?"

CHAPTER 27. EMPLOYMENT STRATEGIES – LEGAL BACKGROUND

In the next two chapters, you'll learn more about the major areas involved in the employment situation. Many new D.C.s may say "I can't afford an employee and don't need one right away; I can do it myself." But imagine being alone in your office, adjusting patients while answering the phone with a headset, working late at night to pay the bills and send out collection notices, coming home to a spouse and children who are upset and unhappy. The best advice to consider is this:

IF you can find a good employee who has a knowledge of chiropractic, good "people" skills, and the ability to manage an office, this person can SAVE you money rather than costing you money.

Basic Principles of Employment

Before we begin, we need to discuss the legal background of employment. By definition, the term "employ" includes "to suffer or permit to work." The employment relationship is based on two very old relationships. The first is a common law relationship of master and servant, which includes the principle of "*respondet superior*" ("let the master answer") – the master is answerable for the actions of the servant. The second is the legal relationship of principal and agent, in which one person or party (the principal) engages another (the agent) to act for him—to do his work, sell his goods, manage his business. Commission agents, commercial agents, brokers, and sales representatives are types of agents.

The employment relationship is a specific type of principal-agent relationship, different from other principal-agent relationships in that the scope of the employment relationship is much more circumscribed; the employee's duties are specified, and the employee has little opportunity for discretionary actions.

As with principals and agents, employers and employees have duties and responsibilities, which we need to discuss in some detail.

Duties of the employer:

- Compensation – the employee must be fairly compensated for his/her work
- Reimbursement – Employees must be reimbursed for reasonable expenses incurred during the performance of duties; for example, tolls, meals, automobile expenses
- Indemnity – since the employee must obey the employer's commands, the employer must take responsibility for the employee's actions during the course of his/her duties
- Safe working conditions
- Cooperation with the employee while performing his/her duties.

Duties of the employee:

- Obedience – the employee must agree to the reasonable demands of the employer
- Loyalty – the employee must have no conflict with the interests of the employer
- Reasonable skill – the employee must be able to do the work he/she purports to be able to do
- Accurate accounting – the employee must provide records of expenses incurred in the course of his/her duties
- Communication – keeping the employer informed is an important part of an employee's duties.

Employment-at-Will

The final legal concept we should discuss is that of “employment at-will.” The traditional view of employment is that it is at the will of both parties, but particularly of the employer. That is, the employer has the right to dismiss an employee at any time for any cause, or no cause.

An employment contract is not required in hiring an employee. As a matter of fact, employment at-will assumes that there is no specific contract between the employer and employee, unless it can be shown that the employer provided specific guarantees of length of employment. Be very careful in what you write or tell a prospective employee, so that you do not include any explicit or implied guarantees of employment for a specific time. For example, if you write in a job-offer letter that “you will be employed for 90 days as a probationary employee,” this implies a minimum of 90 days of employment.

While the employment-at-will concept has held up in the courts as it relates to the employee’s work performance or refusal to work, it has in recent years been replaced by the concept of “just cause.” This concept requires that an employer provide a reasonable explanation for the firing of an employee.

Just Cause

Termination is always permissible for incompetence in performance or failure to perform duties, or for excessive absenteeism and/or tardiness. Some of the conditions under which discharge of an employee is not legitimate:

- Whistle blowing
- Garnishment (for any one debt, and limits the amount of earnings which may be garnished)
- Complaining or testifying about wage/hour violations
- Engaging in union activities
- Filing worker’s compensation claims
- Filing unfair labor practice or discrimination charges
- Cooperating in the investigation of a charge
- Reporting OSHA violations.

Following is a review of the major federal laws that relate to employment, and the effective number of employees for each. ***You should learn about these laws and attempt to follow them, even if you do not now have the effective number of employees.***

Please note that most states have their own employment regulations, which you should learn about (the best place to start is the state’s web site on the Internet). (Sections in bold will be discussed in more detail later in this book.)

Law	Effect	Number of employees
Equal Pay Act - EPA	You may not discriminate in wages/salary between employees on the basis of sex	One
ERISA – Employee Retirement Income Security Act	If you have employee benefits, such as health insurance and a retirement plan, you are required to furnish employees with the details of their plans and to adhere to certain funding, vesting, and fiduciary standards	One
OSHA – Occupational Safety and Health Act	You must provide a safe workplace for employees, including fire safety, safety from blood-borne pathogens, and safety from workplace hazards. You are also required to submit to inspections.	One
Unemployment compensation	You must participate in a fund to provide continued benefits to employees who lose their jobs involuntarily	One
Workers Compensation Insurance	You are required to cover employee injuries or illnesses, and pay medical and rehabilitation services, and provide death benefits for survivors of deceased employees. Most employers pay into an insurance fund which covers these expenses; some employers self-insure	One
Employee Polygraph Protection Act of 1988	You are prohibited from using lie detector tests either for pre-employment screening or during the course of employment (except for certain types of employers, like security firms and pharmaceutical manufacturers). But you are permitted to test certain employees who are reasonably suspected of involvement in a workplace incident resulting in a loss to the employer.	One
FLSA – Fair Labor Standards Act	Often called the Wage and Hour law, this statute sets requirements for minimum wage, child labor laws, payroll record keeping, rules concerning exemptions and overtime pay	2 or more
IRCA – Immigration Reform and Control Act	You must verify identity and eligibility for employment of all employees hired; you must also keep records on employee eligibility	4 or more
ADA – Americans with Disabilities Act	You must exercise a reasonable measure of accommodation to applicants and employees with disabilities	15 or more
EEO- Equal Employment Opportunity	You must treat all applicants and employees according to their abilities, achievements, experience, and attitudes, without regard to race, color, creed, sex, age, national origin	15 or more
Pregnancy Disability Act (Part of Civil Rights Act)	You must recognize pregnancy as a disability and provide pregnant employees with the same benefits and conditions as other employees with disabilities	15 or more
Age Discrimination in Employment Act	You cannot discriminate in employment against individuals over 40 years of age	20 or more
COBRA- Consolidated Omnibus Budget Reconciliation Act	For employees leaving your firm, you must make available any group health care plan for a period of time by paying full group premium rates, and you must inform employees of their rights under this act.	20 or more
Family and Medical Leave Act	You must provide employees with unpaid leave of absence up to 12 weeks long that may be taken for the following reasons: child care, care of a seriously ill relative, or a serious health condition preventing job performance. With some exceptions, the act also provides for restoration of the employee to the same or an equivalent position on return to work.	50 or more

FLSA – the Fair Labor Standards Act

The FLSA establishes minimum wage, overtime pay, record keeping, and child labor standards affecting full time and part time workers. The Wage and Hour Division of the Department of Labor administers and enforces FLSA provisions. Under the broadest definitions of “interstate commerce,” all employers are required to comply.

Under FLSA provisions, all work must be paid. Work not requested but suffered or permitted to be performed is work time that must be paid for by the employer. For example, an employee may voluntarily continue to work at the end of the shift to finish an assigned task or to correct errors. The reason is immaterial; the hours are work time and must be compensated. An employee’s “workday” is defined as the period in one day between the time when the employee commences his/her “principal activity” and the time when he/she ceases that activity; an employee who is eating at his/her desk while answering the phone is working and must be compensated for that time.

Two categories of employees are described by the FLSA: exempt and non-exempt employees. The “exempt” status refers to exemption from overtime pay. A person is categorized as “exempt” if he/she is an executive, administrative, or professional employee. Any other employees (“non-exempt”) must be compensated for overtime in excess of 40 hours per week at the rate of not less than one and one-half times the regular rate of pay. Note the assumption that all employees should be paid for overtime; only certain employees are exempt.

Not required by the FLSA:

- vacation, holiday, severance, or sick pay
- meal or rest periods (these may be required in certain states)
- premium pay for weekend or holiday work (except overtime as described above)
- pay raises or benefits
- a discharge notice, reason for discharge, or immediate payment of final wages to terminated employees

The FLSA also does not limit the number of hours in a day or days in a week an employee may be required or scheduled to work, including overtime hours, if the employee is at least 16 years old.

Child Labor Provisions

If you are considering hiring a teenager to work in your office, you need to know the major provisions of the child labor laws.

- Youths 18 years or older may perform any job, whether hazardous or not. For unlimited hours
- Youths 16 and 17 years old may perform any non-hazardous job, for unlimited hours. (The only job that might be a limiting factor in a chiropractic office is “Power-driven paper-products machines, whatever those are.”)
- Youths 14 and 15 years old may work outside school hours under the following conditions: no more than 3 hours on a school day, 18 hours in a school week, 8 hours on a non-school day, or 40

hours in a non-school week. Also, work may not begin before 7 a.m. nor end after 7 p.m., except from June 1 through Labor Day, when evening hours are extended to 9 p.m.

Employee Access to Personnel Records

Employers are required to keep records on employees and past employees, for a set period of time. Employees must be allowed access to their personnel records, for inspection and copying, but they may not remove any documents from the file. Employees generally do not have access to records of criminal investigations and letters of reference.

FLSA Recordkeeping requirements

The following records must be kept for non-exempt employees:

- Personal information
- Hour/day when work week begins
- Total hours worked each work day and each work week
- Total daily or weekly straight time earnings
- Regularly hourly pay rate for any week when overtime is worked
- Total overtime pay for the work week
- Deductions from or additions to wages
- Total wages paid each pay period
- Date of payment and pay period covered

General employee compensation and benefits requirements

- As an employer, you must pay a lawful minimum wage to employees.
- If an employee leaves, you must pay all final wages within a certain number of days (depending on state requirements).
- If you receive a court order to garnish an employee's paycheck, you must follow certain rules, including not charging the employee for the time and cost of processing the garnishment.
- If you misrepresent a former employee's file or attempt to "blackball" a former employee from obtaining employment, you may be liable for damages and be found guilty of a misdemeanor. In responding to requests for information about former employees, most employers take the position that they will give no information other than name, title, length of employment.

Vacations are not required by law. If you offer vacation pay, you can determine whether to accrue vacation or how to accrue it. You can also limit how employees take vacations and whether they must be taken at certain times. All earned vacation time must be paid when an employee leaves. If an employee is terminated, the employer cannot defer accrual of vacation to the end of the month or year to avoid paying. You can require employees to take all their vacation in the year which it is earned.

You are free to offer or not offer holidays during the year, with or without pay. A floating holiday is not considered an accrued vacation day; if you want to offer a "floating holiday" tie it to a specific event, like the employee's birthday.

You may decide whether or not to offer sick days. You should not accrue sick days; this gets too expensive; they should be presented on a “use it or lose it” basis. Don’t put sick days with vacation days so you don’t have to pay for unused sick days when someone leaves.

Americans with Disabilities Act (ADA)

The Americans with Disabilities Act of 1990 makes it unlawful to discriminate against people with disabilities in employment, state and local government services, public accommodations, transportation, and telecommunications. The Act’s regulations in regard to employment and public accommodations are of importance to small businesses. We’ll address the employment section here, and the public accommodations sections in the Legal Issues chapter.

