



SOCIETY OF ACTUARIES

**Health Spring Meeting
May 2008**

**Session # 9: A Mentor's Guide for New
Entrepreneurs: How to Hit the Ground Running**

David V. Axene FSA, MAAA, FCA
Lina S. Cheung, FSA, MAAA, FCA
William C. Cutlip, FSA, MAAA, FCA



2008 SOA Spring Health Meeting

A Mentor's Guide for New Entrepreneurs: How to Hit the Ground Running

Presented by:

David V. Axene, FSA, MAAA, FCA
President & Consulting Actuary
david.axene@axenehp.com

Axene Health Partners, LLC
www.axenehp.com

Overview

- Introduction
- Now what am I going to do?
- So what am I going to look like?
- What's the best way for me to learn?
- Q&A

Axene Health Partners, LLC
www.axenehp.com

Introduction

- Backed into the actuarial profession (i.e., needed a job!)
- Backed into consulting (i.e., got in to it for the wrong reason!)
- Discovered my entrepreneurial skills after I became a consultant (i.e., so now what?)
- Learned from some of the best in the industry
- Finally running my own show! (i.e., finally here!)

Axene Health Partners, LLC
www.axenehp.com

Now What Am I Going To Do?

- Not a big fan of formalized and structured planning but at least a basic plan is key to long term success
- Defining or identifying your vision/mission statements is step one!
 - Really nothing more than defining your passion or what you are really very good at
 - Identify what makes you unique, your customers will care about this

Axene Health Partners, LLC
www.axenehp.com

Now What Am I Going To Do?

continued

- It doesn't have to be narrowly defined but it needs to be specific. Few want to hire a generalist, usually they want specific skill-sets to get the job done
- You need to be very good at something, preferably something clients want or will want
- My mentor said: "Any half-a__ed actuary can be a good consultant, but only the best actuary becomes the outstanding consultant.
- Whatever you do needs to be the best to consistently win

Axene Health Partners, LLC
www.axenehp.com

Now What Am I Going To Do?

continued

- Example of my company's statement:

AHP's consulting mission is to two-fold:

- Have a positive impact on today's health care system assuring affordable, high-quality, cost-effective, patient-centered care for all.
- Provide a positive impact to our clients as they interact with the health care system

AHP will accomplish this mission by:

- Providing a workplace environment that encourages creativity and innovation, while providing appropriate financial rewards for individual involvement and effort.
- Effectively communicating our ideas, knowledge and work products to our clients and other publics to benefit them and to favorably impact their lives and their business operations.
- Utilizing value-based fee levels
- Attracting highly skilled, hard working staff with well-rounded knowledge about health care delivery systems, health care financial structures, clinical aspects of patient care and treatment and varied administrative organizations and processes.

Axene Health Partners, LLC
www.axenehp.com

So What Am I Going To Look Like?

- Variety of legal structures each with advantages and disadvantages
 - I chose LLC to limit personal liability while keeping the best advantage of a partnership and avoiding double taxation
- Key is to plan for growth from the beginning
 - If you plan to succeed you will likely grow
 - To attract others to your game you need to plan how you will do it before you start
 - Those who forget about their exit strategy often regret it

Axene Health Partners, LLC
www.axenehp.com

So What Am I Going To Look Like?

continued

- Key issues
 - Ownership allocation
 - Income distribution
 - Debt driven vs. cash flow driven
 - Accountability/incentives/rewards
 - Equitable to both leadership and staff
 - Reflects personal risk assumption
 - Scalable
 - Non-compete

Axene Health Partners, LLC
www.axenehp.com

So What Am I Going To Look Like?

continued

- Examples of answers to these issues
 - Ownership allocation
 - Fixed or floating
 - Fixed – rigid, less adaptable to changes that always happen, someone always loses (i.e., someone gets more than they should)
 - Floating – adapts to what is going on, strives for maximum equity
 - E.g., 50%(actual results) + 50%(hoped for results)
 - Reallocates both ownership and distribution

Axene Health Partners, LLC
www.axenehp.com

So What Am I Going To Look Like?

