

# PROFIT FIRST *FOR* DENTISTS

## PROVEN CASH FLOW STRATEGIES FOR FINANCIAL FREEDOM

### Self-Assessment How To

Figure 1

	ACTUAL \$	CAPs	PFDentist TAPs	PFDentist \$	COMPARE	FIX
Real Revenue	A1	100%	100%	D1	E1	F1
Profit	A2	B2	C2	D2	E2	F2
Owner's Compensation	A3	B3	C3	D3	E3	F3
Tax	A4	B4	C4	D4	E4	F4
Operating Expenses	A5	B5	C5	D5	E5	F5

#### A1

In the Actual \$ Column in cell A1, enter your Total Collections (Real Revenue) for the 12 month Calendar Year you are using. This is your total income from your Profit & Loss report. In dentistry, you will not have any subcontractor or high material costs so there is no need to examine the difference between Top Line Revenue and Real Revenue. Associate doctors and hygienists are an expense to your business no matter how you have set up their pay structure. .

**A2**

Enter the total dollar amount deposited into a business savings account for the purpose of profit for the 12 month Calendar Year. This is the cumulative profit you have sitting in the bank, or you have distributed to yourself as a bonus on top of---but not to supplement---your salary. If you do not have profit sitting in the bank in a savings account, this means you don't really have profit.

**A3**

Enter the total of your net salary plus any member draws or distributions you used personally plus any personal expenses paid by the business for the 12 month Calendar Year. This information will be available from Step 4 & 5 above. Personal expenses paid by the business will be found on the Profit and Loss report. The number you enter in this cell is the total benefit you received as the owner of the business and does not include taxes.

**A4**

Enter the total tax your company paid on your behalf for the 12 month Calendar Year. This number includes all taxes withheld from your payroll, all company matching taxes, and all corporate taxes. If your company structure is such that you take draws from the company for your personal income, only report the total amount of taxes the company actually paid on your behalf. If you were scrambling at the end of the year to pay your taxes from your personal income, do not include this amount unless you took an additional draw from the company to directly pay your personal income tax.

**A5**

Enter the total expenses your business paid for the 12 month Calendar Year you are using. This includes everything you paid out except the Profit, Owner's Compensation or Taxes. Your expenses will be listed on your Profit and Loss Report, sometimes called an Income Statement. Also be sure to add in the total of all loan payments made for the year since this will not show up on the Profit & Loss Statement. If you see something called amortization or depreciation, do not include these items because they are considered non-cash. Remember we are using only Cash in and Cash out.

**B2 - B5**

These cells will show you your Current Allocation Percentages or CAPs. Even though you haven't been allocating money every week, we've now organized your money into these 4 categories so we can see where you currently stand. It's now time to do the math and calculate the percentage.

A2 divided by A1 = B2 then multiply by 100 to show the percentage - do this for all items in this row.

A3 divided by A1 = B3

A4 divided by A1 = B4

A5 divided by A1 = B5

## C2 - C5

Enter the Profit First for Dentists percentages in the Target Allocation Percentages or TAPs column. Use Figure 2 below and enter the percentage in the Average column. These are the average numbers I have compiled since I began implementing Profit First with Dentists across the United States. It is worthy to note I work with single dentist owners or a 2 dentist partnership with 1 or 2 locations only. These percentages may not be reflective of large group practices. I also included the range for each category so you could see there are wide differences between practices. This is due to many factors including level of PPO involvement, number of employees, debt load, and skill level of the dentist being most prominent.

Your target could be anywhere in the Range column numbers. Refer to your Current Allocation Percentage or CAPs to determine where you are now. Then think about where you want to go. How much and by what percentage do you want to change? Remember this is not where you start but where you want to end up. It's also important to be realistic because unrealistic goals kill motivation. The average is provided for information and to be a guide. It is not there for you to judge yourself. We all start somewhere. The point is that we start!

