Startup vs. Small Business for Physician Founders Transcript

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Introduction

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Startup vs. small business: the core difference

One of the most [music] common questions that I get is what is the difference between a healthcare startup and a small business or entrepreneurial venture?

Many people in the physician space teach about entrepreneurship and sometimes you can get confused between the two. These are not the same thing. So, what's the difference? The philosophy is very different from day one on whether you're starting a small business or if you're starting a startup. The philosophy is different, the structure is different, and the outcome is different. And the decisions you make in the very beginning will set the trajectory. So, I've been involved in both. I originally, before I went on my first startup journey, I had planned to start a small clinical practice in my home state using the contacts that I already had, the skills that I had, and myself as the healthcare delivery model. And I had planned to kind of grow it one-zy, two-zy, copy the program clinical model that I had built inside the hospital system, and and hopefully grow it to serve a few thousand patients. And that would have been a small business. It would have been very entrepreneurial. It probably would have worked. I think I could have really put together a practice for that model, but at the time I was approached by a venture firm that approached me and suggested a different path. And they really pitched it to me that like, this is a really valuable model. We could build this at scale. We build companies that are billion-dollar valuation, and we would want to make that the plan from the beginning. So, we spent 6 to 8 months incubating the concept, building the model, creating a really aggressive growth plan and contracting plan, and then pitching until we were able to pre-sell this concept before it was even built. We launched a company that had funding and a really clear plan to scale. And that's really the way that people do it in venture studios. And that company reached a multi-nine-figure valuation in less than 2 years. So, that is definitely in the startup realm, whereas what I was originally planning to do would have been in the entrepreneurship small business realm. So, a small business can really grow organically.

You can market to individuals. You may serve thousands of patients or clients, but not really on your plan to to reach millions. You might keep your whole cap table and make every decision as a solo business owner and iterate as you go.

And this is a very legitimate path. Some of the best businesses in the world run this way. If you want full control, if you don't want partners on your cap table, and if you're excited by building something sustainable in an organically growing way, rather than something designed for enterprise scale, this is a great option.

Why startups are built for scale from day one

And I actually I have had small businesses of my own, and I have amazing friends and colleagues who are very entrepreneurial, who run businesses, but it's not the same as what I would consider a healthcare startup. A startup looks different from day one. So, my firm partners had a floor. Every company they built had to have a clear pathway to a billion-dollar valuation. That was not even in my wavelength when I got started, but it was a standard they held themselves to, and they had a track record to back that. And before we launched, we did four things that a small business does not do. So, first, we spent months in incubation, gut-checking the model for scale. The plan was not how could I open a clinic and start to generate revenue and make this work. The plan was how could this model work with a million patients in it? Two, we built a business development plan for enterprise partnerships. So, small businesses grow, you know, one customer at a time. You have marketing pushes, things like that, but startups can grow tens of thousands of units per enterprise contract. Three, we pre-sold before we launched. So, if you have letters of intent or signed contracts, or you've been able to negotiate agreements on what you're going to do to serve a client, and a real pipeline of paying customers, and have all of that in hand before you actually

launch, it's honestly very easy to get funding when you have that in place with a really clear plan for growth and scale.

And then four, we built three tools that tied these things together. One is our pitch, our messaging. What are we doing? How are we explaining it to people? How are we getting stakeholder buy-in from all the different people that affected by our model. Two is a financial projection and analysis, a forward-looking financial model that can model both the initial ramp-up plan and the at-scale plan. And three, a product roadmap, understanding exactly what sort of tech we were going to build and when, and how much we were going to use to build versus buy. And so, as those three things mature together, you can raise capital on evidence, not on just this idea that like, oh, wouldn't it be great if we could serve patients in XYZ manner? You actually have a plan. Um and you can give up a lot less equity when your plan is more fully baked because you have better proof. So, you really have to take a mindset test. Are you willing to take on partnerships, potentially investors, and equity dilution to grow fast and big? If yes, you might be ready for a startup.

The four things startups do before launch

If you want full ownership and control, you may be building a small business, and that is fine. My caveat is that sometimes when people do their financial projections and analysis, they recognize that they have an early revenue stream that can support the growth of the business at scale, and they don't have to take on equity partners, which is great, too. But I'll give you an example. I know someone who runs a medical organization that has now started a second location, really successful, great margins, wants to make this a much bigger thing, and it's like, this person could find the growth of the business with the business in a one-by-one fashion. But if they want to open 10 and follow that same pattern, that's a startup, and you need capital for that.