A person with a disability is defined as someone with a physical or mental impairment that substantially limits one or more major life activities, or someone with a record of such an impairment, or someone who is regarded as having such an impairment. Examples include HIV (symptomatic or asymptomatic), Tuberculosis; psychiatric disability; drug addition (but not those currently illegally using drugs); alcoholism; orthopedic, visual, speech, and hearing impairments; cerebral palsy; epilepsy; muscular dystrophy; multiple sclerosis; cancer; heart disease; diabetes; mental retardation; specific learning disabilities.

The ADA prohibits “denial of the right to participate and unequal or separate treatment.” You cannot apply eligibility criteria to screen out those disabilities; any criteria must be applied fairly and equally to all

The law applies to employers with 15 or more employees. Employers must reasonably accommodate the disabilities of qualified applicants or employees, including modifying work stations and equipment, unless undue hardship would result. Complaints under this act are filed with the Equal Employment Opportunity commission. Since you probably won’t have 15 or more employees, you may be exempt from the requirements of the ADA, but it is always wise to treat potential employees with disabilities in a respectful and non-discriminatory manner.

Occupational Safety and Health Act (OSHA)

The Occupational Safety and Health Administration, part of the Department of Labor, requires all employers to provide a safe workplace for employees and conducts inspections of workplaces. Any company with even one employee comes under the jurisdiction of OSHA.

Don’t assume because chiropractic offices are small they don’t occasionally come under scrutiny of OSHA. In most cases, OSHA representatives are responding to a complaint by an employee, and each year offices receive surprise inspections.

Some general OSHA provisions:

Poster

Every employer must display an OSHA poster in the workplace, giving employees information about OSHA and their rights under this law and where to file charges for violations. You can obtain the poster from OSHA directly or you can download one off the Internet (there are specific requirements for the size and font size of the poster).

Go to the [OSHA website](#) for a downloadable version of the poster.

Inspections

OSHA may inspect any work place at any time without warning. If an OSHA inspector arrives at your office, you may ask for identification and you may require a warrant, but it's better to let the inspector come in. If you feel the inspection would disrupt your busy office, you can request that the inspector return at a later time. The OSHA inspector may be responding to an employee complaint or he/she may be making a general inspection. In either case, he/she has the right to look at anything in the office, even items not related to a specific complaint. You have the right to have a representative go on the inspection; the employees also have the right to designate a representative for the inspection.

If violations are found, and you can remedy them before the inspector leaves the office, you can avoid some fines and penalties. The inspector will review all violations with you before leaving, and then will file a formal report of violations. Fines and penalties are levied based on the size of the company, the seriousness of the violation, and whether this is a repeat violation. You have the right to appeal the inspector's report or to ask for more time to deal with the violation.

Hazard Communications (Employee Right to Know)

Employers must protect employees against hazardous chemicals in the workplace. This provision applies to all chemicals which are used in greater quantity in the workplace than in the home; some examples are x-ray processing chemicals, cleaning supplies, some office supplies. Provisions include:

- All hazardous chemicals must be identified and listed.
- A copy of the Material Safety Data Sheet (available from the manufacturer) must be provided for all hazardous chemicals.
- All chemical containers must be labeled property; if chemicals are transferred into "secondary" containers, these must also be labeled
- Employees must be trained in where to find the MSDS, how to label containers, and in emergency procedures.

Blood borne Pathogens

Most health care offices must have a blood borne pathogens control plan, which includes discussions of:

- How you will implement universal precautions (see below)
- How you will clean up and dispose of hazardous materials
- How you will train your employees in these procedures and in the use of personal protection equipment.

In addition:

- You must have the appropriate cleanup supplies and personal protective equipment in the office
- You will need to arrange with a local agency to pick up and dispose of hazardous materials.

Universal precautions should be instituted, which assume that every individual with whom your employees come in contact is infected.

- Cleanliness and strict housekeeping measures should be instituted and followed
- Personal protective equipment should be purchased and employees should be instructed in and required to use this equipment.
- Employees should be trained in the dangers of blood borne pathogens, particularly HIV/AIDS and Hepatitis B.

Fire/Egress Precautions

This section of the OSHA regulations is often overlooked, although the local fire department may also have jurisdiction here and may inspect your facilities. The purpose of this section is to require employers to establish plans for dealing with fires and other emergencies.

Some provisions:

- Fire extinguishers (dry chemical are best) should be purchased for the office.
- Determine which employees, if any, will be trained to fight fires
- Discuss firefighting policies and evacuation procedures with your staff; who calls 911, who goes where with which patients?
- Review your facilities for exit safety. Your facility should have at least two exits; they must be clearly marked and not blocked at any time; doors that might be mistaken as exists must be marked; exits must lead into a public way.
- Consider giving your employees Hepatitis B shots, at your expense.

General/Recordkeeping

- Records must be maintained of workplace-related employee accidents, injuries, illnesses.
- Employees should be trained in OSHA procedures (a) on hire, (b) at least annually thereafter, and (c) when something changes in the workplace (a new chemical, a new procedure, etc.).
- Document every instance of employee training with lists of subjects discussed and those in attendance.

In short, OSHA requires you to plan for employee safety and train all employees periodically in safety procedures. *Even if you weren't required to do this, wouldn't you want to anyway?*

Details of an OSHA PLAN

- Your OSHA manual should provide the following information for your staff
- What to do if an OSHA inspector comes to our office:
- What to do in case of an accident involving hazardous chemicals
- What to do in the event of a fire or other emergency
- What to do if someone is exposed to bloodborne pathogens

CHAPTER 28. EMPLOYMENT ISSUES – HIRING, TRAINING, MOTIVATING, TERMINATING EMPLOYEES

You've decided, with some trepidation, to hire an employee, but you're not sure of how to go about it and what to do with the employee once he/she is hired. This chapter will take you through the steps involved in the employment relationship.

Before you hire your first employee, you will need three things:

1. An organization chart, to describe the office employee organization
2. An Employee Handbook, which spells out employment policies and benefits
3. Job descriptions for all positions

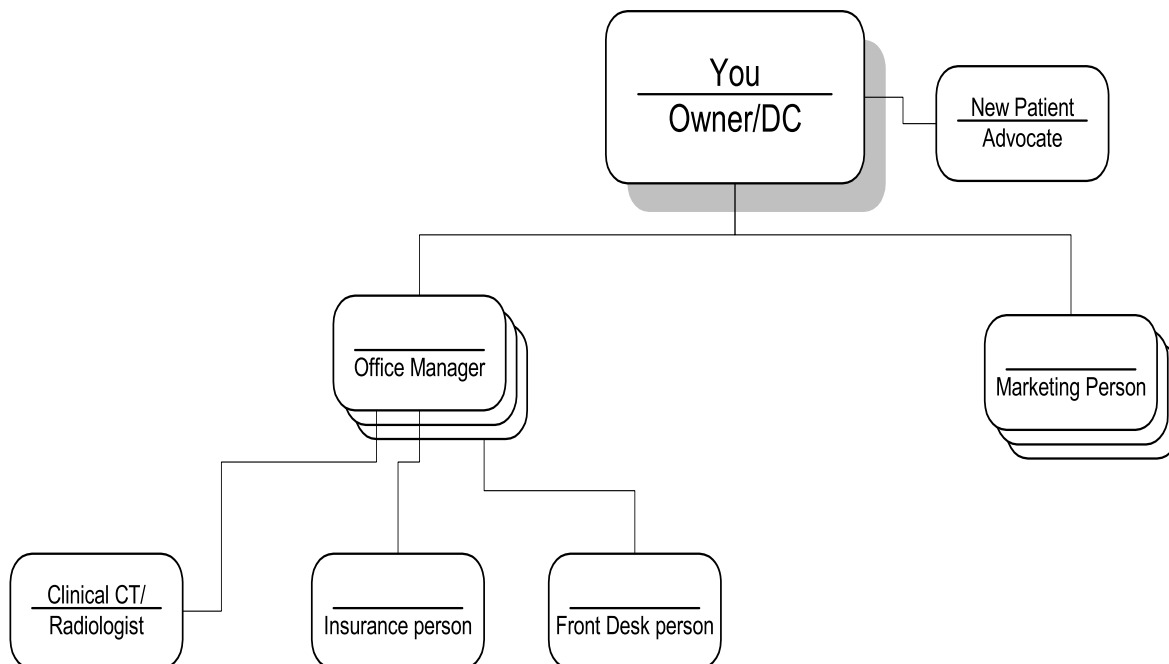
The Practice Manual

A practice manual is really a combination document. It includes

- An introduction – your practice mission and the purpose for the manual
- A description of employment practices and performance standards
- A description of employee benefits and leaves of absence
- Office policies and procedures

Your Organization Chart

Before you hire your first employee, take a few minutes and lay out an office organization chart. Include a picture of what FUNCTIONS you want in your office and a box for each. Your chart might look like this:



I'm sure you are saying "I don't have the money for all those people!" Don't worry; you are just setting out the entire employment framework for the future, so as you hire new employees, you (and they) will know where they fit within that framework. For example, your first employee may be a front desk person who does insurance, but as your practice grows, you will begin to separate duties, hire additional people, and eventually end up filling all of these positions.

Pre-employment Planning

Job Descriptions

One of the biggest mistakes prospective employers make is in not clearly setting out the requirements of the job before hiring someone. Before you search for an employee, sit down and define as specifically as possible the duties that this person will be performing. If you are familiar with job descriptions, write up a detailed description for this position. Don't conform the position to any specific person, but put together what needs to be done. Be clear about which duties are absolutely required and which are important but not critical.

Here is a general outline to assist you:

- Job Title
- Education required/desired
- Experience required/desired
- Skills/Abilities required/desired
- Personal Characteristics required/desired
- Physical Requirements
- Listing of specific duties

Separately list the compensation and benefits you'll be providing to this person. These might include:

- Wages/salary – pay rate, weekly hours, overtime
- Paid benefits – vacation, sick leave, personal time, health insurance
- Opportunities for promotion, raises
- Professional development opportunities, training
- Bonuses, incentives (profit sharing, 401(k) plans)

When you've completed this task, you'll have a much better idea of how to discuss the position with prospective employees. You will also need to purchase a generic application form for the applicants to fill out; you can obtain these at any office supply store or from the Internet. Be sure it complies with federal and local legal requirements (discussed below).

Recruitment/Selection process

In this section, we will review the selection process in general; following that, we will discuss the hiring and interviewing process in more detail, focusing on legalities and also on some interviewing techniques.

The steps in generating and evaluating applicants include:

1. Generate applicants

- Most small businesses place an ad in the local newspaper – make it dynamic, attractive, and competitive.
- Ask current employees or professional advisors for suggestions
- Look for candidates from your patients, but be careful – you might gain an employee and lose a patient!
- Consider recruiting someone away from their current position
- Contact the local chiropractic society

2. Screen and Interview applicants

- Prescreen all applicants over the phone. Determine the person's pay needs. Briefly discuss the requirements of the position (hours and duties) and check for continued interest ("Does this position still interest you?"). Ask a few questions and take notes. Pay particular attention to the candidate's tone and voice.
- Review all the candidates then contact the top individuals (no more than 3-4) and set up an appointment for an initial interview. Prepare a list of questions for applicants (suggestions below).
- Interview the top applicants. Before each interview, have the candidate complete the application form. You should do about 30% of the talking and the candidate about 70%. Ask permission to take notes, then do so! Some employers administer a brief personality profile. If you do this, it must be done with all interviewees, and must be evaluated professionally. You may also wish to give interviewees a typing test or other test; just be sure that all interviewees take the same test. At the end of the interview, thank the interviewee and give him/her a time frame for your response. You do not have to provide candidates with a specific answer until the process is concluded.
- Check references and background. Call at least two references on every prospective employee, if possible. Don't assume that you don't have to check references on Sally because you know her uncle or she goes to your church; **check references every time.** You may also want to run a background check or credit history of each applicant. Be sure to obtain WRITTEN PERMISSION before you do any checks. You can include the permission in your application form. Be sure to document any reference calls you made: who you talked to, what they said.

