

PROFIT FIRST

The Official
Supplemental
Profit First Guide
for Dentists

— FOR —

DENTISTS



PROVEN CASH FLOW STRATEGIES
FOR FINANCIAL FREEDOM

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Foreword by Mike Michalowicz

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Foreword

by Mike Michalowicz

Growing a practice doesn't often correlate with growing profit. Or even any profit, for that matter.

A few years back, I went for my regular dental checkup (I go every six months, thank you) and noticed a service technician installing a new machine next to one of the treatment rooms.

"That's my new Cone Beam X-ray machine, which has 3D CBCTs," my dentist said as he walked over to me. "It is going to allow me to make an even better assessment of people's dental situation."

"How much was it, Dr. Mark?" I said. I am more than a patient to Mark, we are longtime confidants. He knows about the work I do in the entrepreneurial space, and I likely know more about the ins and outs of his practice than his accountant.

There was a pause. Not because it was odd for me to ask that question, but because the doctor knew exactly what I was going to ask next. "It was a hundred-fifty something," he intentionally mumbled.

"One hundred fifty thousand dollars?" I reiterated.

"Well, more like \$158,000, before the installation," he responded.

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I won't belabor the dialog further. The machine—installed, with training for staff—came to a grand total of \$162,000.

He continued, "I can't wait to start using the machine. I charge \$235 for just one x-ray. This thing will pay for itself, practically overnight!"

I returned six months later, and again six months after that. The new machine sat there. I was not being patronizing, but it came across that way: "How much profit has that machine made so far?"

"I've done about three hundred scans with it so far. So, no, I'm not there yet. It's upsetting, honestly. I ran the numbers and thought it would pay for itself faster. I'm not even halfway to paying this thing off. I need more patients, Mike. I really need to grow this practice more."

After my checkup, I pulled Dr. Mark aside and asked, "Is everything okay?" It wasn't a surface-level question, but one of those where things can get real, real fast.

"I had to skip a few paychecks recently. I can't seem to grow fast enough." He paused to look around, making sure no one was within earshot. "I am looking to work part-time at another practice down the street just so I can get enough take-home for myself," he shared.

Dr. Mark's financial situation is not uncommon. A shockingly large number of dental practices are not sustainably profitable. They do everything they can to grow, to keep money coming in the door, and yet they struggle to have any form of predictable, permanent profits. But they can. And it is far easier than you can imagine.

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This book has the solution Dr. Mark seeks. This book has the system that dentists need. By the time you finish reading this book, you will have a simple tool that will bring permanent profits to your practice. All you need to do is to do what this book says.

Barbara Stackhouse and Andrew Hinrichs are the leading experts in dental practice profitability. They have combined their elite accounting expertise and deep knowledge of the dental space with the Profit First system to bring what I believe is the greatest financial innovation to the dental industry. Ever.

Too many dentists are “chained to the chair,” working harder and longer and trying to produce more to keep the practice healthy. With the COVID pandemic, things only got worse in terms of mounting bills and, in some cases, diminishing patient visits. The solution to the profit problem is rarely in new equipment or even more patients. The solution is in a profit system—a system in which, regardless of the number of patients you see and the variety of procedures you offer, everyone (including the owners of the practice) takes home a consistent paycheck and profit accumulates. With the Profit First for Dentists system, you will have financial predictability and accumulating cash reserves.

Without a profit system, struggling with cash flow, some dentists have tried to convince themselves that their practice isn't about money—that their work is solely about caring for their patients, even (or especially) if it is costing them to stay in business. Alas, this is a justification for improperly managing their businesses.

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Serving patients at the cost of your business and your livelihood is not, I repeat, not a good practice. It is not noble. And it surely is not what your patients want. In fact, they want you to be profitable.

You can try this now. (Warning: I suggest only doing this in your mind.) Tell the next patient who comes in that you are losing money. That you can't take a paycheck. That you are scratching money together to pay for equipment and staff. Right before you start the procedure, tell them that you are worried about money and feeling desperate to get more patients (and their wallets) in the door. Again, I don't suggest you really do this. But consider this situation in your mind. Would the patient feel comfortable? Would they want to do more business with you? Or would they start to look for services elsewhere?

The fact is, your patient would freak out. Why? Because if you are financially unstable, you can't give the patient the full attention they deserve. The patient may fear you will cut corners in your need to save money. The patient knows that your mind won't be fully focused on the job at hand—it will be jumping to getting money in the door. Financial struggle results in financial worry. The solution is financial stability.

Barbara has worked in dentistry since 1988 as a hygienist, and for over sixteen years as a consultant to dentists. She has seen what it is like when a practice struggles, and when one is fiscally healthy. She knows how to make an unprofitable practice profitable. And she knows how to make a profitable practice permanently profitable.

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Drew, who specializes in serving dental practices, has been an accountant for fifteen years. He knows numbers like a dentist knows crowns. There is gold (or porcelain, for that matter) in your business, and he knows how to give you access to it.

Barbara and Drew have combined forces to revolutionize the financial health of dental practices everywhere. Right now, with this book, they will do it for you. The Profit First for Dentists system will make your practice permanently profitable. Sit back and relax; this won't hurt much at all.

Author's Note

Drew Hinrichs and I are coauthors of this book. However, as you read, you'll discover that the writing was done by me.

While the entire text is written through my voice, it includes Drew's ideas, information, and feedback throughout. The information in Chapter 9 is entirely from Drew, but largely written by me.

Barbara Stackhouse, RDH, M.Ed.

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1

DENTAL SCHOOL TO DENTAL PRACTICE

Being a million dollars in debt was not any part of Cristin's wildest dreams. All she could think about was how they'd worked so diligently on the succession plan. Every detail had been discussed and written down.

