



De Novo vs Acquisition: What's the Best Pathway for Urgent Care Growth?

■ HEATHER REAL

The urgent care industry is ever-evolving and flexing to meet the needs of patients and communities. This means the way operators enter the industry needs to be flexible, too.

While starting a new business in a freshly outfitted space in a growing part of town is highly appealing, it may not be a present option in some trade areas. And it certainly doesn't have to be the only option. Just like your future urgent care business, it will serve you well to be a flexible entrepreneur, open to all possibilities. Acquiring an existing business, or facility, may be a better option than building new. There are several factors to be considered.

As with any urgent care startup, you must start your evaluation of the acquisition target with the retail mantra: *location, location, location*. Site validation is a crucial step in evaluating this investment opportunity. Is the site positioning still relevant in the market? Communities age and gentrify and new retail destinations emerge. Does this site still benefit from the necessary consumer draw? Where are the competitors and how well-positioned is this site to maintain or recapture its patient draw? If the site is less than ideal, does a de novo opportunity exist in the trade area? Would you be leaving your investment vulnerable to being outpositioned by a competing urgent care taking the better space?

Beyond the market placement, the physical space and facility of an acquisition vs a de novo can have varying implications. Depending on your perspective, you could find benefit from savings on capital expenditures, such as FF&E, signage, and build-out. Generally, an acquisition will require very little in capex; probably some cosmetic touch-ups from wear-and-tear, and sometimes updates to current styles or personal preference. Some operators find more value in being able to custom design and build the

space to suit their business needs and design choices. In a market where optimal site-positioning can be attained, the de novo is often the better option.

The upfront work and planning required for a de novo vs an acquisition can look very different, too. Some of the more daunting tasks for urgent care entrepreneurs can be developing policies and procedures and hiring and training staff for the new business. A great number of policies need to be written and documented, and the staff then trained on, for the new business. From creating your employee handbook and training manual to standard operating procedures and disaster recovery plans. There are resources available to help get these started and only need your customization to reflect the spirit of your operations. On the other hand, an existing business will already have these documents developed, and may only require review and modifications, as needed.

When a business is acquired, there can be a bit of a shake-up with the staff. Savvy entrepreneurs will be prepared for potential attrition. During the due diligence phase, it's imperative to understand the roles of staff members and how well the business will function if the individuals in each role should change. And perhaps more importantly, what's the culture? If you're going to spend your first 6 months of operations fighting the staff before they resign or can be replaced, you might be better off starting afresh.

There are also benefits and challenges to staffing for a new business. It can be challenging to attract quality candidates for a startup; with no proven track record of success, potential employees may be hesitant to leave the stability of their position with the longstanding physicians' group or hospital to work at the new business that is only starting out.

On the contrary, you might find individuals who are inspired and energized by the opportunity to help build a thriving medical business. Handpicking the right staff can be the ticket to becoming a cornerstone of your community and ensuring your long-term success.



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Acquiring an existing business generally means you can expect to achieve break-even and profitability much faster than a startup. The caveat here is if the target business is challenged, or what might be considered a distressed asset. In this case, the capital expenditures and runway to positive cash flows can be long, but the payoffs can be substantial. Again, during the due-diligence process, the cost-savings and revenue-generating opportunities should be identified so the true value of the acquisition can be evaluated. And this assumes you can get “clean” financials.

There may be an acquisition strategy that has less to do with the physical asset, operating model, or even market positioning. The purpose of the acquisition might be in the less-obvious value, such as a contractual relationship with a major payer that is otherwise closed to new urgent cares.

While location is certainly extremely important for the urgent care business, a top-notch location will not be terribly beneficial if it is out-of-network with your largest payer(s). Acquiring a business with a less-than-stellar location may still pay off big.

The key to this strategy lies in the future plans; since adding facilities to existing businesses does not seem to be as limited as obtaining new contracts, this may be the

only way to enter your desired locale, and it may be the most lucrative option.

When starting in a market with known payer access limitations, there is a unique opportunity to grow the business through rooftop expansion, where other would-be startup operators could find themselves locked out of those coveted payer networks. It is imperative to know your long-term goals if pursuing this acquisition strategy. Prior to closing the deal, be sure you have confirmed the ability to assign the contracts to a new owner, or you may find yourself with a distressed asset and no payer contracts. Finally, when pursuing this strategy, a thorough rooftop growth plan should be developed with access to ample capital to support this growth prior to signing on the dotted line.

When starting your own urgent care, you can custom-build everything from scratch, from the space, to the staff, and everything in-between. Acquiring an urgent care provides the opportunity to enter the market with an already operational business. Both paths can be great starts and both will present benefits and challenges. The best way to determine which path is best for you is to determine which opportunity presents the most potential to grow your investment. ■



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