3. Make the hiring decision

You may be able to make a decision after first interviews; if not, don't hesitate to invite the top two candidates back for a longer interview, with you and your staff, or some time observing in the office.

Put your decision in writing, with a job offer letter to the individual you've selected. Include the position title, pay rate, specific benefits, probationary period, start date. Be careful not to promise a specific term of employment, even for the probationary period (you may want to terminate the employee after only a few days!).

The Interview Process

Going backward for a minute, we need to discuss the hiring and interviewing process in more detail. Even experienced interviewers make mistakes, but the more interviews you conduct, the more comfortable you will be with the process, and the better your "antenna" will be about potential candidates.

Some tips for interviews:

- Don't give the candidate too many clues or lead them into answers they think you want to hear.
- Ask an open-ended question ("Tell me about yourself," for example) and sit back and let the person answer.
- Begin the interview with a general outline of the position. Then let the specifics come out in the process.
- Don't ask the obvious questions. Let the applicant discuss his/her background in general, and listen for "fit." If you ask the question, "Do you think you'd be able to do this job?" the answer will most likely be "Yes." This doesn't tell you anything. Also don't ask "trick" questions like these: "If your house were on fire...". This type of question doesn't generate any useful information. Stick to questions about the position.
- *Evaluate the answers you receive.* Be a little skeptical.
- Don't focus too much on the candidate's self-evaluation. Some interviewers like to ask about strengths and weaknesses. A skilled candidate knows how to deflect this question and turn it to his/her advantage. Like the obvious questions, it doesn't generate anything useful.
- Don't be afraid of probing. Go after inconsistencies, long lapses of time between jobs, anything that raises a "red flag" and is job-related. Be careful of eliciting personal information that may not be job-related.
- Don't be overly influenced by first impressions. It gets easier to evaluate first impressions as you interview more people. If the first thing you see is a genuine smile and firm handshake, that's probably a good sign. Anything else is suspect.
- Don't miss important (non-verbal) cues. Look for lack of eye contact, fidgeting, nail biting, obvious discomfort at certain questions. These may be signals of lying or omission of important negative information.
- Don't rely too much on past credentials. Performance = ability x motivation. The more important of the two is motivation. I would always choose a highly motivated person with a little less experience than a very experienced person with little motivation. People skills also count for as much as, if not more than, past credentials. It's easier to train someone in specifics of the position than it is to make him/her into a smiling, friendly person.

Legal Issues in the Interview

The two rules for interviewing and hiring:

- 1. What you ask of one applicant you ask of all**
- 2. Only BFOQ (bona fide occupational qualifications) should be discussed**

If you stick to these two guidelines, you can't get into too much trouble. Let's look at some specific types of pre-employment inquiries and what you can and can't do legally:

Topic	Guidelines
Arrest records/convictions	No questions about arrests; convictions may be discussed if they relate directly to the position (for example, you can ask a prospective bookkeeper about convictions for embezzlement)
Availability for work on weekends, evenings, religious holidays	Tell all applicants your work hours and ask if the person can be available at all of those hours; you may ask all applicants if there are any days on which they may be unavailable to work, for any reason
Birthplace and residence	You may ask the applicant's address; you may not ask about birthplace, or residence or birthplace of relatives
Child care; family status; marital status	You may not ask about marital status, but you may ask whether the applicant has responsibilities or commitments which may prevent him/her from meeting work schedules. Be sure to ask all applicants this question.
Citizenship; National origin; race	You may ask whether the applicant is prevented from lawfully being employed in this country because of visa or immigration status; you may not ask whether the applicant is a U.S. citizen; you may not ask about race, lineage, descent, parentage, or nationality
Creed or religion	No questions are acceptable unless they are BFOQ; for example, if they are related to availability to work on the days you require
Credit records	In the same manner as convictions, you may ask if the question is job-related
Handicap	After describing the physical, mental requirements of the position, you may ask if the applicant can perform the job in question, or whether he/she sees any impediment to the complete performance of this position
Height and Weight	No questions may be asked, unless they relate to the physical requirements of the position
Language	If you have listed language proficiency among the position requirements, you may ask if the applicant speaks or writes this language.

Military service	You may ask all applicants about military service but not about type of discharge
Name	You may ask whether the applicant has worked under a different name, but you may not inquire about the national origin of a name or the original name of an applicant whose name has been legally changed
Organizations	You may ask all applicants about membership in professional organizations related to the position, but not about clubs, social fraternities, religious organizations
Photographs	No photographs should be provided of an applicant
Pregnancy	You may not ask if an applicant is pregnant
Relatives/ friends	If you have a policy against hiring relative, spouses, you may ask whether these individuals already work in your company; otherwise, no questions about relatives or friends are permissible.
References	You may ask for professional references, but not for the name of religious leaders (pastor, priest, rabbi)
Sex	No questions about the applicant's sex or sexual orientation are permissible.

An Interview Outline

After all that, are there any questions you CAN ask? Here's a general outline for an interview:

- Begin by giving a general description of your office and your mission statement. Then discuss the requirements of the position and how it fits into the overall office. This provides the interviewee a chance to relax, listen, prepare to answer questions.
- Then, start with some easy open-ended questions about the person's professional background and eligibility. Ask follow-up questions about areas in which you want more specific information. One possible question: "Discuss your work background and how it might fit into the needs of our office and this position."
- You may want to ask some general personality questions or some goal-oriented questions, like "What do you find easiest in your present position?" or "What do you see in this position that you can do best?" or "What are your short-term and long-term professional goals?" Another good question: "What specifically do you feel you can contribute to this office?"
- Toward the end, discuss the benefits you provide, general employee requirements.
- At the end, ask for a summary statement from the interviewee about his/her interest in the position. Ask for final questions. State that you will contact the applicant soon with your decision.

Orientation and Training

Your job is just beginning when your new employee reports for work. Plan your orientation and training program to include the following:

- Review your written job description

- Prioritize the responsibilities of the position
- Prepare a training schedule, including time with each member of your staff
- Schedule some training time during non-patient time
- Plan on one session to review the employee handbook, policies, office procedures (which you have, of course, written out!)
- Conduct performance evaluations during the training process. This will allow you to measure the new hire's progress (or lack of...)

As your new employee begins work, conduct on-the-job training:

- Tell what needs to be done
- Tell how to do the job
- Show how it must be done
- Let the person do it with a trainer
- Tell and show what was right, wrong, and how to correct
- Repeat until mastered

Evaluating Employees

Set up a schedule and evaluate every employee on a regular basis, at least once every six months, but more often if possible. Each evaluation interview should include a self-evaluation by the employee; ask them to discuss their strengths and weaknesses on the job, and have them provide goals and objectives for the upcoming months.

Your performance evaluations should:

- Follow the same format for each employee
- Include a written component
- Be honest and candid regarding all aspects of the job. If an employee is frequently late, say so. If he or she has trouble communicating with patients, don't hesitate to discuss this.
- Provide an opportunity for feedback by the employee, specifically comments about the evaluation.
- Include a signature of both you and the employee.

Motivating and Paying Employees

After you have your employees hired and trained, your next task is to keep them motivated. This is difficult when you have few advancement opportunities and little room in your budget for pay increases. The best way to motivate employees in this circumstance is to provide them with many opportunities for participation and for personal and professional development.

Some strategies for motivating and compensating employees:

- Involve employees in decisions regarding office procedures and policies. Emphasize fairness and equitable policies and administrative practices.

- Hold weekly staff meetings, at which you give employees the opportunity to discuss problems and prospects for improvement
- Seek out opportunities for employees to attend local lectures, seminars. Pay for these seminars and give staff time off to attend. Once a year, send all staff members to a continuing education seminar or state association meeting.
- Hold a quarterly practice goal-setting session and solicit employee goals. Tie achievements to monetary and other rewards. Encourage employees to bring in patients and reward them for their efforts.
- Review employee performance on a quarterly basis, but don't tie performance to pay increases. Have employees set individual goals that tie in to your practice's goals.
- Find opportunities to celebrate on a regular basis. Events that involve patients and employees are morale-boosters for all.
- Set up a "team" atmosphere in which all contribute, all benefit. Consider yourself the team leader. Encourage creativity within the team.

Employment Documents

The First Rule in Employee Relations is:

Document EVERYTHING!

The Second Rule in Employee Relations is:

If you didn't Document EVERYTHING you'll need a good attorney.

You should have a two files for each employee:

The first file contains references and pre-employment information, which the employee should not be able to review.

The second file, which the employee may review in the office at any time, contains:

- Payroll deduction authorizations
- Benefit authorizations
- The employee's application
- Records of evaluations
- Attendance records
- Record of employee signature on such documents as the Practice Manual
- Employee's job description

You may also have a "**working**" file of information that has not yet been discussed with the employee. Since the employee has not reviewed it, you cannot use this information in a termination or disciplinary situation.

Terminating Employees

Even though you've done your job in recruiting, hiring, training, evaluating employees, you will still

need to terminate someone occasionally. It's probably the most difficult task you will have as an employer, in interpersonal terms, but it's also the most dangerous from a legal standpoint. Be sure that you are on firm ground with documentation before you make this decision.

Some reasons to terminate:

- Insubordination – failure to perform duties as assigned
- Failure to perform job adequately
- Violation of company policy
- Harassment/discrimination
- Violence or threat of violence
- Excessive absenteeism/tardiness

Planning for possible employee termination begins at hiring, when you ask all new employees to read and sign the Practice Manual. Your termination process should be detailed in this manual. Before you make a final decision to terminate someone, discuss the termination with an attorney before you talk with the employee; it's better to pay a little for an opinion now than to pay a lot for a defense later.

Termination Procedures

Let's take the two most common termination situations as examples for procedure:

In the case of a **dangerous situation or a violation of law** (harassment, violence, theft, for example):

1. Call the employee in and discuss the situation. It's a good idea to have a third party in the discussion.
2. Present your evidence, including the employee's signature in the Practice Manual.
3. Clearly state the reason for the termination, and present the employee with a document stating those reasons.
4. Be sure to document the discussion with the employee.
5. Present the employee with a final paycheck, including vacation pay, if applicable.
6. Allow the employee to clear out his/her desk, while you and the witness watch.
7. Escort the employee off the premises.

In the case of **attendance/tardiness or other performance issues**:

1. You should have discussed the performance issues with the employee several times, in the course of regular evaluation sessions. The termination should not come as a surprise to the employee.
2. Present your documentation, including evaluations. You may want someone else to witness, but this is up to you and the attorney.
3. Tell the employee that his/her employment is terminated. In most cases, you will want the employee to leave immediately. You may want to provide a letter of termination.
4. Be sure to document the discussion with the employee.
5. Present the employee with a final paycheck, including any vacation pay, if applicable, and pay in lieu of notice, if you have discussed this payment in the Practice Manual. When you terminate an employee, you must pay for time worked but not yet paid and any vacation or sick time they have earned but not received.

