

## **Percentage Based Compensation**

Compensating the professional staff of veterinary practices at some ratio (percentage) of revenue generated has been a common compensation scheme in the US for many years and has gained prevalence in Canada in recent years.

A cursory assessment would discern percentage based compensation to be equitable – if you do more you get paid more. However, there are many facets of percentage based compensation that are not readily apparent. This article is intended to shed light on these facets.

### **How you are paid influences how you work.**

Percentage based compensation tends to create competition within the practice environment. Whether it is an associate veterinarian or partner who is compensated according to revenue generated, the motivation is to generate more revenue. More revenue generation is economically positive for the practice if it is additional revenue and not revenue that would have otherwise been generated by other staff members.

However, in some instances veterinarians may be motivated to hoard cases that otherwise may be serviced by others in the practice. If veterinarians are hoarding work from the other veterinarians, the net economic affect for the practice is neutral but clearly negative for the other veterinarian(s). In other instances, the work that is hoarded may be that possibly completed by practice technicians who have a lesser compensation. This is clearly economically negative for the practice.

### **Is percentage based compensation truly equitable?**

Experienced veterinarians recognize that each individual practitioner has unique skills and abilities. While these skills and abilities may vary across professional abilities, they vary much more across social skills. A skilled surgeon may complete numerous intricate and expensive procedures that generate high levels of revenue while other veterinarians in the practice spend abundant time and effort related to client relations. Efforts in client relations may generate marginal levels of revenue but are pivotal to feeding the practice with the required medical and surgical cases essential to the financial success of the practice.

In many practices, veterinarians who are essential to the financial success of the practice may produce less personal revenue than other veterinarians who complete the medical and surgical procedures. Percentage based compensation can be significantly unfair in this circumstance, some practice veterinarians benefiting from the efforts of others.

### **Can associate veterinarians increase personal income with percentage based compensation?**

The motivation for associate veterinarians to participate in percentage based compensation is to realize higher personal income, proportionate to professional practice efforts. However, this higher personal income may not be realized or may be marginal.

There is no standard for the percentage of revenue that equates to fair compensation. Typically the range experienced is between 20% and 23%. The range is variable because the services included as revenue are variable from practice to practice. Does revenue include diets, repeat prescriptions, preventative medications, etc? The calculation of revenue generated can be very onerous and not comprehensive to the associate veterinarian(s). Often the practice owners have predetermined a percentage based scheme that leaves a minimal chance of financial gain for the associate(s).

In other practices associates have limited ability to experience significant gain from percentage based compensation for the simple reason that there is not enough work for the associate to generate the necessary revenue. This lack of business activity may be

worsened for associates working in practices where additional veterinarians are added, lessening the work load for each individual associate.

The ability to generate revenue is variable across practices, depending on the level of non-professional staff. Associates working in practices with greater levels of support staff should be able to generate more revenue, thus experiencing higher earnings on the percentage based scheme. Associates working with less support staff are likely to find their ability to generate high levels of revenue is compromised.

### **Does percentage based compensation afford financial gains for the practice?**

The motivation for practice owners to participate in percentage based compensation is to motivate associate veterinarians to produce more revenue.

Few associate veterinarians are financially motivated. The care that is recommended is dictated by the needs of patients and not by compensation schemes. Practice owners are invariably frustrated by the ability to motivate professional or non-professional staff through financial incentives. Financial incentives are often viewed by staff as being unprofessional and tainted.

There are two basic strategies used in staffing companion animal practices:

1. Use minimal non-professional staff and more veterinarians, or,
2. Use limited veterinarians and leverage the work of non-professional staff.

Regardless of the strategy, well managed practices will maintain the combined cost of professional and non-professional staff to less than 40% of the revenue.

Typically, practice managers attempt to maintain non-professional staff cost below 20%. If the cost of non-professional staff is 20% there is no ability to pay professional staff more than 20% of their total revenue generated. Professional compensation greater than 20% will only compromise practice profits.

Practices that pay on a percentage base limit their ability to become more profitable. If they adapt strategies to make the practice more productive, such as leveraging technicians, the professional staff continues to be paid the same percent of the newly generated revenue. In this instance, the professional staff benefit from management improvement(s), not from more business generated that the percentage based compensation is supposed to motivate. Further, percentage based compensation transfers a large percent of price increases directly to the professional staff rather than the bottom line of the practice.

Practice owners and associate veterinarians generally see percentage based compensation as a win-win arrangement. However, it will be a win-win arrangement only in certain practices. In other practices, the owner and/or associate may be disadvantaged by percentage based compensation. As is typical of management strategies, they must be adapted according the specific practice circumstances. One shoe will not fit all feet. In the end, a fair salary for a fair professional effort may be more straightforward and equitable.