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Authors

Birda, Abhinav

Zaino, Mallory L

Gold, Michael H

et al.

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Basics of building a private dermatology practice—a startup guide

Abhinav Birda¹ BS, Mallory L Zaino² MD, Michael H Gold³ MD FAAD, Steven R Feldman²⁻⁴ MD PhD, Brad A Yentzer⁵ MD FAAD

Affiliations: ¹Rosalind Franklin University of Medicine and Science, North Chicago, Illinois, USA, ²Center for Dermatology Research, Department of Dermatology, Wake Forest University School of Medicine, Winston-Salem, North Carolina, USA, ³Gold Skin Care Center, Nashville, Tennessee, USA, ⁴Department of Social Sciences & Health Policy, Wake Forest University School of Medicine, Winston-Salem, North Carolina, USA, ⁵Finger Lakes Dermatology PLLC, Freeville, New York, USA

Corresponding Authors: Abhinav Birda, Chicago Medical School, Rosalind Franklin University, 3333 North Green Bay Road, North Chicago, IL 60064, Email: abhinav.birda@my.rfums.org; Steven R Feldman MD PhD, Wake Forest School of Medicine, 4618 Country Club Road, Winston-Salem, NC 27104, Email: sfeldman@wakehealth.edu

Abstract

The growing demand for dermatologic services and shortage of dermatologic providers sets the stage for favorable market conditions to open a private dermatology practice. However, business-related education in medicine is lacking and the concept of starting a new practice may be daunting for dermatologists in any stage of training. We describe key components of starting a private dermatology practice. Topics include strategies to build a business plan, find a location, explore financial options, structure a legal framework, and incorporate branding and marketing.

Keywords: dermatology, medical entrepreneurship, private practice, start-up

Introduction

In 2022, there were 5,513 private dermatology practices in the United States. This number is expected to grow owing to an increasing number of graduating dermatologists. About 500 dermatologists enter the workforce per year, giving a compound annual growth rate of 1.8 percent [1-3]. However, the demand for dermatological services continues to outpace the supply of trained providers. The incidence of melanoma is projected to increase up to 600%, and similar growth patterns exist in

inflammatory skin disease, domestically and globally [4-6]. The rise in demand for dermatologic services and the relative shortage of dermatologists sets the stage for favorable market conditions to open a private practice. Education on the business side of medicine is lacking and the idea of opening a private dermatology practice may be daunting to graduating residents. Therefore, we performed an in-depth review to provide a framework for starting a private practice in dermatology.

Discussion

Business plan

A business plan serves as a blueprint for building a successful private practice in dermatology. It provides a comprehensive guide to the mission, value, target market, market analysis, organizational structure, services, and funding requirements. This section offers a concise overview of the fundamental components involved in establishing and operating a thriving dermatology practice.

Executive summary

1. Mission Statement: Craft a mission statement highlighting the specific goals and objectives of the dermatology practice, such as providing exceptional dermatologic care for inflammatory skin disorders/skin cancer, promoting skin health, providing aesthetic services, and enhancing a

patient's quality of life. This section should be concise and comprehensive to describe one's vision at a fundamental level.

2. **Value/Services:** Emphasize the specialized dermatologic services, including diagnosis, treatment, and prevention of various skin conditions. Highlight the importance of personalized care, patient education, and advanced treatment options available in dermatology. To build a successful practice in the long-term, broad themes of the patient-provider value exchange should be *implicitly and explicitly* communicated.

3. **Target Market:** Describe the target market for a dermatology practice, such as individuals seeking dermatologic care for medical, cosmetic, or surgical reasons. Discuss the potential patient demographics, such as age groups, skin types, or specific conditions the practice aims to serve.

Market analysis

1. **Industry Landscape:** Provide an overview of the dermatology industry, including recent trends, technological advancements, and emerging treatments. Discuss the increasing demand for dermatologic services due to aging populations, skin cancer awareness, and growing interest in cosmetic procedures.

2. **Market Positioning:** Analyze the competitive landscape of dermatology practices in one's target area. Identify key competitors, their strengths and weaknesses, and opportunities for differentiation. Highlight any unique expertise, specialized treatments, or innovative approaches that will distinguish one's dermatology practice.

