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Incentive Programs **Designing for Success**

An effective incentive program should:

- Encourage practice growth
- Reward exceptional performance
- Motivate your team to attain goals
- Protect the practice's philosophy of care
- Ultimately benefit patients, the practice, and the team

Demonstrate caution around the following:

- Incentive programs should not be a “giveaway” to the staff; they should be earned to reach sound business benchmarks. Setting goals based on achieving healthy business benchmarks are critical to creating a “win-win” program for the doctor and the staff.
- We encourage you to base individual salary levels on regional compensation data, skill set, experience, and your total benefits package. The incentive program is offered in addition to a fair market compensation package, not in place of it. While doctors should not use an incentive program to prop up weak salary offerings, staff members should not expect an incentive program to automatically and regularly supplement their income.
- Incentive systems are not a magic bullet to cure other systems that are not effective. Pay close attention to how all systems and protocols are managed.

A well-designed program should bring your team from good to great and enhance the work culture!

Guidelines for Successful Incentive Programs:

- Define goals by collection criteria, not production. The goal should account for months with more/fewer working days and increases/decreases in staff hours.
- The reward should be significant enough to be meaningful to employees while not exceeding your practice overhead goals.
- The program should be designed to reward the team for exceptional performance toward attainable goals.
- The team must be able to monitor and adjust their performance. They must have some influence over the time required to do the job, the number of services produced, the amount of increased production, or the number of goods or services produced.
- The team must clearly understand the incentive program and exactly how and when it affects their paid commission. Explain the program as many times as is necessary for every team member to explain it back. Welcome all questions.
- Ensure performance can be measured accurately and regularly. If this cannot be done, it will be difficult to institute an incentive program that fully motivates the team because there will be constant uncertainties and questions over the results.
- Make certain aspects of each team member's job descriptions are somehow measurable in the incentive program. Solid plans necessitate each staff person is increasingly more productive.
- It is helpful to issue a separate commission/incentive check to the team member to "see" the amount earned AND equate it to an hourly increase.
- The incentive should be paid out in as close proximity as possible to the time frame it was earned for.

Four Effective Incentive Program Options:

Net Income

The increase in revenue, when offset by the rise in overhead, is a losing proposition. A net income incentive system factors this potential offset. Using Your Profit and Loss statement, calculate your total practice overhead. Do not include the doctor's salary and benefits or depreciation and amortization as part of your overhead. Set a reasonable goal based on healthy parameters. When the practice realizes an increase in net income, a percentage of that increase forms an incentive pool to be shared with the staff. This system is effectively managed quarterly. For example, if your goal is to achieve a 40% net profit from your practice and you achieve a 42% net – the additional 2% becomes the bonus pool. See included P&L breakdowns "[Dental Practice Overhead Key Categories](#)" for healthy business benchmarks.

Staff Overhead

Set a goal for your total staff overhead as a percentage of collections. Healthy ranges for staff overhead are 20-30% and include wages, payroll taxes, and health insurance. It does not include retirement benefits, doctor or associate wages, and benefits. Keep in mind, a healthy staff overhead range varies from one consulting firm to another; differences are generally found in what they include in “staff overhead.” Simple systems will set a healthy range at 20-25% but only include staff wages (not payroll taxes or health insurance.) Practices with a higher level of managed care tend to be on the higher end of staff overhead costs unless systems exist to reduce this overhead, such as an assisted hygiene model of care. Reach out to PST for systems to reduce staff overhead if needed. Calculate your actual staff overhead each quarter; if your staff overhead is lower than the goal you set, the difference creates an incentive pool.

Individual Incentive Programs

This system is based on performance-related goals rather than profit-related goals. Doctors that choose this method must be careful that performance goals will increase net profit to make the system a win-win for the doctor and the staff. Some employees prefer incentives entirely within their control. An example would be a hygienist rewarded based on their hourly production goal or a front office team member rewarded for keeping aging accounts receivable healthy or the schedule full. These programs work well when set up in a tiered system. Several parameters are measured, and the employee has the opportunity to meet 1, 2, or 3 individual goals. This allows a partial incentive when a couple, but not all, of the parameters, are met. Sample goals could be based on:

- Treatment Case Acceptance Rates
- Re-Appointment for All Patients in the Practice
- Hygiene Pre-Appointment Rates
- Same-Day Treatment Added to the Schedule
- Accounts Receivable Aging
- Hourly Production Goals
- New Patient Goals

While some employees prefer individual performance-related incentives, it can also create a more intense and stressful work environment. In dental practices, team goals (front office, hygiene, and assistant teams) can help reduce this stress while supporting teamwork. A benefit of this type of incentive is the employee’s ability to track their progress towards the goal and adjust as needed.

Random Incentives

This is less of a program and more of a “surprise” incentive system. The ultimate goal is to motivate and reward team members when the practice reaches growth goals. Behavioral studies suggest random rewards are enticing; who doesn’t like a surprise reward or gift? Casinos’ entire business models are based on unexpected rewards for continued behavior. This type of reward system can be especially effective for startup practices operating outside of healthy benchmarks as they build a patient base in the first year or two. Reaching healthy benchmarks for a startup practice in the first year can create unattainable goals for staff, creating a disincentive system instead. Random incentives also remain in the doctor’s complete discretion based on their individual goals. For example, a doctor may incentivize the staff when the patient base reaches 500, or the new patient flow was exceptionally high in one month.

Bear in mind, once an incentive program is set in motion, it can be hard to change. Let your employees know that the current incentive program will be reviewed at the end of the year and possibly changed based on the ever-changing needs of the dental practice.

Keep systems healthy, reward your team and maintain a healthy work culture...
Ultimately the dental owner and patients are also rewarded!

Dental Practice Overhead Key Categories

(Start-up GP practice, first 3 years)

Category	Description	Targeted Range as a Percentage of Collections
Personnel	Wages	22-25%
	Payroll taxes	2-3%
	Health insurance, misc. benefits (should not include retirement benefits, Doctor or Associate costs)	2-3%
Clinical Supplies	Dental supplies (should not include service or equipment)	6-7%
Lab	Includes milling supplies	7-10%
Facility	Rent, depreciation and interest on equip, equip lease, personal property and real estate tax, amortization of practice, repairs/maintenance, utilities	9-10%
		Rent 5-7%
Business	Bank charges, legal fees, some CE, dues, liability insurance, office supplies, laundry, phone service, accounting, computers, postage, license/permits, etc.	9-11%
		Office Supplies 2%
		Professional Fees 1-2%
Marketing	Includes website management, internal and external marketing	2-5%
Discretionary/Misc.	Business portion of auto, charitable contributions, gifts, life and disability insurance, travel and entertainment, some dues, subscriptions, CE	1-3%
Owner's Compensation & Profit	Owners compensation, Associate compensation, owner retirement plan, profit	38-44%