If you have already busted through the average given here, good for you! What's your next level? Don't let my findings of averages hold you back. I believe every dental practice owner who believes they can do better will benefit from the Profit First model. If you are satisfied with your profit and believe your business is as profitable as possible already, then don't do anything different. Keep doing what you're doing. But if you're like all the other dentists I speak with who know they can do better, who feel the struggle every day, then this model is for you. I know it works for dentists because I see it working for my clients as I guide them through the set up and implementation process.

Figure 2

	A	B
Real Revenue Range of \$3 M & Under	Range	Average %
Real Revenue	100%	100%
Profit	1 – 20%	6%
Owner's Compensation	12 - 25%	17%
Tax	7-15%	10%
Operating Expense	55-75%	67%

## D1 - D5

We'll complete some more math equations for this row. Have your calculator ready. Using the TAPs column percentages, we'll figure out the dollar amount for each category using your current real revenue.

D1 = Your Real Revenue. For now use the same number you entered in A1. Simply copy the number from A1 to D1.

Next multiply this real revenue number in D1 by the TAP for each row and write down the number in dollars.

D1 multiplied by C2 = D2 Enter as a total dollar amount for each item in this row.

D1 multiplied by C3 = D3

D1 multiplied by C4 = D4

D1 multiplied by C5 = D5

These are your target Profit First for Dentists dollar amounts. Sometimes this is painful or stressful to see. Welcome to the wake up call! I hope these numbers get you a little bit excited for change.

Remember you are using an average percentage. You may need to adjust your own TAPs depending on where you fall in the ranges given. You may also want to try using a higher Real Revenue number based on the projected growth percentage you anticipate for the coming year.

### E1 - E5

Column E is the COMPARE column. This shows the difference between the current dollar amount and the target dollar amount. Take your actual dollar amount in column A and subtract your target amount in column D. You'll likely have some negative numbers. Write down the number in column E. A negative number means this category is experiencing a loss that you'll need to make up. For example if you've never had a Profit Account or saved money in a business account before, you'll see a negative number in profit. This is the amount you'll need to make up for this account. Most likely not all accounts will show a negative number. It's typical for the Operating Expense account to have a positive number. This represents the excess being spent in this category. The comparison number will show you how much you need to cut from this category.

Here are the formulas to do the math.

$$A1 - D1 = E1$$

$$A2 - D2 = E2$$

$$A3 - D3 = E3$$

$$A4 - D4 = E4$$

$$A5 - D5 = E5$$

### F1 - F5

This is the FIX column and you will write in the word INCREASE or DECREASE based on which direction the dollar amount needs to adjust.

For example if your Profit in A1 is \$0 and your Profit in D1 is \$20,000, your comparison is a negative \$20,000 and need to INCREASE. Write the word INCREASE in the F column in the profit row. If the number in the COMPARE column is a positive number, you'll use the word DECREASE in the Fix column.

See figure 3 for an example of a completed Assessment.

Figure 3

	ACTUAL	CAP	PF Dentist %	PF Dentist \$	COMPARE	FIX
Real Revenue	A1 \$1,200,000	100%	100%	D1 \$1,200,000	E1 \$0	F1 None
Profit	A2 \$0	B2 0%	C2 6%	D2 \$72,000	E2 (\$72,000)	F2 Increase
Owner's Compensation	A3 \$192,000	B3 16%	C3 17%	D3 \$204,000	E3 (\$12,000)	F3 Increase
Tax	A4 \$84,000	B4 7%	C4 10%	D4 \$120,000	E4 (\$36,000)	F4 Increase
Operating Expenses	A5 \$924,000	B5 77%	C5 67%	D5 \$804,000	E5 \$120,000	F5 Decrease

Figure 3 is an example of a completed assessment.

These numbers are quite typical of many dental practices. The high overhead or Operating Expense is keeping this dentist from realizing the true benefits of practice ownership. It's obvious what needs to happen in this business. Operating Expenses must be scrutinized for any over expenditure and then direct that money to the other 3 accounts. Remember this will happen over time with a plan in place.

This assessment brings instant clarity to the business owner and can feel embarrassing at first. Embarrassment leads to hiding. Hiding the problem is what got this dentist to this point. It's now time to embrace the clarity and start taking the steps needed to improve the health of the business.