Organization and services

1. **Practice Structure:** Describe the organizational structure of a dermatology practice, including roles and responsibilities of dermatologists, dermatology nurses, administrative staff, and any external consultants or partnerships with laboratories, pharmaceutical companies, or insurance networks.

2. **Comprehensive Services:** Provide an in-depth overview of the various services offered within a dermatology practice, such as medical dermatology, surgical procedures, cosmetic treatments, dermatopathology, and telemedicine options. Emphasize the comprehensive approach to patient

care and the integration of advanced technologies and treatment modalities.

Funding requirements and financial projections

1. **Capital Investment:** Outline the specific funding requirements for starting a dermatology practice, including costs associated with facility setup, equipment, medical supplies, staff recruitment, and marketing.

2. **Financing Strategy:** Discuss potential financing options, such as bank loans, private investors, or personal investments. Highlight the importance of financial planning and securing adequate capital to cover initial expenses and ensure smooth operations during the early stages of the practice.

3. **Revenue Projections:** Present financial projections, including anticipated revenue streams from patient consultations, procedures, insurance reimbursements, and additional revenue sources like cosmetic services or product sales. Highlight the potential for growth and profitability based on market demand and the unique value proposition of one's dermatology practice.

Location/demographics

The location of a dermatology clinic is a significant part of the success of the practice as a functioning business and the location will play a role in defining the goals and values of the clinic. There is a substantial gap between the aggregate supply of dermatology services and the demand for these services. As of 2017, a higher proportion of dermatologists (approximately 39%) chose to practice in the 100 most densely populated zip codes, while a mere 2% of dermatologists practiced in the 100 least densely populated zip codes [7]. The density of dermatologists is higher in metropolitan areas, with a rate of 4.11 per 100,000 residents. Non-metropolitan and rural locations yielded 1.05 and 0.09 per 100,000 residents, respectively. The implication of this is a more competitive market in major metropolitan areas. One way to identify favorable markets is to identify wait times in the area. Wait times greater than three to four weeks are associated with demand exceeding supply and may be a particularly suitable location to establish a practice [8-9].

In addition to finding favorable sites to build a practice, specific demographic indications of communities are important for consideration to deliver precise and optimal care to specific patient populations. For example, there is a strong correlation between demand for cosmetic procedures and the median income of a given zip code [10]. Geographic regions with a higher UV index have a higher incidence of squamous and basal cell carcinomas [11-12].

Physician Practice Specialists, a private practice start-up consulting group, compiled a list of “10 Key Questions to Address When Selecting Location” (**Box 1**).

Financing options of a new practice

The primary hurdle for dermatologists opening their practice is financing. Many new medical professionals begin their careers with little-to-no savings and potentially thousands of dollars of educational debt. Therefore, it is often wise for those aiming to establish their own practice to work with a larger physician group or practice directly after residency. This approach helps them build a solid financial base from which to invest and sustain themselves during the initial months of the practice before it becomes profitable. The amount of capital needed depends on a variety of factors, including location, size of practice, as well as scope of services offered.

Additionally, determining fixed and variable costs and a means to meet these costs is a daunting task with severe risk (**Table 1**). Third-party financing is one of the most common options for financing healthcare professionals. Third-party financing refers

Box 1. Questions to consider when selecting location.

1. How is the real estate market?
2. Can you ensure demographic data is aligned with your best patient?
3. Do you understand employment statistics?
4. Have you reviewed insurance payer outlook & current status?
5. Cost of living trends in the area?
6. Is the community thriving or surviving?
7. Is the city competitive for investment and jobs?
8. How will you attract new patients & what it will cost?
9. What location is comfortable for you long term?
10. What is the current competitive landscape?

Table 1. Costs in a dermatology private practice.

Fixed costs	Variable costs
Facility rental or purchase	Medical supplies
Renovations and improvements	Laboratory costs
Office equipment and furniture	Software and technology
Medical equipment	Prescription drugs
Licensing and permits	Staff wages
Insurance	Utility bills
Staff salaries and benefits	Maintenance and repair costs
Marketing and advertising	Continuing marketing expenses
Professional fees	Continuing education
	Commission or referral fees
	Travel expenses

to any entity that provides funding for a transaction between two other parties; typically this will be from a bank or private equity investment.

