

How Much Production Does An Associate Have to Generate Before *You Lose Money*?

There have been a lot of articles written about how to set an associate's compensation: hourly, salary, production only, production + salary (aka ProSal), blended, split rate^{1,2} etc. Sometimes I wonder if most of the methodologies used by practice owners are equal parts guessing and negotiation. Often the decision to add an associate is the result of fatigue and the hope for some relief. Not a bad reason, of course. But trying to make a good business decision is made more difficult when you are just plain worn out.

The bottom line, however, is that regardless of what compensation methodology you use, the revenue generated by an associate should increase the total revenue to the practice. Both your projected (budgeted) *and* actual revenue growth must be a **net increase** to the practice *after the cost to employ the associate veterinarian is backed out*.

In order to calculate what revenue growth is necessary for your practice, you will first need to determine what percent of production is fair and reasonable to compensate your associate doctors. That's right, even if you pay an associate a salary or an hourly rate, you still must know how much profit you will need to achieve after covering the expense of employment.

I've created a template for you to use that should make this exercise easier. I encourage you to use this template not only as you consider whether or not to add an associate, but also on a monthly basis to make sure you are achieving your financial goals.

To use the template you will need the following:

- Total annual amount of medical and dental benefits paid by the practice, per associate. Do not include employee paid amount.
- Total annual amount of any other benefits paid by the practice (dues, licenses, PLIT, etc.), per associate.
- Total annual amount paid by the practice for CE, per associate.
- Annual number of paid days off, per associate.
- Average number of hours worked per week.
- Total employer paid taxes expressed as a percent, per employee.

The template asks you for an annual salary amount. Plug in a number you believe to be a fair and reasonable figure.

The model will then calculate the *true total annual compensation*, what I refer to as the fully loaded compensation. You will then be able to evaluate two important factors:

1. The hourly rate linked to the fully loaded compensation and average hours worked per week.
2. The amount of production *required* to cover the associates fully loaded compensation and provide a gross profit *that you determine to be adequate*. Specifically, what percent compensation is linked to what level of production.

When you evaluate a fully loaded compensation amount, you will want to consider an annual production at the 24% - 25% level. If you complete the template and decide to leave out some of the employer paid amounts or you do not offer some (medical/dental for example), you will want to consider an annual production in the

¹ Blended percentage compensation: A single percentage that applies to all medical services and product production.
Split rate percentage compensation: Different percentages that apply to medical services and product production.

² Recently I was reminded of a series of articles written by a colleague and published in Veterinary Economics a while back describing blended vs. split rate compensation. In one of the articles there was a form that outlined what production should be credited to the doctor and what should be credited to the hospital. I was shocked to see that dental cleaning was listed as credited to the hospital. I won't use your time right now to discuss why I think this is a horrible idea. If, however, you would like to understand why I feel this way, please go to my blog: <http://vetbiz.wordpress.com> where I've recently posted an article about it.

21% - 23% range. In a nutshell, the fully loaded compensation amount is what it costs you, the practice owner, to employ the associate.

Please note that the template is based on a blended methodology. It will, however, give you sufficient information even if you are using a split rate formula. After all, even a split rate formula can be viewed as a single percentage of compensation.

Here are the things that I believe you should consider when evaluating what manner of compensation, and how much to compensate an associate.

1. Where is the revenue coming that the associate brings to the practice?
 - a. Is it new revenue to the practice (a new skill the associate brings);
 - b. Is the revenue simply a re-distribution of what is already coming to practice;
 - c. Is the associate generating revenue from existing clients who have to wait a long time to see their doctor of record? Similar to a re-distribution of existing demand but this can also be viewed as a way to retain current clients by getting them in sooner.
 - d. Is it genuinely new revenue that is not currently being generated due to a shortage of doctor supply?
2. What are the total of all employer paid benefits (include veterinary discounts on products and supplies)?
3. What is the total of employer paid taxes?
4. What is the revenue potential for your trade area?
 - a. Do you expect your trade area potential to increase, decrease or stay the same?
5. Do you have an accurate and reliable system in place to track and report each doctor's production?
6. Are you, or the associate you are considering, risk averse?
7. What is your tech to doctor ratio? Specifically, do you have enough technical staff to act as doctor extenders or are doctors required to perform tech duties? Are your techs licensed/credentialed?

The table on the next page offers suggestions about what type of compensation plan to evaluate given the considerations above.

Compensation methodology to consider if:

Considerations	Compensation Methodology
The revenue is new to the practice due to new skills or current unmet demand	ProSal, Production only
The revenue is a re-distribution of current income or the result of clients having to wait a long time to get an appointment	<i>Evaluate your appointment schedules and hours of operation first to determine if another doctor is needed;</i> Salary; Hourly
Your practice provides generous benefits including a high staff to doctor ratio	Production only or ProSal
You anticipate growth in your trade area	Salary, ProSal; Production only
You anticipate a decline or no growth in your trade area	<i>Evaluate your appointment schedules and hours of operation first to determine if another doctor is needed;</i> Hourly; ProSal
You have an accurate and reliable system in place to track and report each doctor's production	All methodologies
You ,or the associate you are considering ,is risk averse	Salary; Hourly
You have a low or mid level technical staff to doctor ratio	Salary; Hourly