Cristin grew up in small town USA with close friends and a great education. Everyone knew everyone and looked out for each other. It was one of those idyllic places to live.

She loved learning and had good grades. Her guidance counselor pushed her to start exploring different careers, but it was a visit to the dentist that changed her direction. Dr. Bob, the only dentist she'd ever known, took an interest in her future. He invited her to come spend some time in the office to observe a day in the life. That did it! She fell in love with dentistry.

Cristin spent a lot of time in Dr. Bob's practice. He mentored her. He trained her to be a dental assistant. He encouraged her to go to dental school. He hired her when she graduated. Dr. Cristin had her name on the wall. Wow! It felt so surreal.

She and Dr. Bob discussed everything about the practice. They put a plan in place for her to eventually purchase the practice over time. It was a busy, thriving practice with longtime

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team members. Dr. Bob was a larger-than-life kind of guy. The team and community loved him!

They worked together well. There were so many things he was teaching her, things she hadn't learned in dental school. Those first six months out of dental school seemed to fly by. She was finally hitting her stride. The team respected her. She felt so happy, doing what she loved.

And then life changed. It changed dramatically, and in an instant. Dr. Bob suffered a massive heart attack and passed away. The shock was unbearable, the grief overwhelming. The worry set in.

She had never imagined purchasing Dr. Bob's practice this soon. She had never seen herself taking over the practice without him there to guide her. She had never planned to be a million dollars in debt. It all happened so fast, it felt like she was just going through the motions.

She couldn't shake Dr. Bob's words: "Cristin, you're the one I want to take over my practice." He trusted her. He believed in her. But it still felt like his practice. She wondered if it would ever really become her practice.

She took out a loan to purchase the practice and signed the papers. Later that week, she hosted a reception to celebrate and, with all the guests watching, she cut the ribbon for the official opening. Everyone shared in a toast. A beautiful, special evening slipped away all too quickly and there she was, alone, the last one to leave and lock the door. Before she left, she walked through the office once again, taking in the sheer enormity of it all. She came to her office, the office that once belonged to Dr.

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Bob, the office where, above the door, hung the horseshoe he had given her when she was accepted to dental school. It was positioned with the opening at the top because that meant “luck” would fill it up and not drain out the bottom. She needed all the luck she could get, right then. Filled with emotion, she sat down and took in a deep breath. Thinking about the loan and all the debt was overwhelming. What in the world had she done? She felt a heavy weight, a weight she had never felt before.

When I met Dr. Cristin, her stress level was fifteen on a scale of one to ten. The debt load she carried felt crushing. She just couldn’t manage to get on the other side of it. The struggle was real.

Every day she walked into the practice, her practice now, she missed him. Deep down, she was scared. Her confidence wavered. She started questioning herself. It had all happened so fast, and was certainly not like the plan they had put together.

So began Dr. Cristin’s journey with dental practice debt.

DEALING WITH DEBT

Can you relate? Maybe your situation is different and you entered into a practice loan under a different set of circumstances, but debt—no matter how much—requires cash flow every month, without fail.

Having debt is pretty much a standard thing for a dental practice owner. There’s dental school debt, a home loan, car loans, a practice loan, equipment loans, sometimes a practice mortgage, and often credit card debt. This is the reality many dentists live with.

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With so many loans and so many payments that come around regularly every month, sometimes there's more month than money and the credit card debt rises again.

Each day, there's a constant worry just under the surface of every thought. When one thing goes wrong, there is fear of the impact. Team members feel the pressure too. The only thing most dentists know to do is just keep working.

Practice owners can begin to feel like they are chained to the chair, cranking out more and more dentistry. For sure, at least, they're always thinking about work. The stress of the debt never leaves. It's hard to relax, whether at home or away from the office. The stress is carried no matter where they go, even on vacation.

Next thing you know, a refinance of the practice loan seems to be the best option because the credit card balance just never seems to go down. Then there's the line of credit that was used to pay the tax bill. But hey, it's a better rate this time and in ten years it will all be paid off. Unless another refinance occurs.

Without a plan, debt will continue to be a challenge and can actually interfere with true growth in a practice.

BECOMING AN OWNER-DENTIST

Think back to when you first started your business. Maybe you purchased an existing practice. Perhaps you started from scratch. Remember how exciting it felt to finally have your own dental practice? Remember your dream then?

Dentistry is a good business to be in, but dentistry is also a very expensive business to be in. The cost of doing business can

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creep up quickly. All those dreams start to dim with the reality of the daily grind. If you're a dentist, you likely understand this. So much goes on during the typical day in a dental practice. I always say that there are a lot of moving parts, and it's hard to know what's going on at any given moment.

Your story is being written every single day in your practice.
What does your story look like?

FUNDING RETIREMENT

Are you trying to save for retirement but can't seem to find the money to invest?

Financial advisors say it's best to begin saving for retirement in your early twenties, but reality has proven that, by age fifty, most people have very little or nothing saved for their fast-approaching retirement. This is a general statement across all professions. The profession of dentistry is no different. In fact, it might be worse for dentists.

Inside Dentistry published an article, "Playing the Long Game," which reported that the average age of retirement for dentists continues to increase. The article states, "Retirement is often the first time dentists will lack steady cash flow, and with no pension, they have only what they've saved and invested for this day."¹

The key consideration is having enough cash flow long before retirement to invest some for the future. I talk to many dentists

¹ "Playing the Long Game," *Inside Dentistry*, Vol. 15, Issue 2 (February, 2019): <https://www.aegisdentalnetwork.com/id/2019/02/playing-the-long-game>

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who tell me they have inadequate savings for retirement. They're banking on the sale of their practice—and they're still paying down the debt on it.