6. As in the case above, allow the employee to clear out his or her desk, and escort the person out of the office.

In conclusion, if you have:

- a. set up systematic procedures for recruiting, hiring, training, and evaluating employees, AND
- b. if you have a Practice Manual that has been reviewed by an attorney and have followed this manual carefully, you may not eliminate all employee problems, but you will certainly minimize them, and you will save much time and money in the event that you need to terminate someone.

CHAPTER 29. LEGAL ISSUES

In this section we will discuss a number of issues relating to regulations and general legal subjects.

Public Accommodations – Americans with Disabilities Act (ADA)

As we discussed above, the Americans with Disabilities Act of 1990 makes it unlawful to discriminate against individuals on the basis of disabilities. Title III of that Act deals with public accommodations. Companies that serve the public must make “reasonable modifications” to policies and practices and procedures to make services available. Among the listing of businesses that must comply, chiropractic offices are listed specifically under health care facilities. This section of the Act is administered by the Department of Justice; any individual may call the DOJ and file a complaint at any time, or may file a private lawsuit.

If you are purchasing an existing practice or making modifications to an existing business, you are required to comply with ADA regulations in matters relating to accessibility. You are not required to provide services that you can demonstrate would place an “undue burden” on your business, but you must make every effort to accommodate those with disabilities. If you are doing new construction or substantial renovation your facility must be “readily accessible to and usable by people with disabilities.”⁷ Your contractor should know the law, but don’t assume.

Barriers must be removed to ensure access where it is possible to do so in a “readily achievable” manner (defined as “easily accomplished and able to be carried out without much difficulty or expense”⁵). This requirement is reviewed on a case-by-case basis. For example, consider a ramp up to one entrance, widening doorways and bathroom doorways, adapting rest room facilities, if you can do so without “undue burden.”

Your priorities:

- First, remove those barriers that most deviate from standards.
- Second, provide access to parking and entrances and make sure you have adequate handicapped parking. ADA regulations for parking spaces vary by state, so check your state government.
- Third, provide access to areas where services are provided: doorways, examination tables
- Fourth, provide access to restrooms.
- Fifth, provide access to other services and facilities (public phones, for example).

For the deaf, you must supply sign language interpreters, TDD⁶ or relay operators for phoning, at your expense. Most public telephone companies offer TDD services for free; check in the local phone directory for information on how to access this service.

⁵ <http://www.usdoj.gov/crt/ada/reg3a.html>

⁶ A Telecommunications Display Device (TDD), also known as a text telephone, is a telephone equipped with a keyboard and a display for people who are hearing-impaired.

A few more guidelines:

- You cannot deny service to a person with a disability because his or her disability or behavior resulting from the disability may be disturbing to other patients (someone with Tourette Syndrome or someone with a guide animal, for instance).
- If you are renting, check with your landlord to be sure he/she is aware of the regulations. You and the landlord may allocate between yourselves the responsibility to meet the obligations of the ADA. If you are signing a lease, be sure these required changes are part of the negotiations. Pay particular attention to parking, sidewalks, entrances, public phones.
- If you are in an older building or home which cannot be modified reasonably, you should instruct your staff to make every effort to provide access to people with disabilities. (Carrying someone from the car to the office is a small consideration against the cost of a lawsuit!)

CHAPTER 30. BUSINESS INSURANCE/RISK MANAGEMENT ISSUES

In this section, we will present the basic principles of “risk management,” and will review the insurance coverage you should be purchasing when you open your practice. Usually when chiropractors discuss this term they are referring to purchasing malpractice insurance, but this is not the only type of “risk” you want to “manage.”

Risk Management Defined

Risk management in its broadest sense includes strategies for controlling all types of financial and business risks. But let’s take it back even further to some definitions: Risk is defined as “the possibility of loss, injury, disadvantage or destruction.” Life is a risk, and, in life, two types of risk exist: speculative risk, in which there is the possibility of gain OR loss (as in gambling), and pure risk, in which there is only the possibility of loss OR no loss. The kinds of risks we’re talking about here are pure risks (you can’t “manage” speculative risks, by purchasing gambler’s insurance, for example!) The management of risk involves “concerned, experienced, energetic and capable effort towards any and all issues of immediate and long-range concern” for a business.⁷ So risk management is any effort towards reducing business risks.

Managing Risk

There are two elements involved in managing risks: the probability that the risk will occur, and its severity when it does occur. Both must be considered in the decisions regarding dealing with risks. When we decide how to deal with risk, we can do one of four things:

- We can AVOID the risk, if possible. We can avoid the risks involved in sky-diving, for example, by simply not engaging in this activity.
- We can PREVENT/REDUCE the risk, with safety measures, defensive actions.
- We can RETAIN or keep the risk, through a conscious decision. And,
- We can TRANSFER the risk to someone else, usually through insurance.

A final option is to select a combination of risk management techniques. What we decide to do, and what insurance can and should do with risks is based on the probability and severity of the risk. One good example is auto insurance. When you purchase auto insurance, you have a deductible. The higher the deductible, the lower the monthly premium. A deductible is a means of retaining the risks which are HIGH probability and LOW severity. You decide to pay for the little things that are most likely to happen. Then you will let the insurance company pay for costs over the deductible, those things that are LOW probability and HIGH severity. If you wanted the insurance company to pay for ALL the costs, even those with HIGH probability, you would have to pay a huge amount for your car insurance.

⁷ From Airtime Internet Services: http://sparc.airtime.co.uk/users/wysywig/risk_1.htm.
January 22, 2001.

What kinds of risks does a business owner assume?

- Asset-centered risks, which focus on events that can cause the loss of assets—fire, theft, fraud.
- Customer-centered risks, from malpractice suits and other on-premises injuries to customers.
- Personal risks that affect you as the business owner, such as loss of income from disability and death.

Insurance Concepts

Before we discuss the types of insurance you should consider, we need to review the concept of insurance. Insurance is a social device which involves:

- A large group of people or businesses who are exposed to risk, and allows each member to transfer risk to the group through a contract.
- An accumulation of funds by all members of the group to pay for losses in accordance with the contract.
- Statistical prediction of losses to group members in order to calculate the cost to each (the premium). The primary purpose of insurance is to reduce uncertainty and worry by spreading the economic burden of losses among group members.

The perfect situation for insurance is one in which there is:

- A low probability and high severity of loss must exist
- Losses to any one member of the group must be a matter of chance
- The group must contain a large number of people
- The losses cannot be catastrophic (not all individuals are affected)

In order for an individual to obtain insurance, there are three requirements:

- The risk must be calculable, with a monetary value (a “priceless” heirloom, for example, cannot be insured)
- The person purchasing the insurance must have an “insurable interest” in the property or person insured. An “insurable interest” implies some financial loss that would occur if the person or property would die or be destroyed. I cannot then insure someone whose death would not result in some loss for me.
- The person cannot be reimbursed for more than the actual loss; no profit must be created (you cannot insure a \$200,000 building for \$250,000).

What types of insurance should you purchase when you open your business?

- Malpractice insurance, to protect you from lawsuits arising from the practice of chiropractic.
- Property/casualty/liability insurance (General Business Insurance). This insurance protects you against a multitude of loss situations involving your business assets, and from losses resulting from liability lawsuits.
- Disability insurance. This insurance protects you if you become disabled and cannot work for a period of time.
- Health insurance for you and your employees.

Malpractice Insurance

Malpractice insurance comes in two kinds: “occurrence” and “claims made”. In *claims made coverage*, the claim is made and reported during the period covered (even if the claim was the result of an occurrence before that period). When the policy year ends, the insurance company knows exactly what their exposure has been; there are no open claims, no further liability. If you’re purchasing claims made coverage, ask whether you have the right to purchase *tail (extended reporting) coverage*, to cover the period after your previous coverage ends, if you decide to change malpractice carriers.

In *occurrence coverage*, the coverage is for events occurring during the effective period of coverage. Occurrence is the more expensive of the two, because of the open-ended exposure of the insurance coverage.

An example of each type of malpractice insurance: A doctor injures a patient in 1994, while he is practicing in Ohio and while he has malpractice insurance from XYZ company. But no claim is filed by the patient in 1994. The patient becomes “aware” (legally speaking) of the injury in 1998, after the doctor has retired. If the doctor has occurrence coverage, the insurance company will pay, because they are contracted to pay for all claims that “occurred” during the period of the coverage, even if no one was aware that a potential claim had happened. If the doctor had “claims made” coverage, the insurance company will not pay in 1998 for a claim in 1994, because, under this type of coverage, they will only pay for claims which are “made” during the period of the coverage. If the doctor has “claims made,” he can purchase “tail coverage” or “gap coverage” for the period after he retired.

In summary, claims made coverage is less expensive, but it can be risky; occurrence coverage is more expensive, but involves less risk of “surprises.”

Responsibilities of insurer/insured in malpractice insurance:

If you purchase malpractice insurance, the insurance company must defend you against claims made against you, provide you with an attorney, and pay any money a court judges you must pay for acts or omissions covered by the policy. You (the doctor, the policyholder) must refrain from certain acts and activities which are prohibited by the policy, promptly report any claims or suspected claims, and cooperate with the insurance company and its attorney in the defense of your claim.

The insurance company pays judgments against you and any defense costs, including earnings lost. The insurance company will NOT pay for:

- Claims exceeding stated coverage limits
- Services provided by your staff above and beyond their scope of duties
- Services provided by an assistant unless this person is named and an extra premium is paid
- If the doctor or employee is “under the influence” while providing care
- For punitive damages (punishment)
- For acts committed outside the doctor’s state of licensure or outside his/her scope of practice

Business Insurance

Every business must have some level of property/casualty/liability insurance coverage; lenders require this coverage, as a condition of loaning you money; some landlords also require proof of insurance from lessees. A typical business insurance policy includes several types of coverage, which we'll discuss briefly here:

Property/casualty insurance. This coverage protects you against losses to your building and business assets due to a variety of causes. It includes losses due to fire/lightning, windstorm, hail, explosion, riot, aircraft, vehicle, smoke damage. Look for a "comprehensive" policy that covers everything except specified exclusions.

Business interruption insurance. This insurance protects you during the time when your business is closed due to a loss, such as fire. You will have to be able to prove the lost sales for this period of time, in order to estimate the amount of revenue you've lost while you work to re-open your business.

Liability insurance. This insurance protects you against general negligence lawsuits by patients and others who are on your property. This insurance covers you, for example, if someone slips and falls on an icy sidewalk, or is injured if a ceiling tile falls on them.

Fidelity Bonds. Another type of business insurance which you may want to consider is dishonesty insurance, like fidelity bonds, which insure against employee theft and fraud.

Disability Insurance. When you first start out in business, spending money on insurance to protect you if you become disabled seems like a waste of money. While you may not want to incur this expense immediately, I urge you not to ignore this insurance. Since your practice is YOU and your abilities, your inability to practice makes you vulnerable to huge losses. Some lenders will require you to purchase disability coverage or life insurance coverage to cover their exposure during the term of the loan.

