

WHAT IS THE RETURN ON INVESTMENT (ROI) OF AN ASSOCIATE?



I've experienced a surprising phenomenon that I'd like to share with you.

The Background:

Last year, a client hired an associate who worked two days per week. Four months ago, he resigned amicably, giving ample notice and subsequently established a practice far from the area, without soliciting former patients or staff.

However, a startling statistic has emerged: since the associate's departure, the average monthly gross income is \$22,000 higher!

How Is This Possible?

Those who employ associates might find this familiar. My client devoted considerable time each week to keeping the associate busy and satisfied, often assigning her own patients to him to maintain his workflow. On an hourly basis, he produced 60 to 70% less than she did.

Additionally, managing long-term patient inquiries about the "new guy" became a significant hassle, leading to disruptive questions such as:

1. Why can't you see me?
2. Does he know what he is doing?
3. How many years has he been a dentist?

Addressing these concerns and managing related administrative tasks consumed at least an hour each day, detracting from her capacity to treat patients.



The Financial Impact:

After his departure, overall practice production increased by \$22,000 per month. She reclaimed the downtime previously spent managing the associate and became much more productive, working twice as fast as him. Her schedule is now fully booked weeks in advance.

Some Quick Stats:

1. Reduced wages from parting with a part-time dental assistant (~\$2,000 per month).
2. No associate compensation (\$8,000 per month).

The Bottom Line:

Monthly free cash flow has significantly increased. When predicting the practice's appraised value on a forward-moving basis, it's expected to rise substantially.

Free Cash Flow is the ultimate measure of value and is the preferred methodology of most banks and accountants.

All other metrics, such as the easy-to-manipulate EBITDA, while useful, are not empirical.

Consider the potential benefits of redirecting your daytime energy towards your staff and patients, rather than managing an Associate:

1. Reduced administration.
2. Fewer patient complaints.
3. No more redoing another dentist's work.
4. Decreased regulatory and legal concerns.

The infamous R. K. House once wrote that most Principals are subsidizing their Associates.

Next Steps:

1. Are you interested in exploring what your numbers might look like as a solo dentist office? I can assist you in creating that spreadsheet.
2. Would you like to be included in the 6-month follow-up to this case study to learn how much the practice value increased?

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