Now consider the facts reported by the American Dental Association (ADA) which indicate that “Dentists’ practice ownership [is] decreasing”: There are fewer younger dentists looking to purchase a practice, many dentists are working longer in their careers, and most likely those last several years of practice are at a slower pace, which leads to a decrease in the value of their practices.² Less value and fewer dentists looking to purchase a practice do not help those dentists trying to sell their practice to boost their nest egg for retirement!

What if it's possible to reverse the average age of retirement for dentists? Currently, in the United States, dentists’ average age of retirement is sixty-nine; yet the average age of the general population at retirement is sixty-two. Seven years is a big gap.

What about you?

Where are you with your retirement savings?

Are you on track to retire when you want to?

Or will you be working until age sixty-nine, or beyond?

Are you waiting to pay off debt before you begin saving for retirement? How much time will you have left, and will you be able to adequately make up for those lost years of savings?

² “Dentists’ practice ownership decreasing,” *ADA News*, April 9, 2018: <https://www.ada.org/en/publications/ada-news/2018-archive/april/dentists-practice-ownership-decreasing>)

HAVE YOU INCREASED PRODUCTION AND COLLECTION BUT STILL FEEL STUCK?

One of the things I hear most frequently from dentists is how frustrated (and depressed) they are because they have worked hard to improve efficiency, streamline systems with their team, and produce more dentistry than ever before, yet what remains in their own pockets doesn't change much. I hear the agony in their voices. They are tired. They feel beat up. They feel betrayed.

Maybe you, like many dentists, dreamed of the autonomy and freedom of running your own business—but now here you are, owning the dream and wondering how it turned out this way. It's quite common in dentistry to just keep flying by the seat of your pants when it comes to money management.

I love the saying “you don't know what you don't know” because it helps me to understand that there's always more to learn. When you think about the business side of your dental practice, do you relate to this saying? Are you in the dark when it comes to business systems and structure?

Dental practice clinical operating systems are commonly found in most practices. Dental procedures require linear step-by-step protocols. Dentists' brains are already wired to follow systems. Wouldn't it make sense to do the same thing with the finances? Imagine having step-by-step protocols for money management. How would it feel to know how to make business decisions from accurate data?

Understanding true overhead as it relates to cash flow is the by-product of solid financial systems and strategies. As you may have experienced already, producing more does not necessarily

equal increased profit. Producing more dentistry requires more supplies and more teamwork, so the overhead goes up. Logically, producing more should equal more profit. But it doesn't.

Are you tired of the hamster wheel of production? Are you tired of running from room to room? Are you tired of the production model? Until dentists completely understand how to shift to a profitability model, they will stay stuck right where they are.

GROW THE PRACTICE BY HIRING AN ASSOCIATE

On our very first call, Dr. Nate told me how he'd tried twice to grow his practice by hiring an associate. Both times it had failed miserably. And now his consultant wanted him to try one more time. He decided he didn't want to go down that road again. He started searching for something different. He knew that trying this same strategy a third time clearly wasn't going to work. He needed a different plan.

Hiring an associate or even hiring a hygienist might be exactly what you need, but how do you know before you take the plunge? As Dr. Nate found, it can be a disaster if your business is not in a position to support this additional team member plus the additional overhead beyond their compensation. If this isn't done correctly, owner compensation will take a nosedive right to the bottom of the pool. Just ask Dr. Nate and he'll confirm it!

Let's talk about logic again. Does this make sense? To grow the practice, just see more patients. To see more patients, hire more team members who are providers, like a dental associate

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or a hygienist. Logically this all makes sense, but what about the overhead? We've already discussed overhead and how it increases proportionately with production.

Unless you know your true cash flow numbers—how much cash comes in and how much cash goes out—you'll always be stuck thinking you can out-produce the problem. And secondly, unless you know exactly how many active patients are required per provider in your practice, you'll be guessing when it comes to the decision to hire another provider.

Not all dental practices are created equal. The number of patients per provider is inconsistent across practices. There are many variables when comparing one practice to another, especially when you are considering adding another provider. Don't just guess at this!!

If you are thinking of hiring an associate, begin by reviewing your practice numbers. How many active patients do you currently have? (Active means they have been in for care within the past eighteen months.) Also, review your schedule. How far out are you scheduled? Do new patients have to wait a long time to see you? Consider why you want to hire an associate. If you only want to do the "high level" stuff and plan to send all of the general or insurance plan dentistry to the associate, it is likely that they will get frustrated. Most associates also want to grow and learn. Will you be a mentor for them? The only way they will learn is to do some of those bigger cases, maybe with your help. Bottom line is, when you hire an associate, you will be sharing your patients with them. Do you have enough patients to give up half or more of them to an associate? How will this

affect your income? Be sure you are okay with every scenario that could happen when hiring an additional provider.

BENEFIT PLANS

Even though the cost of doing dentistry continues to rise, we all know that the insurance reimbursements never seem to keep up. I continually hear from dentists who feel frustrated and totally in the dark when it comes to knowing which plans are serving them and which are hurting them.

It's almost impossible to monitor every single fee schedule in your practice—or at least it feels that way. And even if you are monitoring the fees, how do you know which insurance is feasible to accept? How do you factor in your overhead when considering the fee for a procedure?

This is where most dentists just put their heads down and work harder. They work on being as efficient as possible and secretly hope and pray they've done enough to be profitable. Since insurance companies dictate the fees, time and overhead costs are the only variables you can control.

Research says that patients with insurance are more likely to seek dental care. You certainly want patients to seek dental care, and seek it with you; however, signing up for every insurance plan may not be in your best interest. On one hand, you want the new patients, but on the other, you're stuck with the fees set forth by the insurance plan. Some plans are just not feasible to accept when you really look at profitability.

MORE NEW PATIENTS

Everyone who works in the dental field knows that, for the practice to survive, they must have a steady flow of new patients. It's a metric most practices continually measure.