continued

- Income distribution
 - Use of profit centers (i.e., classes in QuickBooks) enables detailed tracking of results to see who contributed what and who deserves what
 - Directly associate all revenue and expenses with consultants responsible for that
 - E.g., Owner 1, owner 2, Consultant A, Consultant B, staff group i, staff group ii, corporate (sort of a pooling class)
 - Track results and pay from respective classes with fixed or variable compensation

Axene Health Partners, LLC
www.axenehp.com

So What Am I Going To Look Like?

continued

- Debt driven vs. cash flow driven
 - Decide whether you borrow for operations or build cashflow first
 - Cashflow model requires capital to get started until cashflow builds
- Accountability/incentives/rewards
 - Profit centers/classes maximize this
 - You get what you do
 - Minimize overhead charges
 - Reward business development

Axene Health Partners, LLC
www.axenehp.com

So What Am I Going To Look Like?

continued

- Equitable to both leadership and staff
 - Must be fair to both to avoid problems
 - Old law firm structures show what happens with the top stops working and takes more than they deserved (i.e., guaranteed destruction)
 - Good staff incentives benefits leadership more than expected, the more staff gets the more leadership gets, counter-intuitive but incentives are highly aligned
 - Too often leadership greed kills the golden egg

Axene Health Partners, LLC
www.axenehp.com

So What Am I Going To Look Like?

continued

- Needs to reflect personal risk assumption
 - Risk-free staff vs. risk-based staff
 - Risk-free staff
 - Staff that assumes significant portion of their financial risk
 - No billings, no or very limited pay
 - Limited by number of people you can find and retain
 - Risk-based staff
 - Staff that transfers risk to leadership
 - No billings, leadership loses money
 - Limited by demand for services

Axene Health Partners, LLC
www.axenehp.com

So What Am I Going To Look Like?

continued

- Scalable
 - Plan for growth
 - Limited scalability can be a serious detriment to long term success
 - Infinite scalability is key if you plan to grow and attract good people
- Non-compete
 - Not very popular but usually fair and can be fair
 - Limit bright staff from “stealing” what you have done

Axene Health Partners, LLC
www.axenehp.com

So What Am I Going To Look Like?

continued

- Example of how this might look
 - 10% member fee (i.e., cost to play)
 - 10% referral fee to anyone who produces a project (i.e., no one owns a client, but someone has to own a project)
 - 5% of collections to cover billing and collection and banking process
 - Fixed per head fee to cover firm overhead charges, graded by level of staff (i.e., student, ASA, FSA, etc.)

Axene Health Partners, LLC
www.axenehp.com

So What Am I Going To Look Like?

continued

- Risk-free staff can either get what's in their "bucket" or a salary they specify. They get the lesser of that salary or what their funds permit
- Risk-based staff get their salary and/or performance bonus (i.e., usually based upon billable hours and/or % of staff billings)
- Funds drained at year-end to minimize FIT on owners

Axene Health Partners, LLC
www.axenehp.com

So What Am I Going To Look Like?

continued

- Billable and unbillable expenses charged directly to profit center
- QuickBooks Balance Sheet for the class tells you immediately what is available for payment
- Journal entries required to process member, referral, collection and overhead fees

Axene Health Partners, LLC
www.axenehp.com

What's The Best Way For Me to Learn?

- Establish attitude of wanting to learn (i.e., accept that you don't know it all!).
- Biggest problem with an entrepreneurial spirit is a "know it all attitude"
- Be willing to be transparent so both sides benefit
- Go to SOA meetings, other forums and talk with people. Join the EAS section!

Axene Health Partners, LLC
www.axenehp.com

What's The Best Way For Me to Learn?

continued

- Find someone you respect, do some joint work, spend time, learn to give and take
- Proven approaches
 - Ask someone to come in and take a look and give you an honest assessment
 - Ask someone to do a peer review of recent projects
 - Develop a relationship with someone who has done it!

Axene Health Partners, LLC
www.axenehp.com

Q&A

Axene Health Partners, LLC
www.axenehp.com