Better Practice. Better Life.

ACT DENTAL'S
ROADMAP TO PRACTICE PROFITABILITY

At ACT Dental, we believe in helping dentists create a better practice so they can live a better life. Part of that process is maximizing your profit in return for your hard work. While the path to a better life looks different for everyone, there is one commonality that we see in our most successful dentists- they ALL save money. How do they do this? It isn't by willpower or restraint alone. Over the last 25 years, we have seen the dentists that are most successful in saving enough money to retire on their terms do so by automating the behavior of saving money. Put another way, maximizing profit and saving a portion of that profit becomes a habit. Follow each step of this roadmap to develop your own habit of saving money.

KEY POINT!
MONEY DOES, IN FACT, BURN A HOLE IN YOUR POCKET.

We have seen many practice owners wait to save money until the end of year, hoping there is some left over to save or invest. Result? There is almost never as much as they thought and this strategy almost always results in insufficient retirement savings. Why? **Parkinson's law** says that our demand for a resource increases to meet the supply of that resource. Meaning, if we don't intentionally put money aside on a weekly or monthly basis we'll find reasons to spend it. Some dentists believe they will "see how the year goes" and invest remaining funds at the end of the year. This rarely works. According to Parkinson's law, our "needs" will increase to meet the balance in our checking accounts.

THE ACT DENTAL ROADMAP TO PROFITABILITY WILL GIVE YOU A STEP-BY-STEP GUIDE TO MAXIMIZE YOUR FINANCIAL HEALTH IN LIFE, AND IN YOUR PRACTICE.
IT WILL DO THE FOLLOWING:

1. Teach you how to calculate your existing business overhead.
2. Provide a framework for budgeting future overhead expenditures.
3. Provide a tool for monitoring your overhead in the future.
4. Teach you the basics to the most important business financial reports.
5. Show you a cash flow model to understand your true "cash flow profitability."
6. Give you the tools to implement the habit of savings via the *Profit First methodology.*

BEFORE WE BEGIN, LET'S FIRST CONSIDER SOME IMPORTANT CONCEPTS.

CONCEPT #1

HOW TO DEVELOP THE HABIT OF SAVING

THERE ARE TWO SIMPLE WAYS:

#1. PAY YOURSELF FIRST

This Roadmap will walk you through the *Profit First* method of setting aside money before you can spend it. This method of saving will turn your idea about money upside down as you pay yourself first and work to limit your expenses using the equation:

Revenue - Profit = Expenses

#2. TURN YOUR DEBTS INTO CASH MACHINES

Throughout a dentist's career, there are numerous debt payments. These often include student debt, practice purchase, equipment and technology investments, etc. The financing of these investments sets up automatically withdrawn payments from the bank account and you learn to live without this money. The big day arrives when your loan is paid off. What now? (You already have the habit of saving that money because you aren't using it to live on, don't put this new cash flow in your checking account.) Transfer the automatic bank withdrawal to an automatic investment. You never saw the money to begin with and the automation of taking that money before paying yourself is already set up. Keep the habit in place. Over time, turning your retired debt payments into investments will result in an amazing amount of savings.

CONCEPT #2

YOUR PRACTICE HAS A PROFITABILITY SWEET SPOT

There are two foundational ways... to increase your profit. One is by increasing your production. Accountants call this through a process known as "top line growth." There is a lot of attention paid to increasing production in dentistry; perhaps too much. Increasing production is obviously a good thing. However, all too often, we see dentists work hard to increase their production only to realize they are now working much harder without making much more money. How could this be? The answer is that increasing the top line costs money in the form of salaries, technology, materials, etc. When you focus solely on top line growth, you may be blind to the costs rising right along with the production, and the profitability doesn't increase proportionately to this top line growth.

The other way to increase profit is by lowering overhead costs. These are called your "bottom line" expenses. Your business costs will increase unless you are paying close attention to them, tracking them compared to previous months and years, and budgeting for these costs moving forward. Yet, don't let your attention to expenses keep you from making well thought out and important investments that will in fact help you grow.

KEY POINT:

UNDERSTAND THAT THE MONEY YOU TAKE HOME IS A BALANCE BETWEEN WHAT YOU PRODUCE AND THE COSTS OF RUNNING YOUR BUSINESS.

Attention must be given to both. In time, you will find that there is a sweet spot in your profit. The sweet spot is defined as that point when production is maximized along with controlling overhead costs, all WITHOUT adding chair time or additional capacity to your schedule. When you can increase production without a corresponding increase in overhead costs, you take home way more money.

