



PRIME PRACTICE
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Employed dentist remuneration

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The most common commission structure that we see being offered to employee dentists (EDs) through our work at Dentist Job Search and at Prime Practice is 35- 40% of their receipts less lab. This has become the rate range that is seen as a 'given' by employee dentists (EDs), and by most dentists looking to employ...and neither party seems to be happy with it.

The EDs that aren't happy are usually unhappy because they think they are being taken advantage of by their employer. The average employee has no idea what the expenses of a dental practice are, nor do they have any idea of the stress that goes into running one.

Conversely, the employing dentists usually feel that paying an ED 35%-40% will mean that they aren't making anywhere near enough money for the stress and expenses that go into taking on an ED. I have heard several dentists tell me that they would be actually losing money paying 40%.

Is it possible to make a profit if your practice has overheads of 70% and you have an ED who wants 40%? On the face of it this would seem impossible. On the face of it, it would seem that we are in fact losing 10% in this scenario. In actual fact, paradoxically, you can make a very good profit in this situation. To do this though, the overheads have to be analysed and dissected very carefully.

What overheads will be added to the existing expenses to hire a new ED? Let's take the example of an existing practice with too many active patients for the practice to handle and a spare surgery. We'll say the practice has employed a fairly low grossing newly qualified dentist (with collections of \$1800 per day) at 40% of collections less lab, working 200 days a year.

What are the new expenses? A DA at say \$40k and miscellaneous extras) of say \$10k (phone, business cards, stationary, etc), supplies of 6% a lab bill of 5%.

So on the incoming side the ED will bring in \$360k (\$1800 x 200) to the practice per year. On the outgoing side the ED will have:

- ED wages of \$137k (\$342k x 40%)
- DA wages of \$40k
- Miscellaneous extras of 10k.
- supplies of \$21.6k (6% x 360k) and
- A lab bill of \$18k(5% of \$360k),

Thus the extra costs of the ED are \$226.6k per year (137+40+21.6+10+ 18). That means that the ED will make the practice a profit of \$133k (\$360k – \$227k).



Even if you needed to outfit a new surgery, and lease that for \$20k per year, or add a part/time admin person, you can see that it would be a very profitable exercise.

Why does this work? How can 70% original overheads plus a commission of 40% for the ED leave money for profit? This isn't a trick. There are two reasons why this works.

1. The percentages are actually percentages of a different amount. The 70% represents 70% of previous total office production while the 40% represents 40% of incoming ED production.
2. There is no need to duplicate most of the fixed expenses of the practice when we add an ED. When there exists some excess capacity in the practice, there is only an incremental addition of the variable expenses (lab and supplies).

Another model of remuneration that you can use to pay an ED is to give them a tiered commission. What this means is that the higher the dentist gets a higher commission the higher their production gets. For example they may get:

- 33% when they produce less than \$1800 per day,
- 37% at \$1,800-\$2,400 per day,
- 40% at \$2,400-\$3,000 per day,
- 43% at anything more than \$3,000 per day

(Please note: These figures are not meant to be seen as definite guides or advice. Rather, they are used to illustrate the principle).

This method maximizes the incentives for an ED to produce and at the same time ensures profitability is even more of a certainty for practice owners.

Why can you be sure that this method works? Almost all the corporate dentist companies use it. Does anyone think that the people who run Pacific Smiles, Dental Corp, Dental Partners, 1300 Smiles, etc. risk losing money paying the tiered commissions like those above. In actual fact as a generality, their benchmark is to make 20 cents profit for every dollar that comes in to one of their clinics. And that's after adding infrastructure in a head office to the expenses that most private dentists have.

How do you determine the rate to offer an E.D?

If you ask enough people you will probably come across an employing dentist that has managed to lure an ED on a 30% package. On the other hand if the dentists were all truthful you would also hear of EDs that have received commission of 45- 50%.

So what percentage do you pay and who do you listen to? How do you determine how much is enough? In Australia, our experience has been that the negotiation varies according to a number of factors:

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- The position geographically of the practice. As a generality the further from the centre of a metropolitan CBD, the more the negotiation favours the ED
 - The better the facility in terms of the way it looks and the level of equipment, the more the negotiation favours the Dr Senior.
 - The better the public reputation of Dr Senior, the more the negotiation favours him.
 - The busier the practice and thus the more income possible for the ED, the more it favours Dr Senior.
 - The more the business can be proved (appointment books, ex- ED figures, etc), the more it favours Dr Senior.
 - The better the perks that are offered like salary retainers, mentoring/ up-skilling the ED, Continuing education budget, the more it favours Dr Senior.

It is profitable so long as you don't have to redo massive amounts of his/her work.

It is profitable so long as he/she doesn't give you lots of staff headaches.

It is profitable so long as you don't hate the sight of him/her when you get to work in the morning.

In other words, it's profitable if you are a good manager.

If you have a lot of troubles getting on with your current staff, if your practice is chaotic as it is, then adding clinicians will just be multiplying the size of your practice issues.

But don't do it just for the profit.

Do it to increase the hours your practice can be open to the community.

Do it to increase the range of skills and services that you can offer the community.

Do it in order to appeal to a wider demographic.

Do it so someone can look after your patients when you have a holiday or get sick.

Do it to get a life.

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