Health Insurance

Since health insurance is expensive, you may decide not to purchase right away. If you're thinking of health insurance later, try to find a group to join; individual coverage is prohibitive. Look on the Internet, talk to other doctors who've been in practice for a few years, and check with several insurance companies, before purchasing this insurance.

Insurance Buying Guidelines

Some general guidelines to buying insurance and selecting an insurance company:

- Try to purchase all of your coverage from one company; there are usually some cost savings by doing this, as well as giving you the opportunity to purchase “umbrella” liability coverage, which can increase the breadth of coverage. If you have one person to deal with and have several policies, he or she will also be more responsive to your requests and questions.
- Consider the financial characteristics of the company, the types of services provided, the ability of the company to tailor the policy to meet your particular needs, and, of course, cost.
- Talk to others who have used this insurer to ask about claims service; don’t rely solely on what the agent tells you.

Saving Money on Insurance

Before we leave the subject of insurance, consider these ways that you may be able to minimize business losses. These are the five most common security problem areas for small firms:

- Easily defeated door locks
- Lack of a computerized information backup system
- Little or no control over distribution of keys or access codes
- A false sense of security provided by insurance
- Improperly secured equipment.

Some risk management devices:

- Increase deductibles to save on premium costs
- Install fire alarms, smoke detectors, fireproofing
- Prevent theft by installing tamper-proof locks, a secure fire-proof safe
- Purchase a security service

An Insurance Checklist

Type of Insurance	Purpose	When to Buy
Malpractice	Protects you from claims resulting from your practice of chiropractic	IMMEDIATELY
Business	Property – protects against losses to property from a variety of causes: fire, theft, vandalism, natural causes General liability – other liability coverage	IMMEDIATELY
Workers Compensation	Covers claims against you by employees for on-the-job accidents, illnesses	Immediately; you will be required to purchase through your state
Bonding	Protects you against employee theft	When you hire a bookkeeper
Business Interruption	Covers losses when you cannot practice due to damage to property	Included with property/liability insurance; purchase immediately
Disability Insurance	Covers you if you cannot practice for a period of time	As soon as possible
Health Insurance	Covers medical, long-term care costs for you, employees	As soon as possible
Umbrella coverage	Provides you with additional liability coverage, if you purchase business insurance	As soon as possible

CHAPTER 31. IN CONCLUSION: ACHIEVING PRACTICE SUCCESS

Being defeated is often only a temporary condition. Giving up is what makes it permanent. (Marilyn Vos Savant)

In a recent (1996) study in *The Entrepreneurial Executive*, Dr. Robert Lussier examined 100 business failures and identified reasons for business failure. Rather than focus on failure, let's take these factors (adapted for the realities of chiropractic practice) and frame them as factors that will help you achieve success in your practice:

1. Obtain adequate capital and keep your fixed costs low. Avoid the temptation to increase your fixed costs as your business begins to earn money.
2. Follow good accounts receivable practices, particularly aging of accounts receivable and continuous contact with those owing you money.
3. Establish and maintain good recordkeeping habits and keep a good relationship with your financial advisors.
4. Good internal controls are important to minimize theft and embezzlement.
5. Keep working on your patient base; never assume you have "enough" patients.
6. If you are unsure of your ability to establish and run a practice, work as an associate for a year or two and participate in the management of that practice.
7. Be careful in selecting partners and associates. A good partner can increase your capital and skills base, but a bad partner can cause much trouble.
8. Expand SLOWLY with adequate capital; don't take on too much fixed cost.

In short, keep track of the business side of your practice as well as the technical side.

The TOP TEN (or so...):

- ***Put it in writing!*** President Reagan said, "Trust but Verify." This is good advice for business people as well as those in global politics. NEVER say, "I trust you; we don't have to put it in writing." Those words will come back to haunt you.
- ***Overestimate expenses and underestimate sales.*** This might get you reasonably close to an accurate estimate of your first year. And don't forget to include "Miscellaneous" expenses.
- ***Start with an employee.*** I know you don't think you can afford one, but you can't afford NOT to have one. Start with a part-time person at peak times to schedule appointments. Have this person set up your Health Care Classes and other marketing efforts. When you reach a level of production that will sustain another employee, hire another part-time person for flexibility. After you're very comfortable with both people, make one your full-time New Patient Advocate.
- ***Start the Way You Intend to Go.*** If you envision your ideal practice, start working on that practice immediately. Work only with others (advisors, employers) who think the way you do and who practice as you expect to practice. Don't settle for less. How you start will determine the lifetime of your practice; if you start poorly, you'll never get back into the groove.

- **Use the KISS principle.** That's keep it short and simple. In every procedure you set up, every financial report you make, everything you write for patients, EVERYTHING, simplicity is always the best policy.
- **Remain customer-centered.** You may understand completely the jargon of chiropractic and the importance of chiropractic, but your potential patients and new patients may not. Avoid the jargon, keep things simple, don't overwhelm people with WOC (the Wonders of Chiropractic). Let them grow into an understanding and appreciation of chiropractic as they experience its benefits to them over time.
- **Be flexible.** Keep your options open. Don't allow yourself to begin thinking "We have to do it this way because so-and-so practice management firm says it's best," or "We need to keep doing the same things we've always done. Don't let yourself get boxed into the past – yours or anyone else's.
- **One Step At a Time.** Don't try to do everything at once. Plan out your strategy towards the day you open your practice, break it down to a day-by-day listing, then take each day and each task as it comes. The old saying about "the journey of a thousand miles begins with one step" is really true.
- **Look for other options.** In the beginning, you may find that your business plan is not acceptable to several banks. You may need to consider a re-structuring of your purchase, through leasing or obtaining other forms of credit. If you believe there is a way, there always will be. In one instance, a student had a great business plan, but she wanted over \$100,000 in financing, with little collateral. When several banks turned her down, she gave up and went back to her former job. She could have re-considered her expectations for a loan, gone into an associateship or independent contractor situation, or any number of other possibilities.
- **Never say never.** It's one of those lessons of life that we learn only by doing and it limits our horizons and possibilities. If you state emphatically, "I'll never do telemarketing," for example, you may be ruling out a possibility that, given the right circumstances, could work very well for you.
- **Never assume.** Don't assume that someone understands you; don't assume that someone knows the law; don't assume that people know what to do in a certain situation. Over-communicate with everyone.

NEVER GIVE UP! In the darkest days of the Battle of Britain, Winston Churchill said it most eloquently:
Never give up! Never give up! Never give up!

CHAPTER 32. PLANNING FOR PRACTICE SUCCESS

See first that the design is wise and just; that ascertained, pursue it resolutely. William Shakespeare

This chapter should have been first, but you probably weren't interested in reading it first. So here goes... The Steps below are taken from *The E-Myth Revisited* by Michael Gerber:

Step 1: What is it you want for your life?

If you don't know what you want your life to be, how can you know what your practice should be and how it will fit into your life?

Step 2: What is your Practice Mission and Vision?

When you begin planning your business, you must start with the "Big Idea" (to borrow a phrase from BJ Palmer. If you have this Big Idea for your practice, all else will follow. Works for businesses as well as chiropractic!

What's the "Big Idea"? It is your Mission and Vision. As explained by Jan King: Your Vision Statement expresses what the company wants to be. Your Mission Statement expresses what your company does to achieve the vision. Think of it this way: **The Vision is the END; The Mission is the MEANS.**

For Example:

The Practice Vision:

XYZ Chiropractic wants to be the pediatric based practice which cares for children and families together.

The Practice Mission:

XYZ Chiropractic will actively seek out children as patients and will treat each child with loving care.

We will attempt to bring each pediatric patient into a wellness paradigm.

We will set up a family plan to encourage all family members to enter care.

We will seek out staff who care about and interact well with children.

To get at your Vision Statement, consider the following questions:

1. As you start your practice, what do you see it becoming in 10 years? (Gerber talks about this as creating a "picture of your business"
2. What is your purpose in opening this practice?
3. What do you want to be best at?

To get at your Mission Statement, consider the following questions:

1. What do you do well?
2. Who do you want to market your chiropractic services to? (Who is your ideal patient?)
3. What will your practice do better than anyone else? (What is your USP?)
4. How does your practice rank the importance of quality, value, service?
5. How do you define each of these based on customer needs and expectations?
6. How will you do what you do to achieve your vision?

SWOT Analysis

One tool to analyze your practice potential is to do a SWOT analysis. Developed by Boston Consulting Group in the early 1970s, this analysis maps out the internal strengths and weaknesses of a company and the external opportunities and threats to its potential growth.

A typical SWOT analysis for a new chiropractic practice might look like this:

Strengths:

- Strong philosophical base
- Your DC degree
- Caring attitude toward children
- Dedication to bringing each child into wellness care
- Clinic Abroad experience provided opportunities for care
- Preceptorship in pediatric practice

Weaknesses:

- Lack of practice experience
- Limited collateral for financing
- New to the area

Opportunities:

- Few practices in the area concentrate on pediatric
- Few practices in the area have a degree from your school

Threats:

- Many other established practices in the area
- Other area doctors negative toward pediatric chiropractic

For more information on the SWOT analysis, see the QuickMBA web site:
<http://www.quickmba.com/strategy/swot/>

How will we know when we have succeeded in our Mission?

When you have completed your initial analysis, the third step is to set up performance standards and key success factors in each area of practice. These key success factors might be expressed as follows: If we _____, then we will be successful.

Some examples:

1. Finance: If we keep overhead low, gain a stable profit margin (percentage) of X...
2. Marketing: If we find a retain a patient base of X, ...
3. Operations: If we find and retain high value employees, ...
4. Customer Service: If we continue to find new ways to serve patients, ...

For each area, develop action items with a measurement and a deadline. For example:

1. In the financial area: By the end of the first year, overhead (expenses) should be no more than X percent of sales....
2. In collections, review receivables: By the end of the second year, our collections rate should be 90% of charges.
3. In patients: By the end of the first year, we want to increase our patient retention rate to 90%.

You get the idea; attach NUMBERS and DEADLINES to each of your action items.

Finally...

Putting it all together means:

- First**, having a picture of what you want your business to look like.
- Second**, setting up the systems to make this business work,
- Third**, measuring success every step of the way, and
- Finally**, working every day on your business to fully realize this picture.

Operating a practice is a never-ending task, but one that will bring you a lifetime of rewards.

And probably the most important, piece of advice:

Have fun!

Appendix A: Glossary of Business and Financial Terms

Accounts Payable. The amounts owed to suppliers of goods and services; also called trade credit. Accounts payable are current (short term) liabilities, as opposed to amounts owed to lenders and investors, which are long-term liabilities.

Accounts Receivable. The amounts owed the company by customers for goods and services.

Accounts Receivable Aging. A categorization of accounts receivable based on the length of time they have been outstanding.

Accounts Receivable Turnover. The number of times accounts receivable roll over during a year; used to measure the collections activity of a business.

Accrual Method of Accounting. A method of accounting that matches revenues when they are earned against the expenses associated with those revenues.

Accrued expenses. Short term liabilities that have been incurred but not paid.

Amortization. Periodic repayment of a debt (i.e., the process of gradually paying off a liability over a period of time), or the gradual apportioning of an amount over a set period of time to meet a future debt.

Appreciation. Gradual gains in value above depreciable cost or book value.

Asset. Any property, cash or other item having value, including intangibles, owned by a person or organization.