More new patients equal a busier schedule. A busier schedule requires hiring more team members. Overhead goes up.

Then there's more marketing. And the cycle continues.

The bottom line is, more new patients does not necessarily equal more profit.

The dentist ends up working harder and feeling busier, yet without experiencing the reward of increased profit. This happens more than you think.

THE ROLLER COASTER OF PRODUCTION

A big challenge in dentistry is inconsistent production and collection month to month. It's quite common for practices to experience big swings in their monthly income.

A particularly slow month can trap the practice in the catch-up game for months on end. It's so frustrating.

Just paying the bills becomes the goal every month.

By the time the practice catches up, it happens again.

ECONOMIC DOWNTURNS AND OTHER CRAZY TIMES

The year 2020 was certainly one for the books! Recessions are one thing, but this pandemic took the concept of an economic shift to a whole new level. Especially for dentists.

I watched as dental practices were significantly inconvenienced and financially challenged during the shutdown. Because of some government help, the path out seemed a bit easier; but now there are predictions of another wave of shutdowns and a serious recession. Will your practice be okay? Did you ride the wave of recovery money? What happens when it's gone?

I've lived through several recessions in my lifetime. I happened to live in Phoenix during the 2008-09 real estate bust and recession, when over 250 dental practices in the Phoenix metro area closed their doors. They had no other option.

Lucky for you, the pandemic probably didn't ruin you because there were sources of assistance available.

The shutdown did not devastate you, but it certainly woke you up!

Are you realizing that you could be doing better? Are you thinking you could have been better prepared? Do you want to know for sure that your business will be fine the next time something like this happens?

Paying all the bills on time is one thing, but setting your business up to weather any recession or economic storm is completely different.

WHERE DOES ALL THE MONEY GO?

Money flows in. The team is busy collecting from insurance companies and patients. The deposits hit the bank account every week. It seems like the practice is finally getting ahead.

But at the end of the month, there's still the lingering question about where all the money went.

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The accountant says things look great and the practice is doing well, but it sure doesn't feel like it.

Taxes wipe out everything that's left and then some. Now the business needs to carry some credit card debt for a few months. Unfortunately, this cycle happens every year for many practices.

It doesn't make sense. Production and collection increased this year, but where did it go?

Dr. Yvie had this very problem. She came to me as a young dentist only a year into practice ownership. She was struggling to pay herself any kind of real salary. She was tired of working hard and not knowing where the money went.

She made time for learning and dug into the Profit First for Dentists training program. We walked through the process together, so she knew exactly what to do. She opened all her bank accounts and began allocating money based on exact percentages. This allowed her to reserve money for her own salary and income tax in addition to a **Profit Account**!

Dr. Yvie was able to begin paying herself on a regular basis right away after starting her allocations. The money was there! And she had enough to pay the bills. The difference was in knowing her numbers. Finally, she didn't need to worry about having enough. She knew her allocation percentages were correct and that gave her confidence. She was also getting savvy and reducing expenses anywhere she could.

Then a crazy pandemic called COVID-19 hit our world. We all know what happened. That very week the pandemic shutdown occurred, Dr. Yvie showed up to our group support call almost in tears. Within a few short minutes, the seasoned Profit

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First Dentists on the call had calmed her fears. The truth was, she did have money in the bank—money she had never set aside before. She would be fine. Yes, the Paycheck Protection Program (PPP) money would come. Yes, it would help. But, she learned, there was no reason to panic because she had already done enough with Profit First to safeguard her business in the short-term.

Fast forward to several months after Dr. Yvie returned to work, during a one-on-one coaching session. Near the end of our call, she had tears in her eyes as she said, “My business is now working for me, not me constantly working for it.” She understood how the Profit First system had set her business up for success. All she needed to do was follow the system. And she is.

STORIES

These are all true stories of dentists I talk to or have worked with. You have your own story.

We all want our stories to have happy endings. As business owners, we believe in the happy ending. It’s so easy to overlook parts of the real story. We end up telling ourselves it’s not that bad.

The committee in your head that chatters all day long tells you lies. Maybe they are excuses.

See if you can relate.

- If I just had ____ number of new patients every month, everything would be great.

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- If I ask a patient for a referral, they'll think I'm struggling and begging for patients.
- All I need to do is produce \$_____ each day, week, month, or year. (You fill in the blank.)
- I think my business must be profitable because I paid income tax last year.
- Once I get the debt paid off, I'll save for retirement. I've got plenty of time.

You and I both know that the day never comes when your “if this” happens. Or maybe the day does come, but the “then this” doesn't work out.

The biggest lie of them all is believing you'll eventually figure it out on your own: All you have to do is work really hard and it will all work out.

You might just come out on the other side okay. In fact, you probably will be okay.

But do you want to be okay (mediocre), or do you want to be and do the best? If you're going to put the work in anyway, why not work smarter?

Why not factor in profit from the start? Or at least from this day forward?

A PROFITABLE BUSINESS

Unless you are a charity, owning a business means you are for-profit. In fact, setting up your business to have profit ensures that you'll be able to continue working in your dental practice business and serving patients.

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Drew and I want you to understand profit.

First, let's talk about what profit is not. It is not the salary you pay yourself for being a dentist and treating patients in your office. You pay yourself for being a dentist in the practice just as you'd pay an associate dentist for working in your practice. Please understand, profit is NOT your pay.

If it's not your pay, then what is profit?

The best way to understand this is to think of yourself as working two completely different jobs for the practice. The first one is being a dentist. The second one is being a business owner and leader. You have taken the risk of business ownership. You do all the extra jobs required of you as the owner. You deserve to be paid for your time, commitment, effort, and risk. This is what profit is for.

In order to have profit pay, your business must be set up to have profit over and above the owner's pay and all the other expenses in the practice.