STEP ONE

Calculate Your Overhead

Understanding expenses and creating budgets to help control overhead does not need to be overly complex. At the most basic level, you simply need to track what you have been spending, forecast and document anticipated expenses, provide a system to keep your expenses, and savings in alignment with what the practice can actually afford.

First, let's get very clear about what an expense is.

Overhead expense = every cost not associated with the dentist's (including associates) salary and benefits.

Below is a 60% overhead model with expense categories and suggested percentages. When calculating your percentages, remember it is a % of your collections. The **blue categories are fixed expenses** and the **green are variable.** The variable expenses are easier to make immediate improvements to, while fixed expenses will remain unchanging for a set amount of time.

CAUTION

Don't get hung up on the names of the categories nor have the expectation that your subcategories need to match this perfectly.

Our advice is to get yourself organized, use the tools below to match YOUR P&L, then work to decrease your overhead a little at a time.

Team Compensation (25%)

- Wages, salaries and bonuses
- Payroll taxes
- Retirement plan contributions (team)
- Group health and life insurance, and other employee fringe benefits
- Temporary dental employment agency costs
- Uniform costs

Facility and Equipment (8%)

- Rent/mortgage (<5%)
- Utilities
- Facility maintenance
- Property insurance
- Janitorial services
- Equipment depreciation
- Interest on loans
- Property tax

Supplies (5%)

- Supplies and drugs

Laboratory (8%)

- Lab expenses
- Ortho supplies
- Implant supplies
- CAD/CAM costs
- Cerec

Operating Costs (9%)

- Office supplies
- Business office equipment /repair
- Legal fees
- Accounting fees
- Collection costs
- Bank charges
- Corporate taxes
- Dues & subscriptions
- Coaching costs
- Insurance (malpractice/overhead)
- Laundry
- Licensure
- Computer
- Telephone

Marketing (3%)

- External marketing -radio/tv/magazines, google ads/internet, direct mail
- Internal marketing - Referral brochure, patient "thank you" gifts.

Discretionary (2%)

- Automobile costs
- Gifts
- Charitable contributions
- Community sponsorships
- Meals and entertainment
- Travel
- Team CE costs

Research currently shows the national average for overhead in a dental practice to be between 70-75%. If that seems high to you, we agree. Practices in the ACT Dental community that engage in smart budgeting and healthy financial decision making can realize a significant decrease in this number and may see overhead in the realm of 52-60%.

Remember, that the goal is not rapid change and rash decision making to cut costs. The goal is to know where you are and make informed decisions about your spending, which will decrease your overhead and increase the bottom line at a sustainable pace. As we constantly say here at ACT, the goal is progress and not perfection.

TASKS:

UNDERSTAND THAT THE MONEY YOU TAKE HOME IS A BALANCE BETWEEN WHAT YOU PRODUCE AND THE COSTS OF RUNNING YOUR BUSINESS.

- [ ] Calculate your existing overhead using the **ACT Overhead Tracker.**
- [ ] My practice overhead is ____________%
- [ ] Compare against the 60% model. The gap between these two is ____________%.
- [ ] Set up the overhead calculations process for future monitoring of overhead.
- [ ] You will set up the process monthly for tracking each overhead category. You will start a new tracker each quarter.

DOWNLOAD OVERHEAD TRACKER HERE

STEP TWO

Set Up Your Budget

- [ ] By what percentage would you like to decrease in the next 12 months? ______________%.

ADVICE
Don't try to reduce overhead all at once. It takes time. Remember your fixed costs (team compensation and facilities/equipment) are fixed for some time. Try to reduce 5% per year until you reach your goals.

- [ ] Use the Budgeting Process below to establish a budget for the next year.

Budgeting Process

- [ ] Document your prior 12 months of expenses for the following fixed costs:

- [ ] **Team Compensation:** $ ______________
- [ ] **Facility and Equipment:** $ ______________

- [ ] Document your prior 12 months of expenses for the following variable costs:

- [ ] **Supplies:** $ ______________
- [ ] **Lab:** $ ______________
- [ ] **Operating Expenses** $ ______________
- [ ] **Marketing** $ ______________
- [ ] **Discretionary** $ ______________

- [ ] Project your next 12 months of expenses, addressing potential growth if needed.

- [ ] **Team Compensation Budget:**
$ ______________________________

- [ ] How much over 25% are you?
- [ ] Will you be adding or eliminating positions?
- [ ] Do you feel you are overstaffed or understaffed?
- [ ] Do you anticipate giving raises? If so, how much?
- [ ] Are you adding additional benefits?
- [ ] Are there any positions you could do without and not replace?