Balance Sheet. A condensed financial statement showing a company's assets, liabilities, and capital (equity position) as of a specific date.

Bench marking. Studying the products, services, and practices of other firms and using those examples to improve quality.

Brand. A verbal or symbolic means of identifying a product.

Budget. A document that expresses future plans in monetary terms.

Business interruption insurance. Coverage of lost income and certain expenses while the business is being rebuilt.

Buyout. Purchasing an existing business.

C Corporation. A type of corporation that is taxed by the federal government as a separate legal entity.

Capital. Funds that are needed for the base of a business; they can be in the form of owner's financial contribution, or in fixed form such as assets.

Capital gains/losses. Gains and losses incurred from the sale of property not used in the ordinary course of business operations.

Cash budget. A planning document strictly concerned with the receipt and payment of dollars.

Cash flow. The actual movement of cash within a business: cash inflow minus cash outflow.

Cash flow statement. A financial report that shows changes in a firm's cash position over a given period of time.

Cash method of accounting. A method of accounting that reports transactions only when cash is received or a payment is made.

Corporation. A business organization that exists as a legal entity.

Credit. A loan. The ability to borrow money; or a way of paying for goods and services after they have been delivered ("on credit"). Also, the right-hand side of a bookkeeping ledger, where the decrease of an asset or the increase of a liability is recorded.

Current Assets. Assets that will be converted into cash within one year, and assets that will be used up in the operation of a business within one year.

Current debt. Borrowed money that must be repaid within 12 months.

Current Liabilities. Amounts owed that will ordinarily be paid by a firm within one year, including accounts payable, wages payable, taxes payable, the current portion of the long-term debt, and interest and dividends payable.

Current ratio. A measure of a company's relative liquidity, determined by dividing current assets by current liabilities.

Debt. Debt refers to borrowed funds, whether from the owner or from other individuals, banks, or institutions.

Debit. An entry on the left-hand side of a bookkeeping ledger, where the decrease of a liability or the increase of an asset is recorded.

Debt ratio. The ratio of total debt to total assets.

Debt-equity ratio. The ratio of total debt to total owner's equity.

Demographics. The statistical study of human populations, especially with reference to size and density, distribution, and vital statistics.

Depreciation. Charges made to write off (decrease) the cost of an asset over its useful life; also, a decline in value.

Depreciation expense. Costs related to a fixed asset, such as a building or equipment, distributed over its useful life.

Double Entry. The most common system of bookkeeping, in which every transaction is recorded twice: once on the credit side of one account and once on the debit side of another account.

EPS (Earnings per share). The net profit for a given period divided by the number of shares of common stock outstanding at the end of the period; the increase in value of the equity of each share.

Equity. Equity is the owner's investment in the business. Unlike capital, equity is what remains after the liabilities of the company are subtracted from the assets. Equity investment carries with it a share of ownership and usually a share in profits, as well as some say in how the business is managed.

Financial Plan. A section of the business plan providing an account of the new firm's financial needs and sources of financing and a projection of its revenues, costs, and profits.

Financial statements. Reports of a firm's financial performance and resources, including an income statement, a balance sheet, and a cash flow (changes in financial position) statement.

Fiscal period. A company's accounting year.

Goodwill. An intangible (but depreciable) asset, accounting for the value of a company which exceeds the total value of its assets. Goodwill is based on such factors as the firm's reputation and customer loyalty.

Gross. Exclusive of any deductions (as opposed to net, after deductions).

Guaranty. A pledge by a third party to repay a loan in the event that the borrower cannot.

Income Statement. Statement which indicates profitability by comparing total revenue to total expenses for a specified time period. The difference is either Net Income or Net Loss.

Intangible Asset. An asset without substance, such as patents, trademarks, or goodwill.

Letter of credit. An agreement to honor demands for payment under certain conditions.

Limited Liability Company (LLC) or Limited Liability Partnership (LLP). A legal form of business organization with daily activities like a partnership, with income taxed as a partnership, but with the limited liability similar to a corporation.

Limited partner. A partner who is not active in the management of a limited partnership and who has limited personal liability.

Limited Partnership. A partnership with at least one general partner and one or more limited partners.

Line of credit. An agreement between a borrower and a bank as to the maximum amount of funds the bank will provide at any one time.

Liquidation value approach. Determination of the value of a business based on the money available if the firm were to liquidate (sell off) its assets.

Liquidity. The ability of a firm to meet maturing debt obligations by having adequate working capital available; also refers to the degree of readiness in which assets can be converted into cash without a loss; sometimes called "solvency."

Leverage. The use of credit to finance a project which yields greater profit than the cost of the credit.

Liability. That which is owed.

Liquidation. Converting assets into cash; also closing a company and paying off its creditors.

Long-term. Referring to an event expected well into the future, usually over one year in duration. For example, a long-term liability is one which is expected to remain for more than a year.

Market. A group of customers or potential customers who have purchasing power and unsatisfied needs.

Marketing mix. Product, pricing, promotion, and distribution (place) activities.

Marketing plan. Section of the business plan describing the user benefits of the product or service and the type of market that exists.

Mortgage. A long-term loan from a creditor that pledges an asset, such as real estate, as collateral for the loan.

Negotiable instruments. Credit documents that are transferable from one party to another in place of money.
Net Worth. The owner's equity in a business represented by the excess of the total assets over the total amounts owed to outside creditors (total liabilities) at a given point in time. Personal net worth is determined by deducting the amount of all personal liabilities from the total value of personal assets. Net worth generally does not include goodwill or other intangible assets.

Operating expenses. Costs related to general administrative expenses and marketing and distribution of a firm's product or service.

Opportunity Cost. The rate of return that could be earned on another investment of similar risk.

Overhead. Business costs for marketing, selling, and distributing its products and for general administration; costs a business incurs that must be paid even though there are no customers (fixed costs); a business expense (such as rent, insurance, or heating) not chargeable to a particular product or service.

Partnership. A legal relationship created by the voluntary association of two or more persons to carry on (as co-owners) a business for profit.

Patent. The registered, exclusive right of an inventor to make, use, or sell an invention.

Personal selling. A sales presentation delivered in a personal, one-on-one manner.

Prime rate. The interest rate charged by a commercial bank on loans to its most creditworthy customers.

Publicity. Information about a firm and its products or services that appears as a news item.

Profit. The excess of the selling price over all costs and expenses incurred in the sale. Also, the reward to the entrepreneur for the risks assumed in the establishment, operation, and management of a business.

Proprietorship. See Sole Proprietorship.

P&L Statement. Profit and loss statement, otherwise known as an Income Statement.

Retained Earnings. That part of accumulated corporate profits not yet distributed to shareholders as dividends; profits less withdrawals. This money is retained in the company's accounts to use for further investment and expansion.

Return on Equity. The rate of return that owners earn on their investment.

Revolving credit agreement. A legal commitment by a bank to lend up to a maximum amount.

Return on Investment (ROI). The annual yield or interest rate on an investment.

Revenue. The sum total of all resources a company receives from sale of products or services during a specified time period.

Risk. The chance that a situation may end with loss or misfortune.

Risk management. Ways of coping with risk that are designed to preserve assets and the earning power of a firm.

Sales Forecast. A prediction of how much will be purchased within a market during a defined time period.

Self-insurance. Designating part of a firm's earnings as a cushion against possible future losses.

SCORE (Service Corps of Retired Executives). An SBA-sponsored group of retired executives who give free advice to small businesses.

Service mark. A legal term indicating the exclusive right to use a brand to identify a service.

SBDS's (Small business Development Centers). University-affiliated centers offering consulting, education, and support to small businesses.

SBICs (Small Business Investment Companies). Privately-owned banks, regulated by the SBA, that supply capital to small businesses.

Sole proprietorship. A business owned and operated by one person, with unlimited personal liability of the owner, and with taxation of business profits at the personal tax rate.

Subchapter S Corporation. A type of corporation that is taxed by the federal government as a partnership.

Surety bonds. Coverage to protect against another's failure to fulfill a contractual obligation with the insured.

Short Term. Referring to an event expected to occur, or a debt or obligation expected to come due, within the next 12 months.

Target market. The specific individuals, distinguished by socioeconomic, demographic, and/or interest characteristics, who are the most likely potential customers for the goods and/or services of a business.

Term Loan. Money loaned for a five- to ten-year term, corresponding to the length of time the investment will bring in profits. The most common uses of term loans are for equipment and other fixed asset purposes, for working capital, and for real estate.

Total fixed costs. Costs that remain constant as the quantity produced or sold varies.

Total variable costs. Costs that vary with the quantity produced or sold.

Trade credit. Financing provided by a supplier to a given company, which sets up an account payable for the amount.

Trademark. An identifying feature used to identify a company's product.

UCC. Uniform Commercial Code. A standardized set of guidelines protected by law that set down how business transactions must be conducted.

Venture Capital. Funds available from new or current investors for use in a new company startup or for the development of a new venture within an existing company.

Venture Capitalist. An investor or investment group that invests in new business ventures.

Warranty. A promise that a product will do certain things or meet certain standards.

Working capital management. The management of current assets and current liabilities.

Working Capital. The difference between current assets and current liabilities; the amount available for current business operations. Contrasted with capital, a permanent use of funds, working capital cycles through the business in a variety of forms: inventories, accounts and notes receivable, and cash and securities.

Appendix B: Startup Spreadsheet

Startup Costs

	Financed	Owner provided	Total to be depreciated
Facilities			
Purchase price (building/land)	\$ -	\$ -	
OR Lease security deposit	\$ 1,000	\$ -	
Other deposits	\$ 4	\$ -	
Improvements/remodeling/fixtures	\$ 12	\$ 20	
Signage	\$ 5,055	\$ -	
Other	\$ -	\$ 50	
Totals	\$ 6,071	\$ 70	\$ 5,137
Total Facilities Costs			\$ 6,141
Equipment			
		Leased	
Office and reception room furniture	\$ 1,003	\$ -	\$ 3
Office equipment	\$ 1,000	\$ -	\$ 20
Exam/adjusting room equipment	\$ 108	\$ -	\$ 3
Diagnostic equipment	\$ 4	\$ -	\$ 50
X-ray equipment	\$ 1,003	\$ -	\$ 3
Therapy equipment	\$ 1	\$ -	\$ 8
Totals	\$ 3,119	\$ -	\$ 87
Total To Be Depreciated			\$ 8,343
Materials/Supplies			
Office supplies	\$ 1	\$ 10	
Clinic supplies	\$ 12	\$ 10	
Advertising/Supplies/stationery	\$ 810	\$ 20	
Totals	\$ 823	\$ 40	
Total Materials/Supplies			\$ 863
Other Costs			
Local licenses/permits	\$ 100	\$ -	
License to practice	\$ 125	\$ -	
Accounting fees	\$ 500	\$ -	
Legal fees	\$ 500	\$ -	
Insurance deposits	\$ 500	\$ -	
Other	\$ -	\$ -	
Totals	\$ 1,725	\$ -	
Other fees and costs			\$ 1,725
Total To Be Financed	\$ 11,738		
Total Leased (financed separately)		\$ -	
Total provided by owner as part of collateral		\$ 197	