In the Profit First model, profit is set aside before you pay your team, yourself and all the bills. Without this additional profit, you feel like you're always chasing your tail to get ahead.

Having true profitability gives you freedom. It allows you to breathe easier when it comes to finances. Being less stressed about the money side of your business means you are more relaxed. When you are more relaxed, your patients feel it. Your team members feel it. Your family feels it. And you feel it, too.

Being profitable allows you to focus more on your patients' needs and serve them at a higher level. It also gives you added time, since you don't have to rush around so much.

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Most dentists actually have it all backwards. They put their dentistry above their business needs, and I can understand why it happens. But I hope now you can begin to see why it's so important to get your business set up for profit from day one, or at least from this day forward, so you can fully focus on delivering dentistry. Get the Profit First money systems in place early on and you will have a solid financial foundation for profitability during the life of your practice.

GAAP IS WHY YOU'RE HERE

A long time ago, in the early part of the twentieth century, a set of rules was created to standardize financial reporting processes. The Financial Accounting Standards Board uses this set of rules, called the Generally Accepted Accounting Principles (GAAP), as the foundation for approved accounting methods. The core of this system has remained the same since the early 1900s.

GAAP uses the **SALES – EXPENSES = PROFIT** formula. Logically, this makes complete sense. All that's needed is to increase sales, spend the same or less on overhead, and keep the rest, and the owner's income should go up. But it doesn't. Oh, it looks like it on paper, but the money sure didn't show up in the bank account. The owner-dentist is left scratching their head for a minute. Because they can't figure it out, they decide to just trust the system and keep doing the same old thing.

We've been conditioned to believe that bigger is better. Go big or go home! Super-size that order! Consumerism has engulfed everything we do, including how we run our businesses.

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When it looks like we have money in the account, we buy what we want and call it business expenses. This mentality kills any profit in the GAAP model. Sure, it makes us feel great for the moment, as we acquire one more shiny object, or attend one more course, or whatever the current “want” may be. (I’m sure you can fill in the blank.) The point is, we spend money because we think we have it to spend. Unfortunately, GAAP keeps the business owner in the dark most of the time, even though it works great for your accountant and bookkeeper. Remember, it was designed as the foundation for accounting methods and not as a cash flow model for you to understand how to run your business.

Profit First flips the equation and taps into our innate human behavior: **SALES – PROFIT = EXPENSES**. Take your profit first and then pay your expenses with what is left. It’s that simple. It works because it is so simple. It works because it was designed to utilize our innate human tendencies when it comes to monitoring our money. The first thing we do when we want to know how much money we have is log into our online banking (even though the accountant tells us never to do this). When the deposits are flowing in and the dollar amount looks good, we spend. And we spend. And we spend. But when the balance gets low, it’s like a panic button went off somewhere. As entrepreneurs, we kick into high gear and start doing anything and everything to generate more money. We become desperate for sales. It’s the proverbial hamster wheel of business! If this is you, are you ready to get off the wheel?

PROFIT FIRST DISCLOSES THE TRUTH

As dental professionals, we know that using disclosing solution reveals all the plaque. When we want to show patients where the plaque on their teeth likes to hide, we use a disclosing agent. It's like turning on a lightbulb so the patient can see.

Some patients are eager, and want to see where their plaque hides. Others don't. Maybe it's the fear of knowing—once they know, they will have no excuses.

Profit First is like the disclosing solution for your business. Start using it and money issues are revealed. It's like turning on the lightbulb so you can see what is really going on with your business finances.

Some dentists are eager and want to see, and others don't. Maybe it's the fear of knowing—once they know, they will have no excuses.

Hmmm, sound familiar?

I've been teaching and coaching dentists for a long time, more than sixteen years now. Profit First is the best system I've found to simply and quickly turn on the lightbulb so that dentists can see their businesses in a whole new way.

Are you ready to "see" what's going on in your business finances?

Is it time to change your money story?

Are you open to shifting your paradigm and paying yourself first?

Take the Dental Practice Profit Score below. This is where the rubber meets the road. Truthfully, what's your score? If you

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scored below 24, it's time to draw a line in the sand and get some accountability.

Send an email to Barb@BarbStackhouse.com with your score and type "Line in the Sand" in the subject line. We will respond and keep cheering you on! We'll also send you the link to download some resources to help you on your Profit First for Dentists journey.

DENTAL PRACTICE PROFIT SCORE

Using a scale of 0 to 3, rate each statement.

Not True	Seldom True	Often True	Always True
0	1	2	3

	Score
We have a detailed budget that includes income goals, profit, and expenses.	
We know the detailed cost of each service or procedure we provide.	
We monitor our overhead categories and know when we are over budget.	
We work efficiently, with as little waste as possible.	
We monitor our financial data daily, weekly, and monthly.	
We pay all our bills on time.	
We collect all receivables within thirty days.	
We monitor all purchases closely to make sure we stay within budget.	
We set aside our profit first.	
We pay the owner’s income tax with ease.	
Add up your score!	Total:

0-10: Your business needs CPR—your finances need to be revived!
11-20: Mediocre isn’t bad, but you’re still in survival mode!
21-30: Cruising along, but things could still improve!

2

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2

THE PROFIT FIRST LIFESTYLE

Remember Dr. Cristin's purchase of Dr. Bob's practice? By the time I met her, she was feeling the heaviness of debt even more because of an economic downturn. The great recession had happened several years after she purchased the practice and the economy hadn't yet fully recovered. Her business had not only plateaued, it had taken a dip, and the bills kept coming. To her, it felt like payroll happened twice a week. The relentless cash-eating machine that was her dental practice consumed her every waking moment.