COMMON MISTAKE:
Including associate pay or other doctor expenses in this category. None of the following should be included in this category: your continuing education, your employer taxes, your 401K match, your dues and licenses, your health insurance costs, your insurance fees, etc. These costs, while necessary, should not be included in overhead.

- [ ] **Facility and Equipment Budget:**
$ ______________________________

- [ ] Will your rent / mortgage increase or decrease?
- [ ] Any major repairs anticipated?
- [ ] Any remodeling or major redecorating?
- [ ] Any anticipated increases in janitorial costs?
- [ ] Are you looking to purchase any equipment or technology?
- [ ] Will you finish paying off any equipment loans or sell any equipment?

COMMON MISTAKE:
Buying equipment without budgeting for it. Remember, only the interest on any equipment loans is included in your overhead. The principle is a non-profit and loss item, and is a hidden cost that often is the cause of dentists not taking home as much money as they feel they should. More on that later.

If you own the building, why are you paying rent? That is on the higher end of the marketable rate in your area. Talk to your CPA about finding the appropriate rent amount.

Strategize with your CPA about tax depreciation vs. book depreciation so your expenses in this category are as accurate as possible.

- [ ] **Dental Supplies Budget:** $ ______________

- [ ] What is your system for inventory control?
- [ ] Do you buy in bulk or just what you need?
- [ ] Are there places where you could reduce your monthly supply expense?
- [ ] Could you order more often and only when inventory is running low?

ADVICE

Once you have a budgeted amount, monitor supply expenses weekly. Upon reaching that monthly supplies budgeted number, stop ordering anything short of emergency purchases until the 1st of the next month. A process for inventory control where you identify a needed order BEFORE you run out of a material is necessary for this method to work.

COMMON MISTAKE:

Be on the lookout for equipment purchases or loan payments that accidentally have been included in this category. This may be the cause if your supply % is high. Remember, any loan payments and other bigger equipment purchases will be included on the cash flow or balance sheet, not the P&L. Your accountant will advise you on what dollar amount constitutes a supply vs. a piece of equipment.

- [ ] **Lab Budget:** $ ____________________

- [ ] Will you be changing labs?
- [ ] Are you adding procedures or services that will incur additional lab costs?
- [ ] Will you be purchasing a scanner or milling technology that might affect your lab budget?

ADVICE

We advise dentists to control costs in the lab category as much as they can but never compromise on quality. A good lab is worth it and this isn't the place to cut corners for the sake of saving money.

- [ ] **Operating Costs:** $ ____________________

This category will include all the various expenses necessary to run a business. It includes all office supplies, computer software, cleaning and maintenance items, utilities, magazine subscriptions, copier costs, etc.

This will likely be the place you put anything that doesn't make sense to classify elsewhere. It also has nothing to do with direct patient care and as such is the place you can be frugal and try to save money by lowering these expenses.

COMMON MISTAKE:

As this category comprises lots of little expenses, it is the one that can get out of control without even knowing it. Lots of little expenditures add up over time. Similar to your supply budget, this category works well for shutting down purchases once the monthly budget is met. This is also where all those automatic subscriptions, recurring purchases, bank charges, and merchant fees live. It takes some effort but negotiating lower fees and canceling unused subscriptions pay dividends over time.

- [ ] **Marketing:** $ ____________________

- [ ] What is your marketing plan for the next 12 months?
- [ ] Will this plan incur increased or decreased marketing costs?
- [ ] Are there current marketing efforts that are not providing ROI that you might stop?
- [ ] What charitable contributions currently in marketing should be placed in the discretionary category?

ADVICE

There are often expenses included in marketing that really should be discretionary contributions. We love when dentists sponsor little league teams or help their local churches with contributions. Are these marketing or charitable contributions? Could be either. Our advice is to consider it marketing when you will be monitoring its ROI and using this information to evaluate the usefulness of that expenditure. On the other hand, if you will likely be making the expenditure regardless if it ever brings you a new patient, that's perfectly fine but consider it a charitable contribution.

- [ ] **Discretionary:** $___________________

Discretionary expenses are those that are at your discretion and not exactly part of running the practice. These include charitable contributions, community sponsorships, the salt water fish tank in your waiting room, and the 10 dozen logo'd golf balls you bought under the heading of "marketing." If you need to cut practice costs in the short term, these would be the first to go.

- Review each variable costs category with your team, identifying strategies to reduce each category from the current amount down to your budgeted amount. You will need your team's help on this and they will have great ideas on how to accomplish it.

- [ ] **Total the above monthly budget amounts:** $___________________________________

- [ ] **Annualize the budget by multiplying by 12:** $___________________________________

Divide this annualized overhead amount by the overhead goal % = $___________. This is your **business survival number,** or the amount of revenue necessary to pay the bills. You'll have to collect much more if you wish to be paid.

