

The Paycheck Check-Up — Managing Owner and Team Compensation

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Introduction

Compensation is the largest expense for a veterinary practice, typically totaling over 40% of total revenue. But beyond being a major cost, compensation is a powerful management tool. It directly influences team morale, retention, productivity, and ultimately, the financial health of the business. When compensation is structured well, it motivates the team, rewards high performers, and helps owners achieve long-term sustainability. Conversely, poorly designed compensation plans can lead to underperformance, high turnover, and owner burnout. This presentation explains the basics and explores how practice owners and managers can structure effective, fair, and strategic compensation systems for both team members and themselves.

Understanding the Compensation Puzzle

Compensation in veterinary practices involves much more than just a paycheck. A well-rounded compensation plan includes base pay, variable pay (such as bonuses or production incentives), benefits, and cultural or lifestyle-related rewards. These components work together to form what's known as an employee rewards program. Practices that focus only on hourly wages or salary levels may overlook key elements that influence employee satisfaction and retention. For example, benefits such as paid time off, continuing education allowances, flexible schedules, and mentorship opportunities often play an equal or greater role in keeping top performers engaged. A strategic compensation plan considers all of these elements and how they align with the practice's values and goals.

Benchmarks and Best Practices

The foundation of an effective team compensation strategy is understanding what the market is paying. Veterinary industry resources such as VHMA (member only) and AVMA provide valuable benchmark data on pay ranges for different roles, from client service representatives to veterinary technicians and associate doctors. Practices should use this data to ensure they remain competitive in their region and attract the right talent.

Best practices for team compensation include developing clear pay bands tied to each position, maintaining up-to-date job descriptions, and providing transparent pathways for advancement. Incentive systems can help align team performance with practice goals. For example, veterinarians may receive production bonuses tied to gross revenue, while support staff can earn bonuses for meeting specific targets like patient compliance, efficient inventory use, or client satisfaction scores.

It's also essential to communicate the total value of an employee's compensation—not just their base pay. Outlining the full package, including insurance, PTO, continuing education, and perks, helps staff appreciate their overall value to the practice. A common mistake is equating generosity with strategy. Paying above market rate without clear performance expectations or ROI can backfire, leading to entitlement and financial strain.

Owner Compensation

Owner compensation is more nuanced, especially for those operating as S Corporations. In these cases, owners typically serve multiple roles: clinician, manager, and investor. As such, owner compensation has three components. First is a reasonable salary, which is required for S Corp owners and should reflect their clinical and administrative responsibilities. Second is the distribution of profits, which are not subject to payroll tax and provide a return on the owner's investment in the practice. Third is the broader return on investment, which reflects the risk, capital, and time that the owner has put into building the business.

Owners should regularly evaluate whether they are paying themselves fairly for their actual work and whether they are maintaining a sustainable balance between personal income and practice reinvestment. A useful rule of thumb is that a full-time owner-veterinarian's salary should approximate 20–25% of their gross production, or reflect a similar percentage to other employed veterinarians. Owners must also consider whether their compensation structure would stand up to scrutiny—would they pay someone else the same amount for the same work?

Common Pitfalls and Fixes

Many veterinary practices fall into predictable compensation traps that can limit team performance and erode profitability. One common issue is paying all team members the same regardless of performance, which demotivates high achievers. Others include handing out raises based solely on tenure, failing to define bonus criteria, or neglecting to distinguish between owner earnings and business profits. Additionally, hiring based on urgency rather than strategic fit can lead to long-term compensation mismatches.

The solution is to bring structure and transparency to the compensation process. Practices should revisit their compensation plans at least annually, update job descriptions, and clarify expectations for each role. Written bonus plans with clear performance metrics can ensure fairness and alignment. For owners, working with a CPA or financial advisor can help ensure salary and distributions are balanced with practice needs and tax considerations.

Building a Compensation Plan That Works

A successful compensation plan is clear, fair, flexible, and aligned with the practice's mission and financial objectives. Clarity means everyone understands how their compensation is determined. Fairness ensures that compensation is tied to contribution, not just time on the job. Flexibility allows practices to adjust pay in response to changes in the market or business performance. And alignment ensures that compensation supports goals like growth, client satisfaction, and operational efficiency.

To get started, practices should evaluate their total compensation-to-revenue ratio—aiming for 40–45% of gross revenue—and use that as a framework for setting team compensation budgets. Creating formal compensation bands for each role, developing bonus plans, and documenting owner compensation strategy can help create a stable and sustainable system.

Conclusion

Compensation planning is not just about managing expenses—it's about designing a system that supports your team, your goals, and your practice's long-term success. Practice owners and managers are encouraged to take a fresh look at their current compensation structure, compare it against industry benchmarks, and identify one or two areas for immediate improvement. Whether it's updating a job description, developing a bonus plan, or formalizing an owner salary, even small steps can have a meaningful impact.

Veterinary practices that treat compensation planning with the same level of rigor they apply to medical protocols or inventory control are more likely to build high-performing teams and reach their financial goals. Remember: a well-crafted compensation plan is one of the best investments you can make in your people and your practice.