Medical practice loans are the most common financing option for dermatologists. These loans are available through large, traditional commercial banking entities and other private lenders, specifically tailored to the needs of physicians. They consider the potential for solid payback and offer favorable terms and interest rates. Medical practice loans typically do not consider the high amounts of debt incurred during medical school against the borrower. This type of loan provides funds for various purposes, such as inventory, working capital (day-to-day expenses), or equipment.

Dermatology practices often require highly specialized equipment, such as phototherapy units, lasers, and surgical instruments (**Table 2**). Medical equipment financing is a standard option for acquiring these specialized tools. With this financing option, the equipment itself serves as collateral and the repayment timeline generally corresponds to the equipment's expected lifespan. This arrangement allows dermatologists to spread the cost of expensive equipment over a period of time, making it more manageable.

Finally, a business line of credit provides a flexible financing option for dermatologists. It allows them to access funds for daily expenses as they arise during the start-up and operation of the practice. This option is preferable for borrowers concerned about borrowing more than they need and prefers to

Table 2. Dermatology medical supplies.

General (biopsy, skin tag/mole removal, cryotherapy)	Cosmetic	Mohs micrographic surgery
Surgical supplies: scalpel, biopsy punch, forceps, scissors	Surgical supplies: scalpel, forceps, curette, hemostatic agents, suture kit	Surgical supplies: scalpel, forceps, curette, hemostatic agents, suture kit
Local anesthetic and syringes with sterile PPE, dressing, and topical antiseptics	Local anesthetic and syringes with sterile PPE, dressing, and topical antiseptics	Local anesthetic and syringes with sterile PPE, dressing, and topical antiseptics
Slides, microscope, specimen container, and fixative solutions	Injectables: type A botulinum toxin (Botox), hyaluronic acid, calcium hydroxylapatite, poly-L-lactic acid	Tissue processing supplies: high-power microscope, cryostat, staining equipment, microtome
Liquid nitrogen, electrocautery or electro-surgical device	Laser hair removal/skin resurfacing, CoolSculpting®, microdermabrasion/microneedling device, chemical peels	Sterilization equipment (autoclave, antimicrobial chemicals)
	Chemical agents for injection sclerotherapy (hypertonic saline, sodium tetradecyl sulfate, chromated glycerin)	

use funds on an as-needed basis. However, business lines of credit often come with higher interest rates.

Payment and insurance contracts

Starting your own dermatology private practice involves navigating the intricacies of payment and insurance contracts to ensure fair and adequate reimbursement for your services. Negotiating contracts with insurance companies is crucial in establishing a sustainable and profitable practice. One effective strategy is to explore opportunities for joining an independent physician association (IPA) or accountable care organization (ACO). These organizations provide a collective bargaining platform, leveraging the strength of a group to secure favorable contract terms and reimbursement rates. By affiliating with an IPA or ACO, you can enhance your bargaining power and increase the likelihood of obtaining equitable contracts that align with the value of your dermatological expertise.

Location plays a pivotal role in influencing your negotiation power with insurance companies. Network adequacy, or the extent of your patient network and geographic coverage, can significantly impact contract discussions. Insurance companies are more inclined to engage in constructive negotiations when your practice is in an area with high demand for dermatological services and when you possess a substantial patient network.

Demonstrating the value and reach of your practice within the community can further bolster your position during contract negotiations. Remember, investing time and effort in negotiating fair and equitable contracts is a crucial step towards ensuring the financial sustainability and success of your dermatology private practice.

Staffing

Staffing primarily depends on the scope of care and patient population size. Most practices will have employees at the front desk handling paperwork, an office manager (billing/coding), and advanced practice providers (APP) trained staff for clinically relevant duties. Offices may also consider employing medical assistants or licensed practical nurses to assist with rooming, paperwork, and logistical services.

The traditional model is of one or a few physicians overseeing patient care of advanced practice providers APPs as assistants. Recently, nurse practitioners and physician assistants have been engaging in more clinical responsibilities. As of March 2023, nurse practitioners received full practice authority without physician oversight in 27 states [13].

The use of APPs medically trained staff provides benefits to the short-term costs and meets the demands of the growing population. Most can

perform similar roles to the physician, including diagnosis, biopsy, and cosmetic procedures. However, there are risks associated with using medical professionals with less training. In a retrospective chart review, the Number Needed to Biopsy before a confirmed melanoma diagnosis was made was 39.4 and 25.4 in physician assistants and dermatologists, respectively [14]. Despite performing fewer biopsies, dermatologists appropriately identified more skin biopsies than their APP counterparts [14]. Therefore, although the incorporation of APPs may assist in delivering care to a broader population for a lower cost, close follow-up with board-certified dermatologists is advised.