STEP THREE

Understand How Cash Flows Through Your Business

Financial Reports 101

Analyzing your practice's financial health goes way beyond looking at your production, collections and overhead %. If you ever asked yourself or your accountant, **"Where did all my money go?",** read on.

KEY IDEA #1:
Production is a useless number unless you know what % of that production you collect. Further, the collection amount isn't all that helpful unless you know how much of that is going out the door before you can call it profit. That is your overhead. It is essential for a dental practice to understand what their overhead is, monitor it monthly, and put in practices to minimize overhead expenses. This understanding will lead to recognizing how to increase the net profit amount at the bottom of your Profit and Loss (P&L) Statement.

KEY IDEA #2:
The net profit at the bottom of your P&L statement is not what you get to take home. Huh? What? We know! It doesn't make sense. This is why this **Profitability Tool** is important for you to embrace. This net profit is only the start to following the windy path of how cash flows in and out of your practice. To fully follow the money in your practice, you will need 3 financial statements.

Print the following financial reports and have them in front of you as you work through the following steps:

- [ ] Profit and Loss Statement (P&L)
- [ ] Cash Flow Statement
- [ ] Balance Sheet

Together, these three reports paint a clear (or at least less blurry) picture of the financial health of your dental business.

PROFIT AND LOSS (P&L) STATEMENT

The Profit and Loss Statement is the most used and favorite financial statement among most small businesses. The P&L statement shows your practice's revenues and expenses for a selected period of time: a month, a quarter, or a year. The bottom line of the P&L statement, called the net income/loss, is the difference between the revenues and expenses over a period of time. If the difference is positive, it is profit. If the difference is negative, it is a loss. Some of your income will be stated on the P&L. How much will depend on how you and your accountant structure your income? Dentists are often paid in two ways: salary and cash distributions. Both are income to you, but how much of each depends on your corporate structure, and we'll leave that to you and your accountant. Salary and benefits to you are listed on the P&L and cash distributions on the balance sheet and cash flow statement.

Let us take a look at an example P&L statement of XYZ Dental for one month.

INCOME

XYZ DENTAL - PROFIT AND LOSS STATEMENT	MARCH 1 - MARCH 31, 2022
COLLECTIONS	100,000
PATIENT REFUNDS	-2000
NET COLLECTIONS	98,000

EXPENSE

ADVERTISING	3,000 (3%)
DENTAL SUPPLIES	6,000 (6%)
FACILITY EXPENSES	9,000 (9.2%)

***Note:** This category includes $900 in Depreciation. We will deal with this non-cash expense later in the process.

OPERATING EXPENSES	9,000 (9.2%)
LAB COSTS	7,000 (7.1%)
TEAM COMPENSATION	25,000 (25.5%)
DR. SALARY AND BENEFITS	20,000 (20.4%)
DISCRETIONARY	2,000 (2.0%)
TOTAL EXPENSE	81,000
NET INCOME	17,000

What you should learn from your P&L:

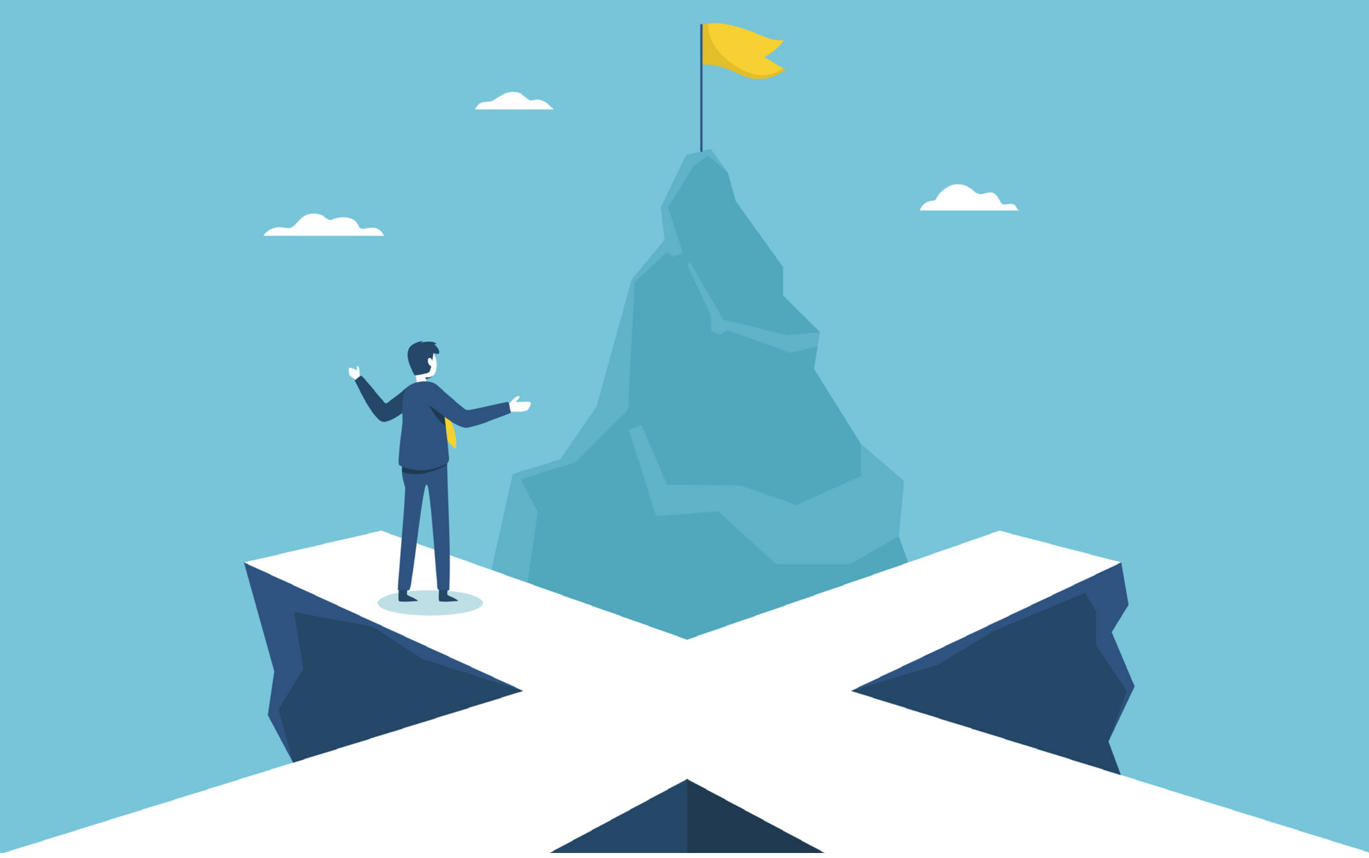
1 Is your top line big enough to produce a profit?

Track the top line income and compare against prior months and prior years to determine what your production and collections goals need to be in order to result in profit. Meaning, what is the break even point in terms of revenue where your practice will have a net profit on the P&L.

2 Are your expenses low enough to produce a profit?

Track your expenses as instructed in Step Two in an effort to minimize them. Profit is a balancing act between increasing top line and limiting expenses.

So in our example, $100,000 was collected, the practice has a 60% overhead, Dr. was paid 20,000 in income and there was still $17,000 left over. That's good. Does that mean Dr. can pay themself another 17K? Not necessarily. We have to now look at two other reports to get the full picture of the business health.



BALANCE SHEET

A balance sheet is the current snapshot of your business finances. It tells you about the assets you own and liabilities (i.e. debts) you owe at a particular point in time. Balance sheets are broken up into three general categories: assets, liabilities, and equity.

Here's an example of what a balance sheet looks like:

EXPENSE

XYZ DENTAL - BALANCE SHEET	MARCH 1 - MARCH 31, 2022	
CURRENT ASSETS		
CASH IN BANK	**20,000**	
ACCOUNTS RECEIVABLE	**30,000**	
INVENTORY	**5,000**	
FIXED ASSETS		
EQUIPMENT/FIXED ASSETS	**150,000**	*Accumulated Depreciation is simply the cumulative total amount that the fixed assets have been depreciated during their lifetime.
LESS ACCUMULATED DEPRECIATION	**-40,000**	
TOTAL ASSETS	**165,000**	Total Assets = Current Assets + Fixed Assets - Depreciation.
LIABILITIES		
ACCOUNTS PAYABLE	**12,000**	
CREDIT CARD PAYABLE	**8,000**	
LINE OF CREDIT	**15,000**	
CBCT LOAN BALANCE	**52,000**	
CAD/CAM LOAN	**25,000**	
TOTAL LIABILITIES	**$112,000**	
EQUITY		
COMMON STOCK	**15,000**	
RETAINED EARNINGS	**38,000**	
TOTAL OWNERS EQUITY	**$53,000**	

ASSETS

Assets are anything valuable that your practice owns. This may include:

1. Money in the bank
2. AR
3. Dental equipment
4. Furniture

LIABILITIES

Liabilities are debts you owe to other people. These include:

1. Bank loans
2. Line of credits
3. Credit card balances
4. Practice loans
5. Taxes owed

EQUITY

Equity is the remaining value of the company after subtracting liabilities from assets, less any distributions. This might be retained revenue—money the company has earned to date—as in the example above.