When she realized she was no longer making headway with the debt, it was worse than she expected. All that mattered now was a lifeline. Something had to change, like, yesterday. And change it did. Her landlord decided not to renew her lease. Fast forward another year and a half and she was looking at taking out a new loan, building out an office, moving, and starting over. Or at least that's what it felt like.

Just like Dr. Cristin, no matter where you find yourself in the story of your practice, there will always be bumps along the way. But there is good news. You can change your story starting right now. To change the story of your business or your life, you must first change your paradigm or belief. It's the big aha moment

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when you wake up and realize there must be a better way. You go searching.

Lucky for all of us, Mike Michalowicz was determined to change his story and then willing to share the process so that others could benefit too. Profit First was born out of his own desperation. It was *his* aha moment, and it happened in the middle of the night while he was watching a PBS station.

Mike was glued to the TV, learning about human behavior from a fitness expert who was explaining to the audience that quick-fix diets don't work because they're unsustainable. Boy, do fitness experts know a thing or two about that. People have been dieting for ages without success. There's so much conflicting information when it comes to losing weight. But this guy was making sense. What Mike heard was that it takes more than a quick fix when you want to make a lasting personal change. It requires simple, hardly noticeable alterations to your lifestyle. By using our ingrained habits within a new structure, we can create sustainable lifestyle fixes. So when this expert said something about small plates, Mike sat up and took notice.

We've been taught by mom to eat everything on our plate. The problem is, the size of our dinner plates has increased dramatically over the years. In the 1960s, dinner plates were eight to nine inches in diameter and were estimated to hold about eight hundred calories' worth of food. Of course that depends on your choice of food, but let's go with it. Today, in the 2000s, dinner plates are eleven to twelve inches in diameter and hold an estimated nineteen hundred calories' worth of food, nearly a whole day's quota at one meal. By switching to smaller plates,

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we automatically begin to eat less even though we're still following our ingrained behavior of eating everything on the plate. What a concept!

Mike was intuitive enough to translate this principle to his bank account. He realized that when his bank account was “fat” and had a lot of deposits, he would spend, spend, spend and justify the expenses as necessary. This wake-up, aha moment got him thinking seriously about his lack of money management in the past. The only system he had was the age-old GAAP formula, $\text{SALES} - \text{EXPENSES} = \text{PROFIT}$ —the one all business owners had. But this formula wasn't working for him. The sales and expenses part worked but the profit part was missing.

Looking back, Mike realized his money had all flowed into one bank account—like the oversized plate—and he was “eating up” too much money on expenses. In essence, he was cleaning his plate or cleaning out his bank account. The idea of small plates got him thinking. If there was less cash available to pay the bills, he would automatically spend less. He wouldn't make those additional purchases the business didn't really need. It would force him to reduce overhead.

If you've been living with a roller coaster bank account in your practice, or you're left wondering where all the money goes at the end of every month, the core principles of Profit First will be music to your ears. To understand these principles, we're gonna go back to the TV show and those dieting lifestyle principles. Don't worry, it'll all make sense in the end. Buckle up and let's get started. Did you buckle up? That means it's time to put away or turn off any other distractions. If you're serious about

getting your dental practice finances in better shape, you need to pay attention now.

DIETARY SCIENCE AND PROFIT FIRST

The four core principles of the Profit First system came from the exact four principles found in dietary science. Let me explain here using the dietary point of view. It's important for you to understand these principles as they relate to a healthy human being, because then it will be much easier to transfer the concept over to a healthy cash flow system.

1. **Small Plates:** Remember the size of the plate and the estimated calories consumed? It makes sense that if you use a smaller size plate, it will hold less food, you'll eat fewer calories than before, and you'll drop some pounds. Of course, it also matters what kind of food is on the plate. We'll get to that in a minute.
2. **Sequence Matters:** Think nutrition here. Eat the most nutritious food first. You know, the veggies. If you start with the nutritious veggies, you'll begin to satisfy the hunger pangs, have less room for other not-so-nutritious food, and end up eating less overall.
3. **Remove Temptation:** My husband loves ice cream. Butter pecan is his favorite. I swear he can sniff it out even when the freezer is closed. There's no hiding it. Once he knows it's there, it's not long before it's gone. But if we don't have butter pecan ice cream in the house, he's not likely to make a trip to the store to get some. He doesn't even think about it much when

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there's isn't any here. The point is, when you remove the temptation by making it inconvenient, you're much less likely to go out of your way to get it.

- 4. Enforce a Rhythm:** When you're hungry, you want to eat and you want it now. My daughter-in-law calls this being "hangry." Waiting until you're already hungry leads to bingeing, stuffing yourself, and eating whatever is in sight even if it isn't healthy. Instead of this cycle of hunger, it's best to eat regularly. The ideal would be to have five small meals every day so you never get hangry. This method actually leads to eating less.

Yes, I know you're not here to learn about dieting. You're reading this book because you're interested in profitability for your dental practice. Read on, because this is the good stuff. Using these same principles from the dieting world in your business puts you on the path to financial health. The good news is, it's so simple. Let's dive in and examine these four core principles of Profit First one by one.

PROFIT FIRST CORE PRINCIPLES

As in the dieting world, all of these Profit First principles are rooted in behavioral science. When you decide to work with your natural human behavior and not against it, the success rate is much greater. Makes perfect sense.

- 1. Business Small Plates:** To explain this principle, we're going to explore something called Parkinson's Law: The demand for something expands to match its

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supply. Remember the size of dinner plates? Smaller plates hold less food; therefore, you eat less. Large plates hold more, leading to overeating. Who hasn't gone to a family reunion potluck and filled their plate so full they are miserable after eating?

We do the same thing with time. When you're working on a project and you know you have a month to get it done, most would probably take the entire month to complete it but when you know you only have a few days, you somehow make it happen.