Appendix C: Cash Budget Worksheet

The spreadsheet below is the first quarter of a 12-month spreadsheet that is included in the “practice spreadsheets” section of this book/CD. Click on the link here to go to the practice spreadsheets: [Link to practice spreadsheets.](#)

Cash Flow Projections	Month			Qtr 1
	1	2	3	
	Cash In			
Fees Charged	\$ 5,000	\$ 5,000	\$ 5,000	\$ 15,000
Fees Paid (assumes 85%)	\$ 4,250	\$ 4,250	\$ 4,250	
Receivables Paid (assumes 95% of previous month's balance)	\$ -	\$ 713	\$ 713	
Total Cash In (CI = Fees Paid + Receivables Paid)	\$ 4,250	\$ 4,963	\$ 4,963	\$ 14,175
Cash Out				
Rent	\$ 1,000	\$ 1,000	\$ 1,000	\$ 3,000
Utilities	\$ 150	\$ 150	\$ 150	\$ 450
Phones	\$ 100	\$ 100	\$ 100	\$ 300
Postage meter	\$ 20	\$ 20	\$ 20	\$ 60
Credit card machine	\$ 15	\$ 15	\$ 15	\$ 45
Equipment Lease Payments	\$ -	\$ -	\$ -	\$ -
Office Supplies	\$ 50	\$ 50	\$ 50	\$ 150
Clinic Supplies	\$ 50	\$ 50	\$ 50	\$ 150
Dues/Subscriptions	\$ 25	\$ 25	\$ 25	\$ 75
Advertising	\$ 150	\$ 150	\$ 150	\$ 450
Marketing/Patient education	\$ 50	\$ 50	\$ 50	\$ 150
Malpractice Insur.	\$ 100	\$ 100	\$ 100	\$ 300
Business insurance	\$ 100	\$ 100	\$ 100	\$ 300
Legal/Accounting	\$ 150	\$ 150	\$ 150	\$ 450
Licenses	\$ -	\$ -	\$ -	\$ -
Continuing Education	\$ -	\$ -	\$ -	\$ -
Employee Pay/Benefits	\$ 2,000	\$ 2,000	\$ 2,000	\$ 6,000
Misc. Expenses	\$ -	\$ -	\$ -	\$ -
Monthly Loan Payment	\$ 1,000	\$ 1,000	\$ 1,000	\$ 3,000
Total Cash Expenses	\$ 3,960	\$ 3,960	\$ 3,960	\$ 11,880
<u>Owner's Draw</u>	\$ 1,900	\$ 1,900	\$ 1,900	
Taxes			\$ 1,746	
Total Cash Out (CO)	\$ 5,860	\$ 5,860	\$ 7,606	
Cash Over/Short (CI-CO)	\$ (1,610)	\$ (897)	\$ (2,643)	
Accumulated Cash Over/Short	\$ (1,610)	\$ (2,507)	\$ (5,150)	

Appendix D: Personal Financial Statement

Personal Financial Statement of _____
as of _____, 200_

Assets		Liabilities	
Checking Acct. Balances	\$ -	Charge account balances	\$ -
Savings Acct. Balances	\$ -	Student Loans (Include even if in deferral)	\$ -
Money Market Accts.	\$ -	Auto loans	\$ -
Certificates of Deposit	\$ -	Loans against 401(k) or IRA accounts	\$ -
U.S. Treasury issues	\$ -	Loans against cash value of life insurance	\$ -
Cash value of life insurance	\$ -	Investment loans	\$ -
Stocks (current market value)	\$ -	Home mortgage(s)	\$ -
Bonds (current market value)	\$ -	Home equity loans	\$ -
Mutual Fund Accounts (current market value)	\$ -	Alimony (estimated total)	\$ -
Partnership interests	\$ -	Child support (estimated total)	\$ -
Other investments	\$ -	Projected income tax liability for current year	\$ -
Pension	\$ -	Personal Loans	\$ -
Employee savings plan	\$ -	Other loans	\$ -
IRAs / Roth IRAs	\$ -		\$ -
Home(s) (market value)	\$ -		\$ -
Automobiles	\$ -		\$ -
Boats, etc.	\$ -		\$ -
Collectibles/art/antiques (appraised value)	\$ -		\$ -
Furs, Jewelry (appraised value)	\$ -		\$ -
Other personal assets	\$ -		\$ -
	\$ -		\$ -
Total Assets	\$ -		\$ -
		Total Liabilities	\$ -
Net Worth (Total Assets – Total Liabilities)	\$ -		

Appendix E: Resume/CV Format

John S. Wagner, D.C.
1234 W. 19th Street
Davenport, IA 52800
319-558-4568
email: johnwagner@hotmail.com

Objective: To join a dynamic, creative chiropractic practice in order to improve my skills and increase the wellness of patients.

Education

1998-present XYZ College of Chiropractic, City, State
Anticipated graduation: June 2001
Degree: Doctor of Chiropractic

1994-1998 University of Nevada, Las Vegas
Degree: BS in Biology
Graduated Magna cum laude

Professional Experience

1999-present Student Extern
XYZ College Main Clinic
Supervising doctor: Larry Swank, D.C.

1999 Extern
XYZ College – Campus Health Center
Supervising doctor: Terry Bernard, D.C.

Special Training/Elective Courses

Ancillary Procedures I and II
Upper Cervical Advanced
Activator
SOT I and II

Volunteer Experience

1999-present Cornbelt Running Club
First aid staff at running events
Bix 7 Road Race

1999 CASI (Center for Aging Services, Inc.)
volunteer for physical exams

Awards and Honors

PCC Dean's List, every trimester since enrollment
PCC President's List, March 1997 and October 1998 trimesters

Extra-curricular Activities

PCC Campus Guides, 1998 to present
SICA – member 1997 to present,
Vice President 1998 and 1999
Vice President of Class 003 at XYZ College

Appendix F: Sample Cover Letter Format

Name

Address

City

Phone

Email

Date

Clinic Name

Address

City, State Zip

Dear Dr. _____:

I am writing to express my interest in the associate position you advertised in the Alumni listing. My resume is enclosed for your review and consideration.

I am a driven and focused individual who knows how to set goals and work to achieve them. Highlights of my qualifications include:

- Subluxation-based philosophy
- Skill in specific techniques
- Willingness to meet new challenges
- Commitment to seeing that everyone has equal access to chiropractic care

I feel certain my strong initiative and commitment to excellence, coupled with my leadership ability will be of immediate value to XYZ Chiropractic Clinic. My goal is to transition my enthusiasm, communication skills and philosophy into a position where I can provide superior health care to all patients. I am certain that my presence on your team will prove beneficial to your clinic. I welcome an opportunity to meet with you to evaluate your needs and my ability to meet them.

Thank you for taking the time to consider my resume. I will follow up with you within the next five days to provide you with any additional information that you may need. If you wish to contact me any sooner, please email me or leave a message on my cell phone: 563-888-0000.

Sincerely,

You

Enclosure: Resume

Appendix G: SS-4 Form

Form **SS-4** **Application for Employer Identification Number**
(For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.)
▶ See separate instructions for each line. ▶ Keep a copy for your records.

(Rev. December 2001)
Department of the Treasury
Internal Revenue Service

EIN _____
OMB No. 1545-0003

Type or print clearly.

1 Legal name of entity (or individual) for whom the EIN is being requested

2 Trade name of business (if different from name on line 1) 3 Executor, trustee, "care of" name

4a Mailing address (room, apt., suite no. and street, or P.O. box) 5a Street address (if different) (Do not enter a P.O. box.)

4b City, state, and ZIP code 5b City, state, and ZIP code

6 County and state where principal business is located

7a Name of principal officer, general partner, grantor, owner, or trustee 7b SSN, ITIN, or EIN

8a Type of entity (check only one box)

Sole proprietor (SSN) _____ Estate (SSN of decedent) _____

Partnership Plan administrator (SSN) _____

Corporation (enter form number to be filed) ▶ _____ Trust (SSN of grantor) _____

Personal service corp. National Guard State/local government

Church or church-controlled organization Farmers' cooperative Federal government/military

Other nonprofit organization (specify) ▶ _____ REMIC Indian tribal governments/enterprises

Other (specify) ▶ _____ Group Exemption Number (GEN) ▶ _____

8b If a corporation, name the state or foreign country where incorporated State Foreign country

9 Reason for applying (check only one box)

Started new business (specify type) ▶ _____ Banking purpose (specify purpose) ▶ _____

Hired employees (Check the box and see line 12.) Changed type of organization (specify new type) ▶ _____

Compliance with IRS withholding regulations Purchased going business

Other (specify) ▶ _____ Created a trust (specify type) ▶ _____

Created a pension plan (specify type) ▶ _____

10 Date business started or acquired (month, day, year) 11 Closing month of accounting year

12 First date wages or annuities were paid or will be paid (month, day, year). Note: if applicant is a withholding agent, enter date income will first be paid to nonresident alien. (month, day, year) ▶

13 Highest number of employees expected in the next 12 months. Note: if the applicant does not expect to have any employees during the period, enter "0-." Agricultural Household Other

14 Check one box that best describes the principal activity of your business.

Construction Rental & leasing Transportation & warehousing Health care & social assistance Wholesale-agent/broker

Real estate Manufacturing Finance & insurance Accommodation & food service Wholesale-other Retail

Other (specify) _____

15 Indicate principal line of merchandise sold; specific construction work done; products produced; or services provided.

16a Has the applicant ever applied for an employer identification number for this or any other business? Yes No
Note: if "Yes" please complete lines 16b and 16c.

16b If you checked "Yes" on line 16a, give applicant's legal name and trade name shown on prior application if different from line 1 or 2 above.
Legal name ▶ Trade name ▶

16c Approximate date when, and city and state where, the application was filed. Enter previous employer identification number if known.
Approximate date when filed (mo., day, year) City and state where filed Previous EIN

Third Party Designee

Complete this section **only** if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.

Designee's name Designee's telephone number (include area code)

Address and ZIP code Designee's fax number (include area code)

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.

Name and title (type or print clearly) ▶ Applicant's telephone number (include area code)

Signature ▶ Date ▶ Applicant's fax number (include area code)

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 16055N Form **SS-4** (Rev. 12-2001)

Appendix H: Trademarks and Service Marks

If you've found what you feel is a unique or unusual name for your business, you may decide you want to trademark it to prevent its use by others.

A TRADEMARK includes any word, name, symbol, or device, or any combination, used, or intended to be used, in commerce to identify and distinguish the goods of one manufacturer or seller from goods manufactured or sold by others, and to indicate the source of the goods. In short, a trademark is a brand name, e.g. McDonald's. A SERVICE MARK is the same type of device which identifies and distinguishes the services of one provider of services from services provided by others, and to indicate the source of the services. Service marks are often slogans, e.g., "The Computer Superstore" for CompUSA.

You are not required to register a trademark/service mark; you may start using it at any time. You can even use the TM or SM designation to indicate that your brand name/slogan belongs to you. However, federal registration has several advantages, including notice to the public of your ownership claim, a legal presumption of ownership nationwide, and the exclusive right to use the mark on or in connection with the goods or services set forth in the registration.