THE BALANCE SHEET FORMULA

To grasp how the three categories on the balance sheet work together, remember this formula:

Equity = Assets – Liabilities

To put it simply:
Whatever value (equity) your business actually has consists of what it owns (assets) minus what it owes (liabilities).

This is useful information, but it's not the full picture. While the balance sheet is used by many industries to determine the value of a business, this is not true of a private dental practice.
We advise you use your balance sheet not to constantly estimate the selling value of your business, but rather to do the following:

1.

Understand your cash position or what you have in the bank.

A healthy business should be paying the team, paying the bills, paying the doctor their base salary, AND be putting money in the bank every month. We want our dentists to be paying themselves a good salary and watching the bank account grow throughout the year.

2.

Track your existing loan balances and other liabilities over time.

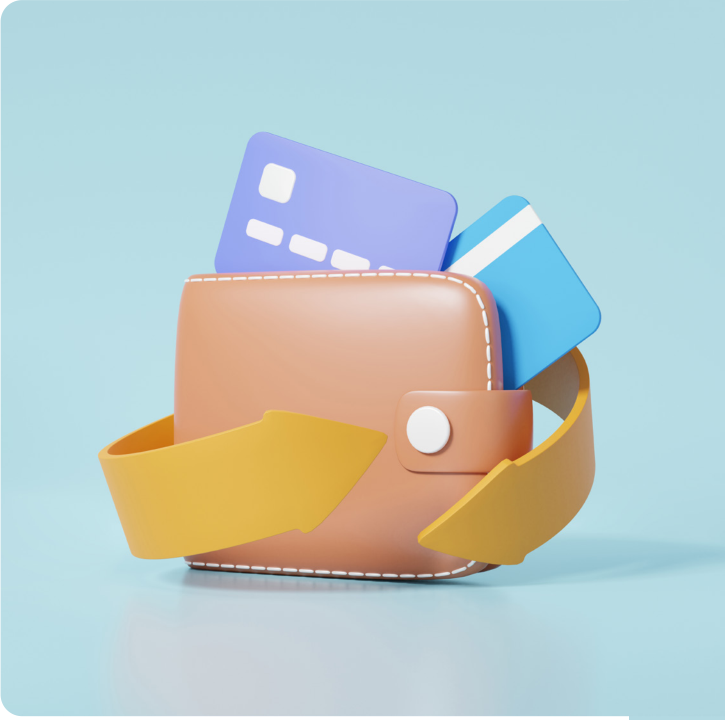
The doctor must be rewarded for owning the business at some point in the form of additional profit. That will never happen if the debts keep up with the production. Use your balance sheet to monitor your debts. Your debts are an investment in your practice. As mentioned above, when your debts go to 0, you can start investing that money for you!

CASH FLOW STATEMENT

Your practice cash flow statement tracks how much money came into the practice during a period of time and how much money was paid out during the same period. As a result, the cash flow statement shows **how much cash is available** to the company at the end of each period.

Many dentists are frustrated because their P&L statement consistently shows nice profits, yet they still end up having no cash to pay taxes at the end of the year.

Even if your P&L statement consistently shows nice profits, you still can end up in a situation when you do not have enough cash. P&L and cash flow include different items and serve different purposes: P&L shows the business performance from its day to day activities and cash flow reflects the financial performance of the practice. They aren't necessarily the same and that is why it is important to pay attention to both.



Here are the main things to keep in mind when evaluating your Cash Flow statement:

In a cash flow statement, all revenues and expenses are registered when they are actually paid, i.e. when money came into the practice account or left it. So if you signed for the purchase of some equipment in January but don't make the first payment till February, it won't show on the cash flow statement until February.

You likely have some expenses that incur cash leaving your practice that are NOT shown on your P&L. This is frustrating and confusing for most dentists. It is also imperative to grasp if you want to have a handle on your business' financial health. For example, all your loans and the principle payments on those loans are not seen on the P&L at all. They are recorded on the cash flow statement. Only the interest paid on your loans are recorded on the P&L.

Everytime you finance any purchase of new equipment, you will see the depreciation of that asset on the P&L along with the interest but the payment will be on the cash flow statment.