But the best example is toothpaste! When the tube is brand-new and full of toothpaste, most people squirt out a big long ribbon of paste to cover the brush. There's plenty available. But when the tube is nearly empty, we start twisting, rolling, and squeezing the tube, hoping to get any amount of toothpaste on the brush. When that small drop the size of half a pea lands on the bristles of the brush, we're celebrating inside like we've just won a trophy.

The lesson here is to notice how our behavior changes, based on what is available. What better lesson than 2020, the year of the pandemic that shut down dentistry as we know it for a few months. All of a sudden, there was less money coming in, so you instinctively began to cut costs. This happened before there was any word of a PPP loan or an Economic Injury Disaster Loan (EIDL), and those are really just temporary fixes anyway. When you have less, you immediately become

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frugal. But you also begin to get innovative and figure out new or better ways of doing things. This is a good thing—not the pandemic, but you getting frugal and innovative.

If we can all do this during a pandemic, why not make it a part of business as usual? When you have less money in your bank account, you'll get frugal and innovative. Bottom line is, you'll spend less. More on exactly how to do this in a bit.

2. **Sequence Matters:** The Primacy Effect principle helps us understand the importance of sequence and why it matters. We have a cognitive bias toward information presented first rather than later. We hold that same bias for items in the first position on a list. If you're a list maker, you'll understand. The things at the top of the list get done first.

This is good news for implementing Profit First! Sequence does matter when it comes to your money. By changing the formula to **SALES – PROFIT = EXPENSES**, we place profit before expenses. Seriously, it's that simple! Remember, the old way using GAAP (Generally Accepted Accounting Principles), was **SALES – EXPENSES = PROFIT**. This has caused entrepreneurs to place expenses before profit. The reality is, we're always waiting for the leftovers and wondering if there will be any profit left. This is not a good plan to operate on. It's actually exhausting. If you feel like

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you're always grinding it out at the chair, producing and collecting more only to find your income stagnating at the same level, you know what I'm talking about.

It's time to flip the equation. Make profit the primary objective.

SALES – PROFIT = EXPENSES.

Are you in?

- 3. Remove Temptation:** Not keeping junk food in the house makes it less convenient to get, and we can do the same with our money. Out of sight, out of mind is the new mantra. This means we move our profit into an account to which we don't have immediate access. A lack of immediate access removes the temptation and we start making do with what we have for expenses.

This is the fun part! Remember the formula **SALES** (produce and collect) **MINUS PROFIT** (set aside, no temptation) **EQUALS EXPENSES** (frugal and innovative). You follow this formula and then this amazing thing happens, and with the most perfect timing: the **Profit** Account releases some money to you, the owner. Bonus time, baby!! This is what your business is meant to do from the beginning, and now, with Profit First, it's a reality.

- 4. Enforce a Rhythm:** We learned that bingeing and crashing on food is not in the best interest of our health, and the same is true for our money. Instead of

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playing catch-up or going into panic mode when all the bills are due, establish a weekly rhythm and flow to the cash coming in and going out of the business. Creating consistent cash flow week in and week out removes the panic button and replaces it with peace of mind.

No longer will you need to read a cash flow or profit and loss (P&L) statement to know where you stand—and if we're being honest here, you don't do that anyway. Understanding cash flow will be as easy as opening your bank accounts and checking the balances (which is what we already do). This whole process is created using simple bank balance accounting. Profit First gives you the process and the measuring tool to make it happen.

REINVESTING IN YOUR DENTAL PRACTICE BUSINESS

It's common to think, as dental practice business owners, that we always need to be investing in the practice or the business won't grow. Let's think this through. What exactly is business growth? I'd say that business growth is an improvement of some measure of success in a business enterprise. So what exactly will you measure? Sales? Profit? Or something else?

Increasing profitability is the fastest and healthiest way to grow a business. This doesn't mean we shouldn't invest money back into the business, but it does mean we should only do

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so when we actually have additional profit. It's common for businesses, especially dental practice businesses, to constantly seek new technology or training as a way to grow the business. But it's also common to borrow the money to make it happen. Borrowed money is not profit to reinvest in the business.

First things first, generate profit. Good old cash flow profit will increase the value of the practice more than anything else. Consistent profit gives us the power and freedom to reinvest at a healthy rate. Profit First is the mechanism for healthy, consistent growth because it forces us to examine the business's expenses. When you implement Profit First, you'll find yourself being innovative and frugal as you learn what is really going on with your finances.

The bottom line is, it is possible to do both: generate a profit and reinvest at the same time. In fact, it's a business-healthy option. Remember, though, profit comes first. I'm talking about true profitability here, not some number on a profit and loss report that doesn't make sense to you because you don't have that amount of money sitting in your account. I hope by now this has piqued your interest and that you'll read on, because the good how-to stuff is what the rest of this book is about. Drew and I are here to help you fully implement Profit First in your dental practice. We believe it is the simplest and fastest way to eradicate dental entrepreneur poverty.

GETTING YOUR ACCOUNTANT ON BOARD

Now is the time to talk to your accountant and get them on board with Profit First. Profit First will change nothing about how they

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conduct their accounting practices, but it will change everything about how you learn to have cash flow. We've included some questions here to help you in the conversation with them.

5 Critical Questions for a Profit Ready Dental Practice Accountant

1. Of your existing clients, how many post consistent quarterly profit?
2. Do you have a bank-based management tool?
3. How many Profit First rollouts have you completed for dentists?
4. Do you understand the unique challenges facing dental practice owners and utilize a proper Chart of Accounts for Dentists?
5. How many of the clients you serve are dentists?

If your accountant is supportive of the Profit First system, they will immediately understand the benefit to you, the business owner. Again, we want you to understand that the Profit First system changes nothing in terms of how they practice accounting for your business. It has everything to do with how you monitor your cash flow and make informed decisions about your finances.

