# Affording and Keeping a Good Associate

An associate's initial year is an investment in your future.

BY JON A. HULTMAN, DPM, MBA

For those who attended podiatric medical school in the 1970s, the primary career path for a graduate was private practice. One could either open a practice from scratch or become an associate in an established practice. Such opportunities still exist today but are competing with the possibility of employment by hospitals or medical groups. The challenge for an established practitioner wanting to take on an associate is determining how much s/he can afford to pay that associate without taking a cut in his/her own salary. Even though data has demonstrated that taking on an associate typically results in doubling a practice's revenue over a five-year time period, the most difficult challenge for the hiring doctor is determining how much to pay an associate in the early years of employment.

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A significant factor to consider when making this decision is that today's three-year residency trained doctors looking for employment are bringing skills that some practice owners are not currently offering. The addition of these new skill sets

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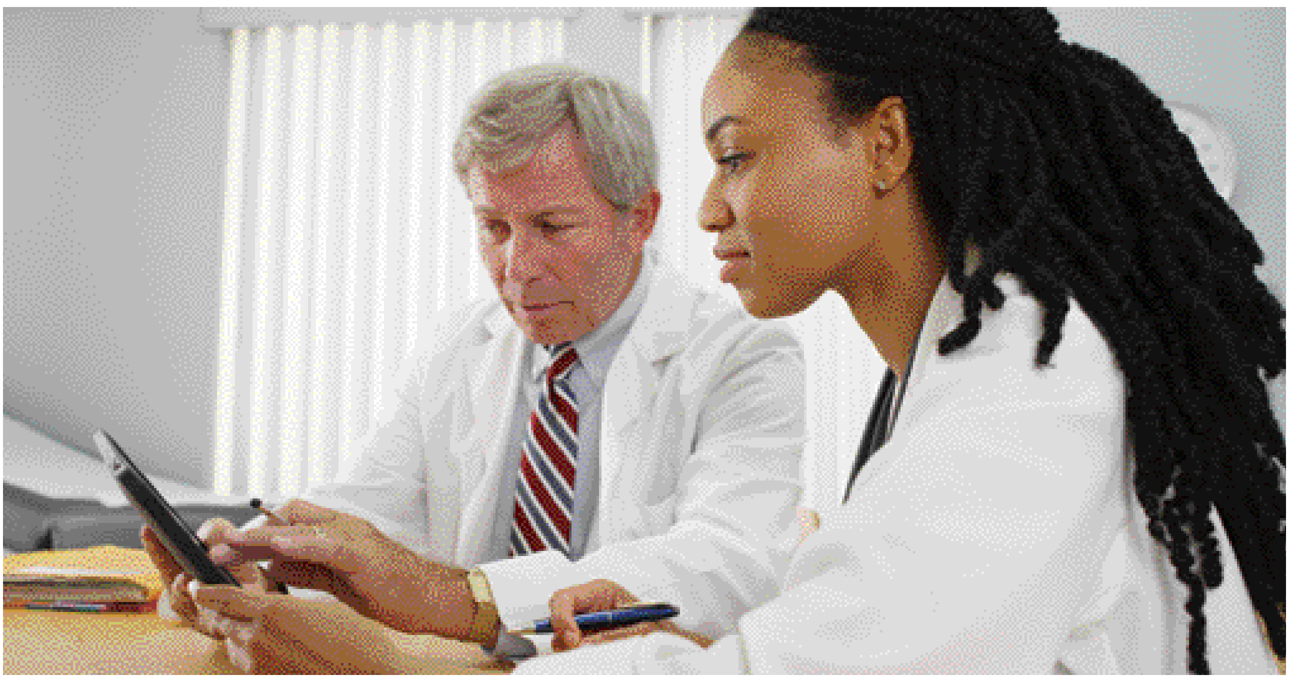

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should even shorten the time period for doubling a practice's revenue. For the hiring physician, it is still challenging, however, to determine what the practice can afford to pay an associate in the early years.

Many practices determine an associate's salary based on a percentage of his/her productivity. In the first year or two, the practice may pay a guaranteed base salary with a bonus structure based on a percentage of productivity beyond a specific threshold. The range for this threshold in such agreements is generally from a low of 25% of productivity to a high of 50%, with the average being around 35%. While I do not want to give a number for the amount a practitioner should pay an associate, I do want to point out how practitioners can afford to pay a higher percentage than they typically think will be possible—especially those who use their practices' current overhead percentages as guides in determining how much they can afford to pay.

As a model, let us examine a practice with a 65% overhead. The typical doctor's thinking goes no further than this gross profit margin of 35%. Accordingly, s/he is likely to believe that if s/he pays an associate more than 35% of productivity, s/he will have to cut his/her own salary. When thinking this way, the doctor is not taking into account the fact that any new revenue resulting from taking on a new practitioner will have a profit margin that is actually much greater than 35%. This is because, if overhead is kept relatively constant as growth occurs, the percentage of revenue that remains as profit increases. The vast majority of overhead is composed of fixed costs (such as rent, staff salaries, etc.) and should increase only minimally with growth, if at all.

At the same time, revenue will grow due to increases that the associate generates for the practice. The relevant yardstick for determining any profit from this new revenue becomes the variable costs—known as marginal costs. Those few marginal costs that do increase with increased volume (mostly supplies) represent a small percentage of the total overhead—typically around 10% of revenue. In this example practice with 65% overhead, any new revenue produced by the associate would then have a 90% profit margin, not 35%! This dynamic is what enables a practice to pay an associate an optimum percentage of productivity without the "owner" taking a cut in salary. In fact, a motivated associate could even create enough additional revenue and hence, profit, for the practice to pay him/her well while also creating an increase in the owner's compensation without requiring the owner to see more patients—the proverbial win-win.

Associates can increase growth quickly in a number of different ways. In the same way that the "founding" doctor had attracted patients and referrals, an associate living in the community will be able to develop new relationships through his/her hobbies, children's schools, community activities, and physician referrals. As noted earlier, current graduating practitioners also bring new skills to the practice—providing services that existing patients will benefit from. This growth can even necessitate the need for an additional associate.

Practice owners who grow organically in this manner often earn far more than the average DPM. The biggest constraint preventing this outcome from being achieved is that the associate is often undervalued from the start and paid less than a reasonable wage. This, in turn, results in his/her going elsewhere—creating a revolving door of associates when this mistake is repeated. Think of the first year of an associate's salary as an investment in your future and the future of your practice. You might even be surprised when, instead of taking a cut that first year, you actually realize greater profit. **PM**

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