Let us look at our example dental practice again:

XYZ DENTAL - CASH FLOW STATEMENT	MARCH 1 - MARCH 31, 2022
NET INCOME (FROM BOTTOM OF P&L)	**17,000**
FINANCING ACTIVITIES	
LINE OF CREDIT	-$3,000
CBCT LOAN PAYMENT	-$2,000
CAD/CAM UNIT PAYMENT	-$2,000
PRACTICE PURCHASE LOAN PAYMENT (DISTRIBUTION)	-$5,000
TOTAL FINANCING ACTIVITIES	**$12,000**
DR. MONTHLY TAX SAVINGS DEPOSIT (DISTRIBUTION)	-$15,000
NET CASH INCREASE FOR PERIOD	**-$10,000**
PRACTICE CASH POSITION AT START OF PERIOD	$20,000
PRACTICE CASH POSITION AT END OF PERIOD	$10,000

WHAT DID WE LEARN HERE?

This practice has the potential to produce profit. Its net profit was $17,000. Its overhead is 60%. Looks pretty healthy, right? However, this practice's cash flow is not healthy. This practice lost money this month and only has only $10,000 in the bank, not enough to survive any unforeseen challenges.

Where is all my money going? We produce $100,000 per month? I thought there would be way more money left over!

Why? If you see that your cash flow balance is often negative while the P&L statement indicates profits, your practice likely has too much debt to service. Remember, those of you who are a "pass through tax entity" (S corp, LLC, Sole Proprietor) pay taxes on the net profit at the bottom of the P&L, NOT the bottom cash position of the cash flow statement. It is very easy for a dental practice to be profitable according to the IRS and accounting principles and yet have no money.

Keep working on this and we'll show you how to calculate your True Profit.

Your goal should be to plan wisely, invest in things that directly add to the income of your practice, and watch the last line of your cash flow statement increase each month. This is probably the most important line in all of your practice or financial reports. *When your cash position increases each month, you now have lots of options* to invest in the practice, reward your team with bonuses, and reward yourself as a return on your investment.

TYING IT ALL TOGETHER: How to Use the Three Reports to Calculate Your True Profit.

True Profit = Net Income from P&L + Depreciation Expense - Total Financing Activities on Cash Flow - Income Tax Monthly Savings.

From our example practice:

NET INCOME FROM P&L	$17,000
+ DEPRECIATION EXPENSE	$900
- FINANCING ACTIVITIES ON CASH FLOW	$16,000
- TAX SAVINGS ALLOCATION	$15,000
= TRUE PROFIT	$(-13,100)

DEFINITION - TRUE PROFIT is the remaining cash flow AFTER you've paid all the bills, paid your monthly loan payments, set aside your monthly tax allocation and paid yourself a base monthly salary. If your true profit is positive, you have positive cash flow. Negative means you are not bringing in enough revenue to support your cash flow. Doctors with consistently positive true profit will watch the bank account grow. Money in the bank allows lots of options including paying yourself and your team a bonus, paying down debt, or investing in your practice.

WHAT WILL HAPPEN UNLESS SOMETHING CHANGES IN OUR EXAMPLE PRACTICE? With continued negative cash flow at month's end, the doctor will find him or herself with some tough decisions to make. It may include reducing his/her salary until revenue grows and/or overhead expenditures can be limited enough to cover the decreased cash flow.

KEY POINT

Our intent is not to paint a dismal picture. Rather, we wish to illustrate how to follow the money in your practice in order to achieve complete financial control, budget for a profit, and make better decisions around if, when, and how to invest in technology and employees.

TAX TIPS

1

TAX SAVINGS ALLOCATION

Whether you pay annual taxes or quarterly estimated taxes, we advise you to take a monthly amount (your CPA will give you this amount) and put it in its own bank account. Treat it as an expense and get in the habit of paying it monthly so you never see it nor have the temptation to spend it. Doctors who don't account for it can find they don't have enough in the bank to cover taxes. This is a stressful feeling.

2

STRATEGIZE DEPRECIATION WITH YOUR CPA

Whenever financing a purchase, talk to your CPA about how fast to depreciate that asset. There are times when depreciating it quickly makes sense and others when slowing the depreciation schedule to more closely match your financing schedule makes sense from a cash flow perspective.

- Calculate your prior year true profit using the ACT Profitability Tracker.
- Revisit your budget for the next 12 months.
- Establish a strategy for meeting expense goals. This is a team exercise. We advise our doctors to share the overhead the team expense budget with them and get their insight. However, we advise not sharing the full financial statements with your team nor your salary information. Quite simply, your team can have a great impact in controlling costs if they are able to provide input and especially if there is some incentive for them in the end.
- **Now that you have an idea of your practice's true profit, let's really be intentional about developing the habit of saving and implement the method of *Profit First.***

PROFIT FIRST OVERVIEW

THE PROFIT FIRST FORMULA

The GAAP (Generally Accepted Accounting Principles) formula for determining a practice's profit is Collections – Expenses = Profit. It is simple, logical and clear. Unfortunately, it's a lie. The formula, while logically accurate, does not account for human behavior. In the GAAP formula, profit is a left over, a final consideration, something that is hopefully a nice surprise at the end of the year. Alas, the profit is rarely there and the business continues on its check to check survival.

