THE PROFIT LANDSCAPE OF A SOLO PRACTITIONER AND A GROUP PRACTICE EMPLOYEE

BY **MAUREEN WERRBACH**

I regularly hear from group practice owners, "Why would a therapist want to work for me instead of starting their own practice?"

This thinking is partially grounded in business owner mentality (and partially around fear based thinking), so it makes sense that group practice owners would think this way initially. That is, of course, the trajectory each group practice owner made, to go from being employed to self employed. And while yes, it will be the trajectory of some of your employees throughout the years of owning a group practice, that is not the case for every person you will hire– take a lesson from Radical Candor of different employee types.

Jule Herres, owner of Green Oak Accounting wrote a great article recently that discussed why a therapist would want to work for you, and I wanted to hone in and pick apart one piece of that article: true profit differences between being a group practice employee and a solo practitioner. Using the data compiled from the hundreds of solo and group practices Julie's company works with as an accountant, we've got some solid data that can help you navigate just one piece of the private practice puzzle: profits.

Let's first clarify the difference between income and profits.

Often, these two terms are confused with ones another. Overall income is referred to as the overall revenue. Think: all the money you make from clients being seen. Profits, on the other hand is the *actual* money you make after paying expenses, like rent, malpractice insurance, marketing, EHR, lawyer fees, HIPAA compliant products, etc. The money you can actually put in your pocket. People often use overall income/revenue as an indicator of financial success when in reality, it's what you actually take home, the profits that matter. As Mike Michalowicz, author of Profit First says, a million dollar company that has $50,000 in profits is just as financially successful as a $100,000 company that has $50,000 in profits. Overall revenue matters less than profits.

If we take that concept and apply it to private practice, there's more than client session income that needs to be taken into account when looking at profit that an employee or solo practitioner makes.

Looking at it broadly, solo practitioners definitely make more income (gross revenue) than an employee in a group practice makes in a paycheck. Where things get interesting is when we look at other areas of private practice work.

Let's look at a typical solo practice owner and employee of a group practice, both seeing 20 clients per week.

Let's say a group practice and a solo practice charge $120 per session. An employee, say, receives 50% of that income: so, $60 of that $120 session. After FICA taxes, that employee actually takes home $55 for that session.

The solo practioner charges the same $120 for a session. They can expect to spend around *30-50% of their income on operating expenses (around 30% towards overhead, 8% towards rent, and 10% towards administrative costs-like a billing company and virtual assistant/receptionist). They will then spend around 7% of their total income in self employment taxes. Taking that into account, they can expect to take home around $60 for that hour of work.

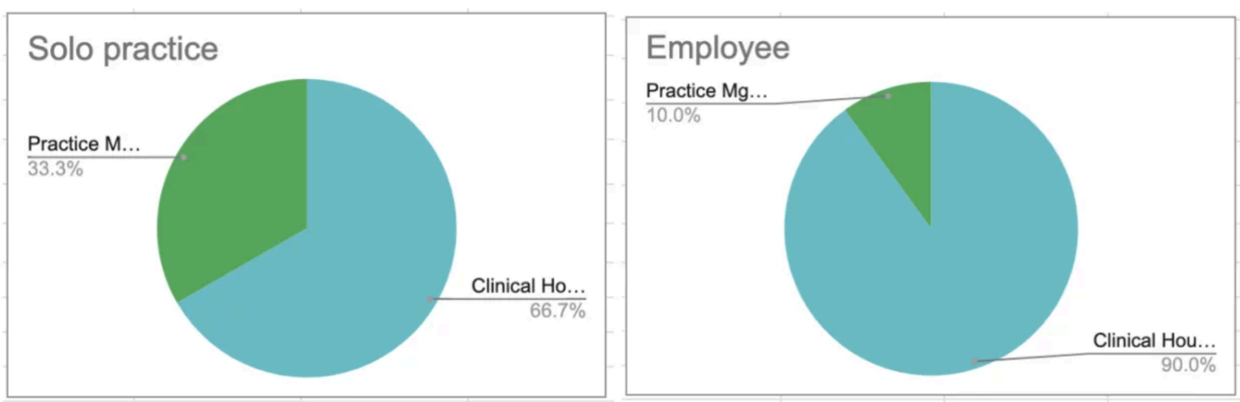
That means the solo practitioner will make around $5 (on average) more per hour than an employee, after expenses.

