Back in the 1970s and '80s, dentists would give their staff a $1 raise every time the Earth went around the sun. Staffers got used to that—and their wages kept getting higher and higher while the prices dentists earned for their work kept falling lower and lower. It’s an extremely competitive market now, but the legacy mentality about staff salaries persists.

If I apply for a job as a cook at a fast food restaurant, they’re going to tell me the wage range for that position—let’s say it’s between $15 and $18 an hour. No matter how long I worked there, if I stayed in that same position, my pay rate would stay in that range. Someone who’s been a fry cook for 10 years isn’t going to keep getting raises every single year just because he’s stayed in the same job for a decade; raises shouldn’t be based on astronomy.

It’s no different in dentistry. When you hire someone, your HR packet needs to include the pay range for that position—receptionist, dental assistant, hygienist, office manager. Otherwise, legacy staff salaries will cost you more and more each year, while the prices that insurance pays keep going down.
Roll-ups versus rollouts

This can be particularly tough for dentists who buy existing practices—doing a “roll-up”—because they’re entering a situation where expectations about salaries have already been established with the existing staff. The new owner is often forced to install a new wage schedule that changes or contradicts “the way it’s always been”—and that’s never easy.

When corporate chains do a roll-up, they need their labor costs to be less than 25 percent of collections, but often the labor costs in an existing practice are over 30 percent—sometimes as high as 38 percent. This is a very sticky situation. When you go into an office and tell everyone who’s making $25 an hour that, starting Monday, they’ll be making $18 instead, nobody’s happy and you have a morale nightmare on your hands.

That's a big part of the reason corporate dentistry companies in the United States are beginning to shy away from roll-ups and instead are starting *de novo* practices—doing “rollouts” instead. They say, “It’s a lot easier to start from scratch. We may have less revenue the first year, and we’ll spend more on marketing, but it’s still better than dealing with employees whose morale is off the charts. You just can’t turn this around.”

The costs of doing business

When I got out of school 30 years ago, I’d send an insurance company the bill for a crown and a root canal, and it would just pay whatever percent the company covered. But under the current PPO model, instead of “send me your bill and I’ll pay a percent,” an insurance company now determines the exact amount it will pay, and those prices are about 42 percent less for me (and for the nation’s dentists in general).

Today’s customer says, “I’m going where my benefits are,” and if those benefits pay $55 for cleaning, it doesn’t work out to pay your hygienist $40 to do the work. The math just isn’t there.

That’s why you have to be transparent with your employees and set the ceiling on salaries. Tell them your labor costs are going to be set at 20 percent, 25 percent or whatever of collections, and that as the practice produces more and collects more, then you’ll have more money to give.

Notice that I said “more money to give,” not “more money for raises.” Rather than salary increases, it’s better to institute a bonus plan that incentivizes the staff based on productivity. Higher profits? Cash bonuses, not wage increases. That’s because productivity could be great for six months and then—*boom!*—it could drop again for any number of reasons. If the economy takes a tank or whatever, you don’t want to be left stuck paying wages based on higher-productivity days.

If someone doesn’t like the wages of being a receptionist, she should become an office manager. If he doesn’t like the wages of an assistant, he should become a dental hygienist. In my 30 years as a dentist, I’ve had many assistants move on and become hygienists. Two even became dentists themselves.

It’s important to set expectations as early as the job interview about salaries and bonuses. Base your salaries on the going rates in the area, and let your candidates know how you calculated those salary caps. Give your employees opportunities for advancement, and incentivize them though production-based bonuses instead of salary increases, and you’ll set the stage for greater success than you could achieve by awarding annual raises.