



SPARK TOOLS

BONUSES & COMPENSATION STRUCTURE



A Tale of Two Doctors

Once upon a time, two doctors decided to start a dental practice.

Their goal was to build the kind of practice that would attract patients from far and wide, a practice that offered not only the most excellent care but the most caring and detailed service.

They made sure to hire well and brought together some of the area's finest team members. They built a team of hard workers who were friendly, motivated, and determined to make the practice successful.

For the first two years, the employees and the doctors worked diligently to build a patient base and turn a profit. In year 3, production skyrocketed (and so did profits). The doctor owners were delighted with the results and decided to give all employees a bonus and a salary increase.

For the next 7 years, this process repeated itself.

As long as production and profits increased, even marginally, the owners doled out salary increases to their devoted team.

But, then it happened.

One year, the second-quarter results came back, and shockingly, production and profits were down. This had never happened before, but no one worried. You see, everyone had been riding so high for so long, no one was too shocked. They all figured it had just been a “slow quarter” and things were bound to turn around by the end of quarter three.

But when the third-quarter numbers came in, they were also a little lower. By the end of the year when the final numbers were calculated, the truth was there in black and white.

For the first time in a decade, annual production and profits had gone down.

The two dentist owners, having realized that they were still far more profitable than they had been 5 years prior, figured that it was just a temporary setback, so they increased salaries in hopes that it would motivate their employees to do even better.

A year later, production and profits dropped even further.

What do you think these optimistic owners did?

They did what any savvy practice owner would do, they gathered everyone together and explained the financial situation. They wanted their team to understand what was happening in the practice, so they explained that when production and profit had decreased, they chose to distribute raises and bonuses anyway in the hopes that the situation would resolve.

This sounds like a smart move, right?

You’d expect their next decision to be to freeze increases, engage the team to figure out what was going wrong in the practice, and empower them to fix problems, patch the holes, and revive production.

But that’s not what they did.

Instead, they awarded another pay increase and bonus simply because the team expected it and *reduced their own compensation to fund it*.

They mentioned to the team that if the financial situation didn't improve, there wouldn't be an increase the next year.

The last we heard, these doctors were working on their third year of promising to stop raises and reducing their own compensation.

Far from a happily ever after.

Fact vs. Fiction

While this specific story is fictional, similar scenarios often play out in dental practices because most dentists don't have a system for determining compensation increases and bonuses.

It's crucial to have a system for compensation so sound decisions are made with the whole company's best interest in mind, and not at the expense of the owner's compensation. Compensation is often the largest expense in a practice, so a dependable system is necessary to make sure the business runs smoothly.

Important:

All salary increases must come from increased profitability.

Without increased profits, the only way to fund team raises is by decreasing the doctor's pay.

Like the doctor owners in our story, many dentists get into financial difficulty by continuing to give bonuses and raises that their practices can't afford. While compensation must be competitive with the market, it's important that money comes from profits, not doctor pay.

How to Structure Compensation

There are several different types of compensation structures you can use in your practice: fixed, variable, or a combination of both. In recent years, more organizations have made the shift to variable pay over a fixed salary. These variable pay options include incentives that team members can be offered on top of their core compensation package to inspire optimal performance.

Let's look at some terms.

Fixed Pay

This is pretty straightforward. Fixed pay is a salary or an hourly wage. A team member works a given schedule for X dollars, or they earn X dollars for every hour worked with a given limit on hours.

Fixed pay is a guarantee, therefore the fixed portion of a compensation package should align with local market conditions to attract and retain top talent.

Keep in mind, allocating too much of the compensation package to a fixed pay structure will be detrimental to the practice in the event of a downturn in productivity, whether due to internal factors (loss/cutback of provider hours) or external factors (economic recession).

Variable Pay

Also known as incentive pay, variable pay refers to pay earned beyond an employee's normal weekly, monthly, or annual salary. This kind of compensation is paid only if an individual or team achieves a goal. Typically, these goals relate to profit, sales, productivity, or customer service.

Note:

In extremely tight labor markets, it's important to have a larger portion of the compensation package in variable pay if possible so your team's fixed pay stays within the market range when the inevitable labor market correction comes.



Variable pay is a category that can contain any number of bonuses, incentives, commissions, and other cash compensation contingent on something happening. When properly structured, variable pay allows a company to reward employees for achieving desired results but also controls compensation expenses during periods when results are not attained.

Here are a couple of variable pay options:

Bonus compensation: This kind of compensation may be tied to a plan, but not necessarily. Bonuses may or may not be connected to performance and are often reverse-engineered. For instance, if a team member does an exceptional job on a project, you may decide to pay them a bonus as a reward for a job well done.

Incentive compensation: Incentives are usually associated with a specific plan. The purpose of an incentive plan is on future performance. For instance, you might offer an incentive amount to anyone on your team who completes a certain number of tasks in the next week or hits a predetermined goal within the next month. Because incentives are tied to a plan, they tend to have a better return on the compensation investment.

So, how should you structure your compensation?

Now that you know the options available, which compensation model is best for your practice?

Unfortunately, there is no one-size-fits-all formula. It's important to consider your long-term goals, your current company culture, and the ideal atmosphere you want to create with your team. With these important factors in mind, you can create a compensation structure that fits your company.

If you'd like to have that conversation with Spark about compensation and bonuses in your practice, or if you'd like Dr. Meis to review your current compensation package and give you his opinion on how it is likely to perform in your practice, call Krista Hoyland at 866-277-2758 and mention that you've read the "Compensation" report.

She'll schedule a free call with one of our Spark leaders to talk about compensation and how you can build a structure that works for you.

Who We Are



We are Dr. John Meis and Heather Driscoll, the leaders at Spark. We founded Spark to build a curated private group of owners and leaders of group dental practices, who come together four times a year to collaborate in a safe, inspiring, and humbling way. Spark is an invitation-only group specifically tailored to help you grow your small to mid-sized dental groups or DSOs by a factor of 10x.



Our members describe Spark as the perfect mix of coaching, masterminding, instructional presentations, education, and peer support. Spark has been engineered to make a huge positive difference in both your personal and professional life.