Salary, Production, and ProSal: What's Best for Your Practice?

Sheila Grosdidier, BS, RVT and Mark Opperman, BS, CVPM
Veterinary Management Consultants
Evergreen, CO

Without question the most common question I am asked as a consultant, is "how do I pay my associates fairly?" This is not a concern only for practice owners, but naturally for associates as well. Practice owners wish to pay associates fairly, but also give them an incentive to produce income for the practice. Associates wish to get paid fairly and make as much money as they can. What could be a more natural relationship?

There are basically three ways an associate can be paid. These are salary, production, or a combination of both. Let's review the pros and cons of each of these methods of compensation.

Salary – If an associate is paid strictly on salary, compensation is usually negotiated at the beginning of the year. The amount decided upon can be strictly arbitrary, or it could be based on that veterinarian's previous year's production. The pros of this type of salary arrangement are that both the owner and associate know how much they have to pay or will be paid. There is comfort in the fact of knowing what your expense or income will be. The downside of a salary agreement is that there is no motivation to increase ones production. A veterinarian who does the minimum expected of him or her, will get the exact same compensation as a veterinarian who spends the time to work up cases, educate clients and provides a full service approach to there clients. Is this method of compensation fair to both parties?

Several years ago I lectured and consulted in Sweden. At that time all but one of the veterinary hospitals were run and controlled by the government. I visited several practices owned by the government. Clients would bring their pets into the hospital and ask for a Rabies vaccination and indeed that was all they received. Even if the pet had never received a distemper vaccination, or never had a fecal exam performed, the client would not be asked if they desired any additional services. They only got what they asked for. In addition there were long waiting periods and the facilities themselves were not very impressive. I then visited the one veterinary practice that was privately owned. Talk about night and day difference. The hospital itself was modern and clean. Clients were greeted when they entered the practice, the doctors spent time with the client and their pet. The veterinarians in this privately owned hospital educated clients about there pets needs and provided a full service approach. There was indeed no comparison. In the government owned practices the veterinarians were paid a salary, in the private practice the veterinarians were paid on a percentage of their production. The government wanted to know why the one private hospital was the only one that was profitable! Could you guess some of the reasons why?

Percentage based compensation – Another method of compensating associates would be to pay them strictly on their production. Most experts agree that if an associate is to be paid based on a percentage of their production, they should be paid between 18 to 25% depending upon other costs of employment. Costs of employment include anything that indeed costs the practice money. Therefore any direct cost the practice is incurring due to the employment of the associate must be calculated. As an example if a practice if paying for health insurance, continuing education, dues, licenses, liability insurance, disability insurance and even the cost of matching FICA, all these costs must be determined and included into the calculation to determine the true costs of employment. It is these costs that should not exceed 25% of an associate's production.

The pros of percentage based compensation is that employed veterinarians can be much more in control of there compensation. If it is a real busy month and the associate's production is high, there check will reflect this. This method of compensation also gives an associate a much greater incentive to be productive and help the practice grow. The downside of production based compensation is that there is no guarantee of compensation. If an associate does not produce, they will not get paid. Without prior knowledge of what an associate has produced, this can be a very scary proposition for an associated to enter into.

ProSal formula

Thus the advent of the ProSal formula of compensation for associate Veterinarian's (January 1997 Veterinary Economics). The ProSal formula is without question the best of both worlds. The ProSal formula is a combination of a guarantee base of compensation; however the associate is paid on a percentage of their production.

The way the ProSal formula works is as follows: An associate will be guaranteed a base salary for the year. As an example we may guarantee our associate $45,000 a year. We will then take the guarantee base and divide it by 24 (since the associate will be paid twice a month). This amount will be paid on or about the 20th of each month. At the end of the month we will determine the associate's production and take a percentage of it that was pre-determined and agreed upon (18-25%) and figure out what the associate should have been paid for that month. From that amount we will subtract the prior payment and issue a check for the balance.

An example of this would be as follows

- Guaranteed base of $45,000.00 a year
- Associate will be paid 21% of production
- During the month the associate produced $29,000 of income
- Payment on the 20th of the month = $1,875.00
- (1/24 of $45,000.00)
- Payment of the 10th of the following month = $4,215.00
- (21% of $29,000 = $6,090.00 less $1.875.00)

At the end of the year we would total all the compensation received by the associate. If that total did not exceed the guarantee base of $45,000.00 we would owe the associate the difference. Therefore the guarantee base comes in at the end of the year and in figuring out the fixed payment each month.

This is indeed the best of both worlds. The associate is guaranteed to earn, no less than the guarantee base, but has the potential to earn whatever they wish, within reason. They can't earn less, but they can earn a whole lot more. If they do earn more, than they are of course more productive for the practice and thus a win for the practice as well. In the past eight years that we have been using the ProSal formula there has only been one occasion in which an associate has not earned their guaranteed base. There are hundreds of associates presently being paid under this method of compensation. Indeed, associates themselves love the ProSal formula once they get over their initial fear of it. Owners are always amazed at how much more productive an associate becomes once they are on the ProSal formula. It is truly the best method of compensation for associates that I have seen.

It is important to note, that I do not feel money is the end all. I certainly know that most veterinarians have not gotten into this profession to get rich. Indeed, I feel that quality of medicine and surgery always come first. This however, does not mean that we should not make more money, or provide an associate with an incentive to do so.

Now, let's take a few minutes to ask and answer some of the more commonly asked questions in regards to the ProSal formula:

How do I define production?

