LET'S TALK FINANCES

Art of the Associateship: Success Is in the Finances

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Editor's Note: Dr. Miller has designated Dr. Anderson as the primary author of this article, the first of two on associateships, recognizing his substantial contributions to both articles.

Finances are an important part of any business relationship. Money serves as the fuel for all business operations and ultimately the long-term success of owners, employees and customers. This is especially true in the world of health care. In chiropractic, one of the most common financial relationships involves agreements between doctors who own a practice and their associate doctors. Unfortunately, these agreements frequently fail.

Reasons Why Associateships Fail

Two issues typically lead to financial failure in these relationships. First, the established doctor isn't really prepared financially for an associate. The doctor is often either too busy or wants to take things to the next level. All too often, time has not been taken to determine if an associate *is truly affordable*.

Second, the associate doctor often focuses primarily on the established doctor's philosophy, style of practice and location. Financial reasoning is usually limited to simply trying to obtain what *seems* to be the best financial offer. Unfortunately, most prospecting associates have not taken the time to determine what level of compensation they will actually require.

The Established Doctor

The doctor thinking of hiring an associate must be attuned to the financial statistics of the practice. Services, collections, collection rates, days accounts receivable (days AR), total overhead, the cost of overhead per patient, profit per patient and overall profit are among the many financial statistics that must be tracked.

If these statistics look good and the practice is stable and/or growing, then the climate is probably right for additional growth through adding another provider. If these statistics are not good, are questionable or poor, then an associate isn't the answer. *Even if the practice is really busy*.

Busy does not equate with financial stability or success. Taking in an associate will not solve financial problems. Hiring an associate under these circumstances will fail for multiple reasons. The associate is not likely to have practice management experience that can help pull the practice out of a bad situation.

The cost of an associate will increase overhead. This is a problem for a practice that is already financially unstable, especially if a second location is established for the associate. If financial statistics for the practice are good, an associate can be a worthwhile pursuit. The doctor must then decide how much the practice's overhead can increase while maintaining profitability.

Surveying the compensation levels for associates in chiropractic reveals that the levels are low. Many associate positions pay a very small base, with the promise of bonus pay to make up the differences in an associate's financial needs and desires.

However, bonus pay for most associates isn't really bonus pay, but *commission pay*. Commission pay is based on services performed and collected. Bonus pay is financial reward for services and effort beyond what was required.

Unfortunately, commission and bonus pay arrangements are frequently structured such that the established doctor has little or no risk. All the risk is shifted to the associate. The reasoning for this is common: It is the established doctor's instinct to protect the practice he has built.

Taking in an associate is a risk. The associate may not have patient management skills, experience with insurance, staff management experience, etc. Even worse, an associate may have all of these skills and could leave and attempt to take scores of patients with them. This last fear is what has led to the extraordinary restrictive non-compete clauses in most associate contracts.

In short, many associateships are conceived and managed through overcaution and fear. This is ill-fated and seldom leads to obtaining the true goal: a long-term, mutually beneficial relationship. If a doctor is financially ready for an associate, steps can be taken to develop a plan that affords both parties a chance at achieving the desired relationship.

Are You Ready?

Doctors thinking of hiring an associate must prepare. As mentioned above, doctors must be attuned to their practice statistics. That is the starting point and from there, the doctor must have a long talk with their accountant.

The accountant should be able to provide information on how the associate's compensation package will affect the cash flow of the practice. Personnel expenses are typically the largest percentage of a practice's overhead and an associate's compensation package falls into this category.

Items that could be included in a compensation package are salary, insurance benefits, retirement plans, continuing-education costs, malpractice premiums, licensing fees and more. In addition to these items, tax implications must be considered, as well as costs of additional space and/or equipment. The accountant must review the associate contract, crunch the numbers and sign off on all items.

Many medical compensation packages provide a guaranteed salary for a period of time, followed by a switch to compensation based on collections. This is the package recommended here. The associate develops a practice during the guaranteed period. When the period ends, it is hoped that a percentage of the collections from the associate's practice (usually 50-60 percent) will then cover the associate's salary from that point.

This system takes stress off the associate while they are getting established. There is latitude for meeting expenses and allows for the learning curve of the initial months. There is a little more risk to the established doctor in this system initially, but the risk dissipates as the associate gains patients, knowledge and experience.

Four procedures will help the established doctor prepare for a medically based compensation package:

- Save for the associate's salary. The goal should be to have at least three to four months' salary set aside before the associate starts.
- Prospective associates and their families (if applicable) should visit the practice / community for two to three days as part of the recruitment process. During that time, the applicant can become familiar the practice, staff and community. The established doctor and staff can in turn become familiar with the applicant. It is a good idea for the established doctor to cover all or part of the expense for the visit.
- To help ensure that the potential associate is a good fit for the practice, it is important to

administer a personality test using the Meyers-Briggs Personality Assessment or a similar instrument. This can be administered during the recruiting visit. Personality assessments can be found online, through human resource organizations or administered by a professional. The information gained from personality assessments is invaluable in finding the right associate.
- Have every applicant complete a monthly budget. Hopefully, the compensation package will cover the applicant's financial needs. If the applicant's needs exceed the compensation package, one of two outcomes is possible. Either the deal will not be reached, or the income of a spouse or partner might be available to cover the deficiencies.

The Prospective Associate

There are three important considerations for doctors seeking associate positions. The first and most important consideration is compensation. If the finances are not right, the other considerations will be moot points. The second consideration is style of practice. The third is the community and living conditions.

A doctor seeking an associate position must under all circumstances have a written monthly budget (as mentioned above) that provides a realistic picture of the associate's financial needs.

Every personal and professional financial obligation must be listed, including mortgage / rent, utilities (gas, electric, etc.), insurance (car, health, home, etc.), food, clothing and all entertainment expenses. The budget should assume that some or all professional expenses (continuing education, license renewal, malpractice premiums, etc.) will be personal responsibilities. If the professional expenses are covered in the compensation package, the expenses can be removed from the personal budget once the contract is settled.

The total budget is then compared to the compensation offered. Obviously compensation must exceed budgeted expenses for the position to be a good financial option. If the financial option is good, the styles of practice match, and the community and living conditions are desirable, the probability for a successful relationship will be high.

The policies described above have been successful for us. The recommendations are not the only way to achieve success, but they definitely are an improvement over many of the "routine" associateship arrangements in chiropractic.

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