The One Reason Start-up Urgent Care Centers Fail
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"Fifty percent of new businesses fail in the first year and 95 percent fail within five years…" (1)

Headlines about small business "failures" can be daunting—and absent deeper consideration—they could certainly deter anyone from embarking on a new business venture. But scratch the surface and you'll find this data is really misleading—at least as it pertains to urgent care.

A common question of attendees at Urgent Care Association of America (UCAOA) conferences is "what percentage of urgent care start-ups fail each year?" Because there is no central registry of urgent care start-ups, because "failed" centers rarely publicize their demise, and because the range of operating models encompassing "urgent care" is broad—an accurate statistic cannot be provided. But anecdote and a better understanding of the reasons why urgent care centers "succeed" should reassure the prospective urgent care investor.

When Considering Government Statistics…

Small Business Administration (SBA) data provides little insight to urgent care "success" rates because it encompasses all industries, all regions of the country, and it often includes "non-employer firms"—businesses without employees—which are home-based businesses, individuals employed elsewhere who consult on the side, and independent contractors primarily in technical and construction trades (2). In fact, roughly 40 percent of new businesses report being a "hobby" that supplements the owner's income from another, full-time job (2). These non-employer firms—which start at a rate three times that of employer firms—represent three-quarters of businesses in the United States but account for only three percent of business receipts (2). So when counting the odds of business success, you must first consider the universe of businesses in a dataset. Most likely it does not specify urgent care in your community.

Second, the inherent assumption that businesses fail due to financial losses ignores the more common reasons why businesses "cease" including a change in employment of the owner, inviting new investors or reorganizing the business into a new corporate structure, selling, acquiring or merging into a larger business, passing on the business through inheritance, or "serial entrepreneurialism"—opening a new business beyond the original business. "Exiting a business entity" does not necessarily mean "ceasing operations" and "failures due to operating losses" is a small subset of all business "exits."

For Urgent Care Specifically…

Given the lack of applicability of government data and the lack of availability of data specific to urgent care—we rely on anecdote and experience to evaluate not the statistics of ***how many*** urgent care centers succeed or fail, but rather, ***the reasons behind*** their success or failure. Ultimately there is only ***one reason*** why urgent care centers "fail"—permanently cease operations—and that's because they've exhausted their working capital.

Working capital is the cash needed to make payroll, pay rent, buy supplies, and otherwise fund business operations. In a mature business, working capital comes from sales revenues but until an urgent care center attains break-even profitability (that is, when patient revenue exceeds operating expenses), working capital is supplied by bank loans and owner equity. When investors underestimate how much cash is needed, or incorrectly project the time it will take the center to break even—the center risks running out of cash before it breaks even and has had a chance to succeed.

Factors that may cause a delay in achieving break-even profitability include:
- Bad location—including lack of visibility, high rental rates, too much competition, or absence of consumer demand.
- Not getting contracted with major payers, soon enough, or contracting at unfavorable rates—insured patients will generally migrate towards providers who accept their plans.

- Not spending enough money on marketing, choosing ineffective marketing tactics, or not aggressively marketing the center immediately upon contracting with major payers.
- Not controlling staffing costs—including staffing to capacity rather than demand and not cross-training employees.
- Spending too much money on the facility build-out—going “all out” on furnishings, fixtures and equipment.
- Opening in the First Quarter instead of late summer—effectively missing out on the first January-March “busy season.”

To avoid exhausting working capital it’s imperative that a start-up accurately project how much money the operation will require—not only the costs of building out and opening the center, but also the costs of staying in business for one to two years until there is sufficient patient revenue to cover the center’s overhead. And upon making those projections, to spend time developing sound business plans, conservatively managing cash by controlling expenses, and having a reserve or credit line available should the time it takes to break-even be longer than anticipated.

References:

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