So, the other thing to talk about is the tech enablement. Something that has changed in the past 5 years, and it really does affect both paths. So, the companies that will do well, in my opinion, in the next decade are the ones that combine technology with a real human component. So, competitors can clone a software-only company fast. The prices for tech platforms is going to go down, margins going to compress, and a service-only business has a human labor ceiling. So, you can hire a nurse, and you can get the output of one nurse. That growth curve can hit the wall. But what's changed is the back end. So, we all know about AI and that there's tools and agent workflows and structured data pipelines you can build. Um and and these can do the work that used to require a lot of employees. A small team of experts can now sit on top of a tech back end and deliver something that still feels very high-touch and boutique, and the cost structure looks more like a software company, but the product feels like concierge care. So, this matters for both lanes. If you're building a small business, AI can let you stay really lean, hold your cap table, really really give a much greater service for a much lower cost. If you're building a startup, your product roadmap has to have an AI backbone from the beginning. And then your financial model has to show how that layer bends the cost curve as you scale. So, if you can't articulate that, you might be, um, you know, building a startup that has not figured out what it sells. You should be selling tech-enabled solutions, but there will not be much of an appetite to buy platforms or connectors or tech that does one functionality as a SaaS model, like a software as a service model. Appetite will not be there nearly as much as it has been in the past. So, people used to buy technology solutions for their enterprises because it was like, oh, we got to solve that problem.

Here's a tool. I can pay a a licensing fee and and use that. Now, at the enterprise level, there will be a lot more pushback that like, hey, we have these developers, and we're doing a bunch of AI stuff. If I needed that functionality built, I could probably just build that in-house.

Ownership, funding, and capital decisions

So, there's a big difference between a tech-enabled services business and a SaaS model, and I think the SaaS-only models are going to struggle in the coming years for sales. People still want a human in the loop, especially when it comes to clinical care. They want a clinician's judgment, and they want someone to care for them. And the operations behind that human really can look very different than what it's looked like in the past. You can get a lot further as a solo founder than you ever could in the past. And as you're designing for scale, you can design systems that need a lot less people. There's frameworks that apply to both of these scenarios. The same discipline applies whether you're on the small business side or the startup side. So, keep the three-tool framework in mind at

every stage. You want your pitch {slash} message, your financial model, and a product roadmap that all tie together. And then you're going to apply this build versus buy discipline. If you can get off the ground by piecing together software subscriptions, you're going to do that because speed wins. You want to get there fast. But build your own platform when the data intelligence becomes part of the mode and you can really start to pull things together that's proprietary to your IP. You want to phase your like your branding and your marketing and your hiring to match your company maturity. I can give an example that you know, in a startup you have to be okay with like mediocre work of the first version of things.

Why AI and tech-enabled services matter now

I think back to the first logo we designed for my first company and like none of us founders liked it, but I can't remember what we paid for it like a couple hundred bucks. It was not good, but we didn't really need much at that point. We were we were pitching. We needed something to put on our pitch deck, but it was not a mature brand or message. And then as we grew, it grew into another version and then once we got our contracts, then that commanded the need for a real brand, like a real professional brand that we could bring a marketing agency in and really design our logo and colors and feel and and the messaging and all of that because we had all of these patients we needed to engage and at that point more expensive branding became a priority. That was in the road map. I think that as a startup you have to be willing to say what's what's the MVP that you're okay with, whether that's for your product, your marketing, the people you have on your team. What what's the smallest thing you can do as a on your own and in this incubation phase, this like prepared to launch phase becomes so important because it's like, how can I build a billion-dollar business? How can I build a company that serves millions of patients? That is a very different question than how could I open the doors of a clinic? Those are very different questions.

So, there has never been a better time to be a solo founder. You can do more of the core work yourself. You can hold more of your cap table and arrive at the funding conversation with real evidence in hand, but you still have to know what you're building. A small business is not a failed startup. It has a very different goal from the beginning. And a startup is not a bigger small business. They are different structures, different mindsets, different growth plans, and different outcomes. And so, you need to pick the lane that matches the the life and the business that you want and the kind of ownership you want and the kind of impact you want. Then you build the plan that fits that lane. And whichever you choose, assume from day one that you need a human component to your product with an AI layer behind it because that is the company that the next decade will reward. If you are interested in building a startup, I mean in my mind if you're going to build a company, why not go big? And why not make it at scale? And I would say that we are building a community of physician builders. If you are interested in building a startup, I would highly recommend you check out our website at startup physicians.com.

We have resources for physician founders and we are running a incubator program this year. So, if that applies to you, I highly recommend you check out our website. We would love to have you as part of the program [music] to come build with us together. Thanks. Thanks for listening to the Startup Physicians Podcast. [music] This community was built for doctors who want to contribute to the future of healthcare.

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