We (Drew, CPA, and Barb, Profit First coach) are both certified Profit First professionals. We both understand our role as supportive of the other. In fact, this kind of collaboration is the best option a dentist could hope for and we can prove it with our mutual clients.

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Over time, Dr. Cristin had worked with several different accountants. It turns out that none of them were on board with or supportive of the Profit First system. When Drew and I began collaborating together as Profit First Professionals, Dr. Cristin finally found what she was looking for: a team of professionals to support her efforts. Having a supportive team is critical. Each person on the team has their role and understands how that role supports the entire process. It's not a competition. It's a supportive, collaborative environment built on trust. As your business grows and you increase profitability, there will be other trusted professionals on this team as well.

More to Life.Dental, Cane Ridge, Tennessee, 37013, USA

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PRAISE FOR *PROFIT FIRST FOR DENTISTS*

So often in dental school, we don't get enough information on running our dental practices—never mind the financial piece. I worry about this so much with young dentists and know how critically important it is to start off on the right foot with putting a system in place to support your financial goals. *Profit First for Dentists* does just that. It should be required reading for all dental students as they exit into their new careers.

Dr. MaryJane Hanlon, Associate Dean of Clinical Affairs, Tufts University School of Dental Medicine, and founder of The New Dentist Symposium and The Women in Dentistry Podcast

Profit First for Dentists is a must-read for anyone in private practice dentistry! The simple concept of paying yourself first works in other areas of our finances, but why don't we put it into place in our practices? See, this simple concept of taking my profit first and then being given the step-by-step approach to make it happen has made me truly excited to accomplish something I've only thought about for a long time but never consistently achieved: make my business profitable! Thank you, Barb and Drew!

Scott Price, DMD, East Valley Periodontics, Mesa, AZ

Barb Stackhouse has spent her career helping dentists succeed, first as a periodontal co-therapist in practice, then as a consultant, coach, and mentor to dentists and their teams. She has seen firsthand that success in dentistry does not assure success in business, something that most dental professionals are not made aware of in their training. This book will guide you through a proven method, one which Barb has made specific to dentistry, to build your business success so that you can reach your full potential as a dentist and give your best to the people you went into dentistry to serve. Do not be surprised by its simplicity, for that is its power, a power to change your mindset and your behaviors.

Gary DeWood, DDS, MS, Executive Vice President, Spear Education

I wish I had this book ten years ago. It was then that I met Barb, who was a hygienist and coach at a teaching center I was attending. I learned about overhead control, business principles, and saving money. Yet it all seemed so complicated, and was time-consuming. Fast forward to 2021, and Barb has taken what used to be a complicated process, combined it with Profit First ideals, and streamlined it to fit the dental profession. After reading this book, I have decided to put the "old ways" aside, adopt Barbara's teachings to place Profit First in my practice, and look forward to many years of profits.

Carl Futenma, DDS, Creative Smiles, Vancouver, WA

Certain that I was about to see the end of my dental business, I reached out to an old friend. Barb Stackhouse and I met years ago while she was in Arizona and solidified our friendship when the AGD held its annual meeting in Nashville, TN. Other practice management systems cannot produce the results possible with Profit First. That bold statement is evidenced by the current state of my practice. Two years after

what I was sure was the demise of my practice, the Profit First system ensured that I was positioned to survive a complete shutdown from mid-March until early June, and a limited (50%) re-opening until the third week of August, 2020. My team was fully compensated while no income was realized for over ten weeks. We are stronger today than when we closed in March! Barb fluently translates the language of Profit First into words all dentists can comprehend. The best solution is always the simple one, and this system is proof. Read the book, do the work, and enjoy the fruits of your labor.

Nicholas F. Gardner, DDS, Gouverneur, NY

I have to start by saying that Barb and Drew hit an absolute home run! Or, in dentistry terms, cut the most beautiful prep, took the most impeccable impression, or just completed the most spectacular full-mouth rejuvenation of a lifetime. The authors' ability to tell the truth about what is quite often the demise of the dental practice is sobering and, at the same time, brings such hope to all dentists. The simple step-by-step strategy of Profit First gives anyone the power to instantly start turning the boat around. This is an absolute must-read for any dentist who dreams of living the life they deserve. Thank you for elevating this wonderful profession!

Daniel J. O'Rourke, CEO, Dentistry's Optimal Model, Bozeman, MT

Drew Hinrichs is a CPA and tax strategist, and Barb Stackhouse is a hygienist and dental practice business coach; they are both Profit First Professionals. In this book, they lay out a clear plan that flips the above equation: Sales – Profit = Expenses. Pay yourself first. I know that if you are a dentist, like I am, this seems impossible!

I have had the opportunity to not only review this book but listen to one of the authors, Barbara Stackhouse, in person. She has been a mentor of mine for over twenty years. She has coached dentists one-on-one and practices this Profit distribution herself. If you are a dentist, the owner of a dental practice, or an associate dentist, this book is for you!

Lindsay Goss, DMD, MPH, Mesa, AZ

Someone has finally translated a successful business self-help book to dentistry! With Mike Michalowicz's support, Barb Stackhouse applied his Profit First system to the dental practice budget. As an experienced practice coach for dentists, she quickly connects readers with common problems and pressures of ownership (including debt), then walks through the process step by step, directly relating the applications to successful current clients. Barb spells out how to set realistic goals, shares common traps people fall into when implementing this process, and emphasizes the importance of sequence. She knows how dentists think, and keeps them from jumping to the bottom line with this easy read for the busy professional. The book has links to online tools and supports those who go live on their own.

Whether you are a practice owner struggling to make ends meet or someone who thinks you have this figured out, reading this book can increase your profits exponentially.

Ron Albert, DMD, Manchester, CT