Production is defined as fees generated and collected for services the doctor was formally involved in the delivery of. Therefor the doctor must have "hands on" in order to receive credit for service. As an example we might consider and out patient office visit where a doctor has done a comprehensive physical exam, vaccination and sold a heartworm preventative and bottle of shampoo. The doctor in this case would get full credit for all these products and services because they were done during the course of an office visit.

If the client came back a month or two later to purchase more shampoo and if this was done over the counter, the doctor would not get credit for it. The exceptions to this rule are x-rays, laboratory procedures and dentistry, assuming a technician provides these services. The doctor who ordered the procedure or over saw it would receive credit for it.

Even with a good definition of production there will be some grey areas and some overlap between doctors. These should be expected and there needs to be a give and take attitude and one of teamwork established within the practice.

My computer credits the doctor when the service is charged for weather I get paid or not. How do I keep track of this?

Most veterinary software programs do indeed credit the doctor when the service is rendered weather the practice is paid or not. No, it is not fair to the practice to pay an associate their percentage of production when the hospital has not been paid. This is another advantage of the ProSal formula since it hopefully brings the associate into the reality of a client's ability to pay for services rendered.

It is my suggestion that if your software credits associates when the service is rendered the associate should indeed receive credit at that time. At 90 or 120 days, if the account still remains uncollected the amount that was paid to the associate should be deducted from their next "production" check. Therefor we will deal with this problem at the back end instead of the front. If we do get payment the associate will receive their percentage of production in their next "production" check

How do I determine total costs of employment?

As previously stated total costs of employment refer to all costs incurred by the practice to employ an associate. These can vary substantially from practice to practice. The worksheet provided (see figure 1) should help to figure out what the actual costs are. This worksheet should be filled out annually on each associate and given to them. This will help the associate understand how there percentage is figure out and why. The total cost of employing an associate should not exceed 25% of their production. If production does exceed this number the practice is over compensating their associate.

How do I figure vacation and personal leave into the formula?

Under ProSal if an associate does not produce, they do not get paid. True, there is a guaranteed base, but that comes in at the end of the year. The practice should specify in the associate's contract the amount of vacation days and personal leave days they are providing. If an employed veterinarian takes a vacation in a given month, there second check might be less, depending upon their production for the month. The first check is always guaranteed.

This should not be interpreted as the associate not getting paid vacation or paid personal leave days. Instead the associate is getting paid more for 50 weeks of work instead of getting less for 52 weeks of work. Compensation is the same it is only being paid over a different time span

How can my associate be assured that they have received proper credit for services they have rendered?
The associate is entitled to receive a copy of the end of day report which shows what has been credited to his or her account. This may be the itemized audit trail or a specific doctor production report. If there is a mistake is should be corrected as soon as possible and the correction should show up in the next report presented to the associate.

Does the ProSal formula work with part time employed veterinarians?

Yes! The guarantee base will of course be less, but the same benefits of ProSal apply. The associate will be provided an incentive to offer a full service approach and educate clients. The associate will also be rewarded for doing so. Some practices will just pay a part time associate on production, which is fine if the associate is comfortable with this. If not the ProSal formula may be just the ticket.

I am worried about placing my associates on a production basis of compensation because I do not want to affect the harmony of the practice and don't want my doctors more concerned about money, than the patient.

I have heard this comment a lot, but truly have not found it to be a problem. First of all most if not all veterinarians truly care about the animal and if anything we have to constantly remind them, that we are also running a business. Money is by no means the end all, but it is nice to be paid for what we do.

There was one situation where a doctor reviewed all the out patient charts before she decided which one she was going to see. She was trying to figure out which one would generate her more income. When reviewing this doctor it was quite obvious that this was a symptom of the problem, and not the problem itself. This person was quite immature and indeed had a lot of other problems. She was replaced within the practice and all was fine. The bottom line here is that this is used may times as an excuse, but in reality has little basis in fact. Many associates who voice this concern know that if they are placed on production they will find out they are getting paid more than they deserve.

My associate is board certified, or has been with me a lot of years, so should I pay them more than other associates?
No! If an associate is board certified or if a veterinarian has been with the practice for a long period of time they should have increased production and therefore will get paid more, not as a function of there percentage, but rather their ability to produce income. Shouldn't a board certified veterinarian be able to generate more income than one that is not? And if not, why not? A board certified surgeon should certainly be charging more an hour for his or her time, than a veterinarian that is not.

Therefore a board certified veterinarian, or one who has been with the practice for a long time may indeed generate a greater pay check, but it will not be because of there title or length of employment, but instead their ability to produce income.

Do I have to adjust the percentage each year?
It depends if the total cost of employment is close to 25% then you should not adjust the percentage. If the total cost of employment is 21 or 22% you may wish to. Many practices will start an associate off at one percentage and over a three to five year period graduate an associate up. This is a point that can and should be negotiated with the associate. However, one great advantage of the ProSal formula is that there does not have to be re negotiations each year. Therefore a practice may wish to start an associate at a certain percentage and keep them there. The increase in income will come from the associate's enhanced ability to produce income along with fee schedule increases.

There is no question in my mind that the ProSal formula is by far the best method of associate doctor compensation. This formula allows an associate to have some control over her or her income and provides an incentive to be productive. From the practice owner's point of view the ProSal formula provides for a fair and just method of compensation. Most if not all veterinary employers wish to compensate fairly, the only problem was how to do it and the ProSal formula certainly solves that problem.