Here's where people typically stop.

What is rarely taken into account is overhead hours worked. Anyone in private practice will work some overhead hours (that is, hours beyond seeing clients). But because they are unpaid hours, many clinicians don't take the time to factor in those hours worked and calculate that into their pay.

One major benefit of employment in a group practice, is that most employees have a minimal amount of overhead work. On average, for every 20 hours of client sessions, a clinician in a group practice will work an additional two hours of overhead work (ie. notes, collaboration, and in some cases, marketing).

A solo practitioner is a business owner. That means they are managing all aspects of their business *on top of* seeing clients. A typical solo practice owner will spend around 12 hours a week marketing, networking, doing notes, collaborating, maintaining a website, social media, answer phones, manage billing, communicate with accountants, search for office space, just to name a few.



*An average solo practice owner will spend around 30% of their time managing their business/overhead work and a typical employee will spend 10% of their time doing non-client facing work.

This disparity in non-client facing work plays a huge role in factoring true profits. When we calculate the non-client facing work and include that into the overall pay (because all work should be paid work), the hourly rates look very different. Let's take a look.

An employee who works 20 hours a week, in our example above, maks $55 after FICA tax. When we include the two hours of work per week administratively, the real income is $50 per hour worked.

That solo practitioner, who was making $5 more at $60 per session (after expenses and taxes), their true profit after time spent managing their business comes down to $32 per hour worked.

Category	Solo Practice	Employee
Payment from Ins or Cl.	120	120
Overhead expenses	38	
Rent	10	
Admin	12	
Pay		
Self-Employment Taxes	8	
Pay/Commission	60	60
FICA withheld		5
Taxes paid by employer		5
Take home pay	52	55
Clinical Hours worked	20	20
Overhead hours	12	2
Total hours worked	32	22
Take home pay	1,030	1,108
Hourly Rate	32	50

The graph above, taken from average solo practice owners and group practice employees that Green Oak Accounting works with reflects the data discussed.

They are averages, meaning you'll find some group practice employees making more and some making less. Some who have more overhead work. You'll also find some solo practitioners who have lower overhead expenses and higher expenses. Some have $0 in admin costs because they do the work themselves (which increases their overhead hours worked, and in turn, lowers their hourly take home rate). Some solo practitioners will tell you they spend 30+ hours a week managing their business while others may spend much less. The point is that there's a lot to consider when comparing the two.

As a group practice owner who employs many people, and as someone who also worked in group practice myself and then started my own solo practice, I find that I really understand all the positions quite well. I was an employee who thought I could make a whole lot more as a solo practice owner. And I was a solo practice owner who loved owning her own business. I was also a solo practice owner who worked a lot outside of seeing clients. Making my business a brand. Marketing and networking. Figuring out billing and answering intake calls. I was still that person when I started my group practice. I also wouldn't have traded owning my own solo practice to go back to working in a group practice.

Because it's not all about profit for many business owners-it's also about legacy (but that's a blog for another time).

But one thing I learned was that it's important to know your metrics, and one of those metrics is profit. After years of business experience and growth and training from business experts, I've learned that there's so much more to revenue, income and profits than what we make seeing clients. And true business knowledge is knowing your real profit.

*These percentages are an average. Some solo practitioners will spend less on operating expenses, and some will spend more, depending on how economical they are.

Resources

Here are the resources and guides we recommend based on this article

All Call Technologies

All Call Technologies provides customized virtual phone services for mental health professionals and small medical offices. All systems include encrypted voice mail for HIPAA compliance. And "Dial Through" allows the clinician to make calls out and show the business number as the caller ID.

To receive a $50 discount off of your setup fee enter code TGPE.

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