

# How to Create an Employee Bonus Plan That Really Works

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One thing I have discovered about most bonus plans in veterinary clinics and hospitals is that they usually have little or nothing to do with growing the business or they reward employees for activities they have no influence over.

The saddest part is when well-intended but poorly constructed bonus plans become an expected part of staff compensation with the following consequences:

1. The practice does not reap the benefit of even a modest financial gain.
2. The owner is afraid to discontinue the bonus for fear of employee backlash.

As a general rule, I am philosophically opposed to bonus programs primarily because of the poor design mentioned above. A bonus should be an incentive to increase business and be the result of direct and measurable actions by identifiable staff. The ones who do not perform should not be able to share in the performance of those who do. Too often the staff end up receiving a bonus on income that is perhaps only the result of fee increases; fee increases that are intended to maintain an adequate profit margin and are in response to increases from suppliers. In essence the practice is eroding its own profit.

An effective bonus plan *must* include the following elements and understandings:

- It is measurable
- It must have well defined targets. By the way, a target is not “increase revenue over last year, last month, or last quarter”. It is “increase revenue *by 10%* over last year.”
- Bonus targets *must exceed your budgeted practice growth projections*. If you are not increasing your revenue each year through deliberate and planned actions, you are effectively losing money. Your expenses go up and in order to maintain a reasonable profit margin your revenue must also increase. You cannot give away your profit margin. Bonuses are to reward efforts *beyond what is required* to operate your business, pay your bills, invest in your practice and pay yourself (the owner) a reasonable salary.
- Bonus targets should have different levels and be linked to increasing payouts that will motivate employees to strive for the highest level. That is, make the reward worth the extraordinary effort that must go into achieving it.
- A bonus program should have specific variables. Not every employee has a direct impact on every aspect of the workflow and the business. There should be payout variables attributable to each job descriptions’ individual influence over achieving the target. But don’t forget to reward the team.
- A bonus must never be paid out if targets are not achieved. For example, it is not acceptable to say: “You all tried hard and we almost made it, so I am going to give you the bonus anyway.” That is simply a guilt payment. You will lose all credibility with regard to the purpose of the

bonus program and your ability to ever fully achieve your goals in the future. It is not good enough to be close. A deal is a deal.

Here are the three keys to a successful bonus plan:

1. Compensate the behavior you want. It must be limited to the things an employee can control.
2. Keep it simple enough that everyone can calculate the bonus at any time. Give a status report at every staff meeting.
3. Always set a target that the practice must achieve before the bonus plan even kicks in. This target should be realistic and achievable so that it does not demoralize the staff before you begin. That first target is your necessary revenue quota. The goals you use for your bonus targets can also be used for your quota.
4. Make the top level payout tier *well worth the effort*.
5. **Always link any bonus program to patient care and *not* money.**

Here are some examples of how different job descriptions influence different goals in a bonus plan:

Goal	Influential Staff <i>Primary</i>	Influential Staff <i>Secondary</i>	Measure
<b>New client growth</b>	Reception	Veterinarians, techs	Increase total average number per month.
<b>Wellness plans</b>	All	All	Increase in wellness plans sold.
<b>Compliance</b>	Veterinarians – recommendations Reception- appointing and follow up	Techs-reinforcing recommendations and offering support.	Increase in total number of invoices per month. Target specific procedures like prophylaxis.
<b>Average Transaction Charge (ATC)</b>	Veterinarians	Reception and tech assure proper invoicing and no missed charges	Increase in ATC.
<b>Inventory</b>	Person who manages inventory	Veterinarians and techs who influence product selection and inform inventory manager of product levels.	Decrease in total amount spent on inventory (increase in gross profit margin).

So how do you calculate how much you need to grow versus how much you can afford to pay out in bonuses? I've prepared a template for anyone who is interested that will do the calculations for you. It will also calculate three levels of bonus targets, what you would pay out to employees when they achieve each level and the total financial impact the bonus program can have on your practice.

Additionally, if you are looking for productive goals to build your bonus program around, the ones above are guaranteed to have high returns for your practice.

Note: you will need MS Excel to utilize the template.