Creating a bonus program for your associate

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If you have employed an associate for a year or two, chances are they probably want an increase in the percentage of compensation you have been paying. If you want to maintain a fair profit margin for your associates' efforts, consider offering them a bonus.

An increasing number of practices are structuring associate bonus programs based on the concept of breakeven analysis. Breakeven analysis determines the total costs of having an associate measured against revenue, and ultimately desired profitability. No matter the size of your practice, the breakeven point will reflect the annual revenue an associate must generate so that a specified profit margin can be maintained.

Armed with this knowledge, you can set bonus percentages that will enable you to preserve your profit, yet fairly reward extraordinary performance. To determine your break-even point, make an estimate of the associate’s annual production and collections. Subtract the associate’s direct and variable expenses, such as laboratory and dental supplies, as well as fixed costs such as staff salaries and fringe benefits.

After you determine the direct costs for your associate and project a 30 to 33 per cent profit margin, the annual revenue figure needed to reach that goal will be your breakeven point. When calculated properly, breakeven analysis offers a baseline which ensures an associate’s additional compensation is based on the “gravy” rather than the meat and potatoes of practice production.

Most associate bonus programs are calculated on a quarterly basis. Associates receive their usual compensation plus a percentage of the difference over the baseline breakeven point. Practices just beginning bonus programs typically start at 10 to 15 per cent of the differential over the breakeven baseline, and can offer annual bonus increases of two to three per cent until reaching a threshold of 25 per cent.

Now you may still be wondering how you can afford to pay the associate a regular percentage of compensation plus 10 to 25 per cent in bonuses and still make a profit. Rest assured the math works as long as you calculate the breakeven point correctly. That’s because the costs associated with increasing an associate’s compensation through a bonus program should only be based on the associate’s regular compensation plus their variable expenses. The other fixed costs, such as salaries, are kept constant and are part of the breakeven point calculation. If you opted to increase the associate’s overall base compensation percentage, you are increasing compensation from the first dollar they generate. This approach will eventually erode your associate’s profit margins.

Bonus programs are not for everyone, of course, but for long-term, loyal associates, they can be major motivators for achievement and success. In this scenario, both owner and associate win.

About the author

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