Legal checklist

Proper legal structuring ensures compliance with all regulations, mitigates potential risks and liabilities, protects intellectual property, and establishes clear agreements with employees and partners. Seeking the advice of legal professionals can help protect the practice from legal disputes and penalties. A robust legal foundation sets the practice up for long-term success.

Certifications and credentialing

Building a medical practice requires different levels of regulations and certifications (**Box 2**).

Business and liability

The first step to establishing one's business as a legal entity is to decide the type of *business structure that suits* specific needs. Physicians typically choose between *Professional Limited Liability Companies (PLLCs)* or incorporation (S or C corporations) for outpatient practices. The former is a lower-cost, less

complicated option that does not require much paperwork or the use of a tax attorney. On the other hand, becoming incorporated may require an annual fee (up to \$800 yearly) and several certified documents for eligibility. The benefit, however, is that it allows protection from the seizure of personal assets or assets from another business in the event of malpractice lawsuits or bankruptcy. It also offers grouped health insurance with employees, commuter reimbursements, or flexible spending accounts for dependent care.

Compared to other medical specialties, malpractice in dermatology is low. Only 18 states in the United States require some form of liability insurance. It is still, however, a point to keep in mind. For example, the Cunningham Insurance Group of Illinois organizes its malpractice cost structure for dermatology malpractice insurance with the proportion of time dedicated to "high-risk" services, patients seen per week, and prior claims. In a survey from the American Academy of Dermatology, most dermatologic malpractice policies have per occurrence limits of up to one million dollars, which is the standard in most states [15].

Branding, marketing, and advertising

The final step to any profitable business is to attract customers. Dermatology clinics are unique because many patients are *clients* looking for elective procedures. Marketing, advertising, and building a reputable brand within the local community can be invaluable. Advertisements and engagement with the community can also support retention and spread by word of mouth from existing clients. This is true for both cosmetic and medical dermatology.

Box 2. Checklist for certifications and credentials.

- Obtain an Employee Identification Number (EIN) by establishing a tax ID through the IRS and obtaining a CP-575.
- Establish a service address and register for a National Provider Identifier (NPI) and Provider Enrollment, Chain, and Ownership System (PECOS) through <https://nppes.cms.hhs.gov/#/>.
- Register for a Council for Affordable Quality Healthcare (CAQH) ID online or call the help desk at 866-484-8049.
- Identify all payers you plan to credential with, including commercial HMO/PPOs, Medicare/Medicaid, or any local health insurance groups you plan to affiliate with.
- Complete a W-9 form.
- Complete hospital credentialing with local groups you plan to affiliate with.
- Obtain a malpractice policy, which is required for commercial health networks.
- Contact payers and submit applications for accepted coverages.

The latter primarily relies on building networks with local physicians and medical groups for referrals. This is typically performed through networking at conferences or reaching out directly to build relationships with local family medicine practitioners, pediatricians, rheumatologists, plastic surgeons, and any other specialists that may require dermatological expertise.

A strong online presence in the era of digital information exchange may be helpful. Social media provides a platform for visibility, engagement with potential clientele, and self-promotion. In 2020, Google Trends reported substantial increases in search terms associated with dermatologists on Facebook and Instagram [16]. This, coupled with the massive growth in demand for elective dermatologic services, underscores the untapped client potential in building an online presence as a dermatologist, especially in highly competitive metropolitan markets that rely heavily on standing out to potential clientele.

Conclusion

In conclusion, this article highlights the key elements involved in opening a successful private dermatology practice. It emphasizes the importance of a well-crafted business plan and comprehensive market analysis to differentiate oneself in a competitive landscape. The availability of financing

options and strategically negotiated insurance contracts are crucial for financial sustainability. Establishing a strong legal foundation and adopting effective branding/marketing strategies contribute to building a reputable practice. By incorporating these elements, dermatologists can meet the rising demand for dermatologic services and provide exceptional care to their patients. The time, effort, and risks may be worthwhile given the autonomy, personalized care, and long-term relationships it provides.

Potential conflicts of interest

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