Trademark rights arise from either (1) actual use of the mark, or (2) the filing of a proper application to register a mark in the Patent and Trademark Office (PTO) stating that the applicant has a bona fide intention to use the mark in commerce regulated by the U.S. Congress. There are no federal regulations regarding the use of the designations "TM" or "SM." You can use the federal registration symbol (the letter R enclosed within a circle: ®) once the mark is actually registered in the US Patent and Trademark Office.

Before you register a trademark or service mark, you should check to see that no one else has already registered this mark. You don't need a lawyer to register your trademark or service mark.

For more information, and for a searchable data base of existing trademarks and service marks, check the US Patent and Trademark Office website: <http://www.uspto.gov/>

Appendix I: Office Leasing Glossary

(from moving.com: <http://moving.com/guide/gcorp/gloss.asp>)

Block Layout -- A sketch layout of a tenant's office requirements, including the desired number of square feet.

BOMA - Acronym for Building Owners and Managers Association; publishes a standard that reconciles differences in office measuring procedures.

Building Standard -- The project specifications set out by the owner, usually in conjunction with the project architect. Details the type, quality, and color selection available with respect to carpet, paint, light fixtures, wall coverings, and other project finishes. - Portion of building that contains restrooms, ventilation shafts, electrical distribution, elevator shafts, and stairwells.

Ceiling Plenum - Enclosed space above ceiling used to enhance the power of the air conditioning system.

Cockpit Office - Extremely small office designed for one or two people.

CPM - Abbreviation for Certified Property Manager, a person who is an educated professional. Professional in real estate management.

Default - Failure to meet an obligation, such as a monthly payment.

EMS - Abbreviation for Energy Management System, a system which minimizes cost while factoring in specified comfort temperatures.

Fully Serviced Lease -- Type of lease in which the rental payment includes other benefits, such as utility and janitorial expenses.

Gross Lease: A property lease in which the landlord agrees to pay all expenses which are normally associated with ownership, such as utilities, repairs, insurance, and (sometimes) taxes.

Net Lease: A property lease in which the lessee agrees to pay all expenses which are normally associated with ownership, such as utilities, repairs, insurance and taxes; also called closed-end lease.

Double-net Lease: A lease in which the lessee pays rent to the lessor, as well as all taxes and insurance expenses that arise from the use of the property. The lessor pays maintenance expenses.

Triple-net Lease: A lease in which the lessee pays rent to the lessor, as well as all taxes, insurance, and maintenance expenses that arise from the use of the property.

Gross Square Foot - Total building square footage.

HVAC - Abbreviation for Heating, Ventilating, and Air Conditioning.

IDRC - Abbreviation for International Development Research Council. International association promoting real estate management and research.

IREM -- Institute of Real Estate Management. Offers extensive networking capabilities.

Live Load -- The variable weight per square foot to which a building supports.

Load Factor -- The common area calculation used to convert usable square foot measurements to leaseable square foot calculations.

Net Lease -- Type of lease whereby the Tenant pays for part or all of the operating expenses. Essentially the opposite of a fully serviced lease.

Net Net Net (NNN) ("Triple Net") Lease -- Lease where tenant pays for all operating expenses.

Office Hoteling -- Strategy of minimizing space by eliminating personal offices for employees.

Phase 1 - Investigation regarding the safety of a real estate site.

Phase 2 -- More detailed investigation following Phase 1.

Phase 3 - Remediation process used for sites that have failed examinations in Phase 1 and Phase 2.

Shadow Market - Generally refers to the real estate market created by subleasing opportunities.

Touchdown Space -- Areas used by individuals in informal settings.

Turn Key - Tenant improvements provided by the landlord.

UPS - Abbreviation for Uninterruptible Power Supply, an arrangement in which there is a back up power source in the event of a failure or breakdown.

Walker Duct - Metal plating running along floor; facilitates implementation of electrical wiring.

Window Bay -- The square foot calculation to determine office sizes.

A Summary of the Building Owners And Managers Association (BOMA) Guidelines

The purpose of the standard method for measuring floor area in office buildings is to permit communication and computation on a clear and understandable basis. The BOMA Standard has been the generally accepted method for measuring office space for many years. It should be noted that this standard can and should be used in measuring office space in old as well as new buildings. It is applicable to any architectural design or type of construction.

Usable Area: This method measures the actual occupiable area of a floor or an office suite and is of prime interest to a tenant in evaluating the space offered by a landlord and in allocating the space required to house personnel and furniture. The amount of Usable Area on a multi-tenant floor can vary over the life of a building as corridors expand and contract and as floors are remodeled. Usable Area can be converted to Rentable Area by the use of a conversion factor. The Usable Area of an office shall be computed by measuring to the finished surface side of the office side of corridor and other permanent walls, to the center of the partitions that separate the office from adjoining Usable Areas, and to the inside finished surface of the dominant portions of the permanent outer building walls. No deduction shall be made for columns and projections necessary to the building.

The Usable Area of a floor shall be equal to the sum of all Usable Areas on that floor.

Rentable Area: This method measures the tenant's pro-rata portion of the entire office floor, excluding elements of the building that penetrate through the floor to areas below. The Rentable Area of a building is fixed for the life of a building and is not affected by changes in corridor sizes and configuration. This method is therefore recommended for measuring the total income producing area of a building and for use in computing the tenant's pro-rata share of a building for purposes of rent escalation. The Rentable Area of floor area shall be computed by measuring to the inside finished surface of the dominant portions of the permanent outer building walls, excluding any major vertical penetrations of the floor.

No deduction shall be made for columns and projections necessary to the building. The Rentable Area of an office on the floor shall be computed by multiplying the Usable Area of that office by the quotient of the division of the Rentable Area of the floor by the Usable Area of the floor resulting in the R/U Ratio.

Load Factor: The Load Factor is the percentage of space on a floor that is not usable, expressed as a percent of Usable Area. It is also known as the Common Area Factor or the Loss Factor.

$$\text{Rentable Area} \div \text{Usable Area} = \text{R/U Ratio}$$

Conversion Formulas

$$\text{Load Factor (Load)} = \text{R/U Ratio} - 1$$

$$\text{Usable Area} \times \text{R/U Ratio}$$

$$\text{Rentable Area}$$

$$\text{Rentable Area} \div \text{R/U Ratio}$$

$$\text{Usable Area}$$

$$\text{Usable Area} \times (1 + \text{Load})$$

$$\text{Rentable Area}$$

Appendix J: Elements of a Partnership Agreement

*** This list is for general purposes and is not intended to be all-inclusive. Consult an attorney before you prepare and sign any legal agreement!

Articles of Partnership should include the following information:

Name of the Partnership
Name of the partnership business (if different)
Term of the partnership
Lasts until dissolved on death of partner
Lasts until dissolved or partner withdraws
Lasts for set term of years
Lasts until set date
Purpose of the partnership (also might include partners' goals)
Contributions
Contributions of cash (equal or unequal). List amounts and when paid/contributed
Unequal cash contributions might be equalized by one partner's extra work in the business
Deferred contributions (monthly installments or contributions out of profit)
Payment of interest on contributed capital
Contributions of property (specify property, and whether loaned or contributed outright)
Intellectual property contributed
Contributions of services
What happens if failure to make initial contribution
Additional future contributions
Profits and losses
How distributed
Equal shares
Unequal shares, set percentages
Unequal shares, different percentages for profits and losses
Unequal shares, profits/losses keyed to capital contributions
Draws to partners (discuss how determined, limitations, when may draw)
Retention of profits for business needs
Salaries to partners
Management powers and duties
Skills contributed
Hours worked
Leaves of absence
All partners work in the business
How decisions (major/minor) make
Unequal management powers (in accordance with capital contributed, fixed percentages)

Financial matters
Periodic accountings, as requested by a partner, to determine profit/losses
Power to borrow money on behalf of partnership
Expense accounts authorized (not authorized)
Signatures required on partnership checks
Bank account
Meetings
Maintenance of records
Vacations (paid)
Sick leave policy
Outside business activities (permitted/ restricted/not permitted)
Ownership of business assets
Trade secrets
Patents
Copyrights
Business name
Transfer of a partner's interest
Sale to partnership
Refusal of remaining partner(s) to buy
Buy-Sell agreement (specific buy-out methods)
Continuity of partnership business
When a partner leaves
Non-competition clause
Control of business name
Expulsion from the partnership
Mediation and arbitration
Amendments (procedure)
Admission of new partners
General provisions
State law
Agreement is all-inclusive
Binding on all successors and inheritors
Severability

Appendix K: Questions to Ask a Bank

Explain your plan in as much detail as possible. Provide estimate of your financing needs (startup loan and working capital credit line). Ask if they would consider your request.

Can I receive both a startup loan and a line of credit?

What interest rate do you charge right now? Can I lock in that rate for a period of time?

What do you need in collateral? How much of the collateral must be in cash?

If I don't have collateral, what can I do?

Do you work with SBA loans? What do you charge for SBA guarantees?

What's required for a co-signer?

Are there any pre-payment penalties on this loan?

What kind of reports do you need to see and how often will you need them?

Once I present my business plan, how long would it before I would be approved and have the funding?

Can I get pre-approved before I receive my license to practice?

Are there other requirements (like having a checking account at this bank)?

Who would you recommend as an accountant?

Who would you recommend as an attorney?

Appendix L: Questions to ask when leasing

When is this office available?

What type of lease is this (gross, net, etc.)?

How are utilities metered (together? Separately)?

Are you willing to do remodeling to fit what I need?

Do you pay the real estate taxes?

Who pays

Utilities?

Interior maintenance?

Lawn care, snow removal?

Trash collection?

What are the terms of the lease?

Is there an option to renew?

Who maintains the signage? Are there any restrictions on the signs (interior/exterior)?

How do the floor coverings look? Will they be cleaned/replaced?

What deposit is necessary?

How are rent increases determined? How often is rent increased?

What about electricity/plumbing?

Is the building ADA accessible?

Is parking adequate?

Appendix M: References and Useful Web Sites

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Appendix N: Comprehensive Executive Summary

Think of this as the first act, where you set the characters and the excitement, but don't attempt to tell the entire story.

Company and Location

Cosgrove Chiropractic will begin to offer chiropractic services to people in Marion, Iowa, beginning August 1, 2004. The practice is organized as a sole proprietorship. Leased space is being sought for the practice.

Business/ Product or Service

[Describe your USP here]

The Market

The Market for chiropractic services in Marion, Iowa, consists of all people who are in need of care, but Cosgrove Chiropractic will focus primarily on families in the area.

Competition

Although Cosgrove Chiropractic offers unique services, we recognize that some potential patients may not differentiate us initially from our competition. There are x chiropractors in Marion and y chiropractors within a 10-mile radius from our practice.

Risk/Opportunity

The greatest risks in this practice are lack of business expertise. For this reason, Cosgrove Chiropractic has contracted with a practice management firm to provide startup consultations over the first year of practice.

Management Team

The management team is headed by Carol Cosgrove, B.S., D.C., a graduate of XYZ College of Chiropractic. In addition, Sam Temple, CPA, will provide accounting services, and Pam Martinson will provide legal assistance. A part-time front-desk person will be hired within the first three months.

Capital Requirements and Support for Financing

We seek \$43,000 which will enable us to fund our startup expenses and \$13,000 in working capital for the first six months of operations. Dr. Cosgrove will provide \$2,000 in already purchased equipment as equity and has a co-signer available. We expect cash breakeven within the first six months to support our financing needs.

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