Canadian Audiologist
The Official Publication of the Canadian Academy of Audiology

Sound Business Sense

Published September 2nd, 2024

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Editor's Note: *CanadianAudiologist.ca is honoured to welcome Dr. Bob Traynor to our family with his new column called Sound Business Sense on important business issues that affects the audiology community. Because this is Bob's inaugural column, we have decided to run this important addition as both an article and as a column in this issue.*

When entering the audiology profession, neither business management nor related economic concepts were part of our career goals. The focus, of course, was on how and when to provide a myriad of audiological evaluations, interpreting those results, getting certified, and licensed. Subsequently, energy and focus were devoted to treating hearing and balance difficulties using products and rehabilitative services suited to patients' best interests. As clinicians move from merely a clinical role to the huge responsibility of owning and managing a clinic, they must realize that audiology is unique and requires an understanding of basic business concepts.

The late Dr. Paul Drucker (1909–2005), considered one of the world authorities in management, ethics, and business planning, stated that business management must always, in every decision and action, put the economic performance of the business first (Drucker, 2001). According to his thinking, a business can only justify its existence by the economic results it produces. While this may be true for other businesses, the business of audiology is considerably different in that there are ethical as well as profit considerations, which, at times, may be at odds with each other.

Taylor, (2012) has stated that, on the one hand, there is a fiduciary responsibility to optimize each patient's hearing and balance predicament. On the other hand, there is a need to make a profit to stay in business and serve these patients while motivating the audiologist. These traits are equally important to long-term business success but require vastly different skill sets. For example, the medical/diagnostic and rehabilitative side of the equation requires great attention to detail, impeccable communication skills, and the ability to collect precise information using accurate testing methods -- all toward promoting the best interests of each patient. In contrast, the commercial side of the equation requires generating revenue and profit while controlling expenses. With the possible exception of dentistry and optometry that also have this fiduciary responsibility, this dichotomy sets forth the need for commercial strategies quite different from other typical

businesses. While *our* business is quite different from selling hot dogs, balloons, gift shops, groceries, restaurants, hardware, gas stations, and others, the same economic variables with their benefits and limitations apply. Thus, it is essential to understand some basic business concepts.

In the early days of practice ownership, I simply thought that business terms and indicators were *jibberish* that had no real relevance to my everyday audiology practice, after all, "*I am an audiologist caring for the hearing and balance impaired, these do not affect me*." As I took the time to review these economic terms and indicators, the proverbial light bulb over my head lit up brightly. I soon found that understanding their meaning might be the difference in the success or failure of expanding the practice, hiring a new audiologist, using one product over than another, and other important business decisions. This may seem a bit like that hated general education class, Business 101. Hated then and maybe still be hated now as getting through that one may have required some traumatic heavy academic lifting to count for course credit. Running a practice, however, requires a need to know basic business concepts, vocabulary, and some specific procedures, but not the heavy lifting, for that we can hire professionals.

Silber (2024) sums up economics as "Like the Holy Grail, the perfect economic model is an elusive target for thousands of Ph.D.'s in private industry." Silber affirms that an orientation to the fundamentals and vocabulary should be reviewed, then "leave the windmill theories for the theoretical Don Quixotes to chase after." We save that for accountants, lawyers, and others that we now hire to assist with our business details.

So in an effort to understand the essentials of ***Sound Business Sense****……let the Games Begin!*

Macroeconomics & Microeconomics

Economics is generally split between the analysis of how the overall economy and single market's function. The overall view or "big picture" is called *macroeconomics*. It is concerned with generalized issues such as employment, the current gross domestic product, inflation, and the intricacies of the national debt, and other overall national issues. In macroeconomics, the big picture is how all consumers interact with national economic conditions that generate economic conditions. These are referred to as *aggregate variables.* Smaller area economics or the "small picture" is called *microeconomics*. Major concerns center around how supply and demand interact within individual markets relative to the provision of local goods and services. In microeconomics, the object of analysis is a single market or product (such as hearing care).

Macroeconomics is part of the 24-hour news cycle and bombards viewers daily with myriad incomprehensible terms and economic rationales worldwide. As audiologists, attending to economic conditions or terms is not our nature. Subsequently, clues to necessary strategic adjustments in our practices become lost in the background noise of the evening news. The calculations and terms that describe the economy's direction and health, known as *economic indicators*, provide essential information regarding the strength or weakness of the economy in real time. In future discussions, Sound Business Sense will explore some of the specifics of economic indicators.

Macro-Economic Structures

No matter the setting, an audiology practice is a business providing products and services within a specific economic structure. Burrow et al (2016) sets forth three types of economic structures: a

market economy, a mixed economy and a command economy. These economic structures represent a method for governments to decide how to use their resources to produce goods and services.

- ***Market Economy.*** A market economy is an economic system in which individual buying decisions determine what, how, and for whom goods and services will be produced. For example, the more patients that decide to use hearing aids, the more these devices are produced to meet the demand. Over the past few years in audiology clinics in North America, the trend has reversed from recommending mostly in the ear (ITE) hearing devices, to primarily receiver in the ear (RIC) devices. Consumer purchasing decisions, therefore, have caused hearing device manufacturers to use more of their resources to produce RIC devices than ITE instruments. Thus, in a market economy, individual consumers make their own decisions about what to purchase and, therefore, collectively they inadvertently determine how a manufacturer will use their production resources. In a market economy, such as the free-enterprise systems found in the United States, Canada, and other western counties, individual citizens rather than the government own most of the factors of production, such as land, manufacturing facilities and other resources. While these countries are an great example of a free-market system, there are no *totally free* markets..

- ***Mixed Economies.*** The economies of the United States, Canada, and most Western countries are predominantly market economies. The assumption is made that market forces, such as supply and demand, are the best determinants of what is right for a nation's well-being. Economies of the US and Canada and most other "free" markets are actually *mixed economies* as they are controlled to some degree by the government. For example, both the US & Canadian governments restrict the sale of alcohol to minors, thus limiting the "free" market. The same limitation applies to medications that must be prescribed by a state or provincially licensed physician and dispensed by a licensed pharmacist. These markets and other Western economies are generally free markets. Still, some government interventions regulate certain products and services, so they are technically referred to as *Hybrid Market Economies.*

- ***Command Economies.*** The command economic system is not operated on the supply and demand principle but managed by a central planning authority, usually under control of the country's government that owns most of the production factories. This authority determines what, how, and for whom goods and services are produced and controls the prices charged and the resources. Countries that adopt a command economy are often dictatorships or communist regimes where the government, rather than consumers decide how production resources will be used to meet the population's needs. In command economies, there are often shortages of various products creating huge black markets that meet the consumers' product demands.

Market economies, technically hybrid market economies of most Western countries are subject to natural economic cycles, which consist of a pattern of irregular expansion and contraction.

This will be the next topic of …….. ***Sound Business Sense****!*

References

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