COLLECTIONS – EXPENSES = PROFIT
COLLECTIONS – PROFIT = EXPENSES

With *Profit First* you need to flip the formula to Collections – Profit = Expenses. Logically the math is the same, but from the stand point of the dentist's behavior it is radically different. With Profit First, you take a predetermined percentage of profit from every sale first, and only the remainder is available for expenses.

PARKINSON'S LAW

Author and historian C. Northcote Parkinson theorized that our demand for a resource increases to meet the supply of it. That is why when we are given two weeks to do a project it takes two weeks, and when we are given eight weeks to do the same project it takes eight weeks. That is why when given $1,000 to complete our work we get it done with $1,000 and when given $10,000 to complete the same work, it takes $10,000. Profit First makes Parkinson's Law an asset. By taking profit first the money available for expenses lessens, and we are forced to find ways to get the same things done for less money.

BANK BALANCE ACCOUNTING

Most dentists don't have the time or gumption to read the different accounting statements necessary to manage the financial aspect of their business. Theoretically you should review and correlate your income statement, balance sheet and cash flow Statement monthly (or more frequently), but few dentists do. Most resort to "bank balance accounting," where we check our bank balance every day and make financial decisions based upon what we see.

Per Parkinson's Law, we consume what we see in our bank account. Profit First encourages the dentists to continue "bank balance accounting" by first allocating money to profit (and other accounts) so that the dentists sees the actual portion of deposits that are available for expenses and they automatically adjust their spending accordingly.

DON'T CHANGE HABITS, LEVERAGE THEM

Many dentists try to force themselves to become better at accounting and to become more disciplined in their fiscal management by pure willpower. Just like a muscle, willpower can be drained. In a moment of financial stress or bigger than expected expenses, the entrepreneur will break their own fiscal rules and spend the money they have.

The Profit First principle does not try to change your habits (that is nearly impossible to do), Profit First works with your existing habits by first allocating money to different accounts, and then removing the temptation to "borrow" from yourself. Your business will become fiscally strong and you will benefit from regular profit distributions.

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PROFIT FIRST ONE-SHEET

ONE TIME SET-UP

STEP 1

Setup the five bank accounts with your current bank.
We'll call this bank, Bank 1.

1. Income (Checking)
2. Profit (Savings)
3. Owner's Pay (Checking)
4. Taxes (Savings)
5. Operating Expenses (Checking)

STEP 2

Setup two new accounts at a different bank.
We'll call this bank, Bank 2. The purpose for these accounts is to remove the temptation of "borrowing" from these accounts.

1. Profit
2. Taxes

STEP 3

Determine the TAPs
Target Allocation Percentages for your business using the Instant Assessment (available for free download at www.MikeMichalowicz.com/Resources). Start with percentages that your business can reasonably do for each account the remainder of the quarter. The percentages you determine are called your allocation percentages.

DAILY

STEP 1

All receipts go into the Income account at Bank 1.

STEP 2

Spend a minute to review your account balances at Bank 1 daily, to see cash flow trends for the key aspects of your business. That's all the time you need to see where things stand!

EVERY 10TH & 25TH

STEP 1

Transfer all funds that have accumulated in the income account at Bank 1 to the other accounts at Bank 1 based upon the allocation percentages you are using.

STEP 2

Transfer all the money in your profit account at Bank 1 to the profit account at Bank 2. Transfer all money in your taxes account at Bank 1 to the taxes account at Bank 2. This will leave a $0.00 balance for profit and taxes at Bank 1.

STEP 3

If you are doing *Advanced* Profit First, transfer employee payroll or other fixed dollar amounts from operating expenses to the respective accounts.

STEP 4

Disburse the salaries for the business owner(s) from the owner's pay account.

STEP 5

Pay your bills from the operating expenses account.

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EVERY QUARTER

STEP 1

Take 50% of the money that has accumulated in the profit account at Bank 2: as profit distribution. Remember this money is for the business owners and not to be used to plowback into the business.

STEP 2

Pay your tax liabilities from the tax account at Bank 2.

STEP 3

Adjust the allocation percentages for the profit, tax, owner's pay and operating expenses to maximize your financial health.

EVERY YEAR

STEP 1

Review your financials with your Profit First professional accountant and financial experts.

STEP 2

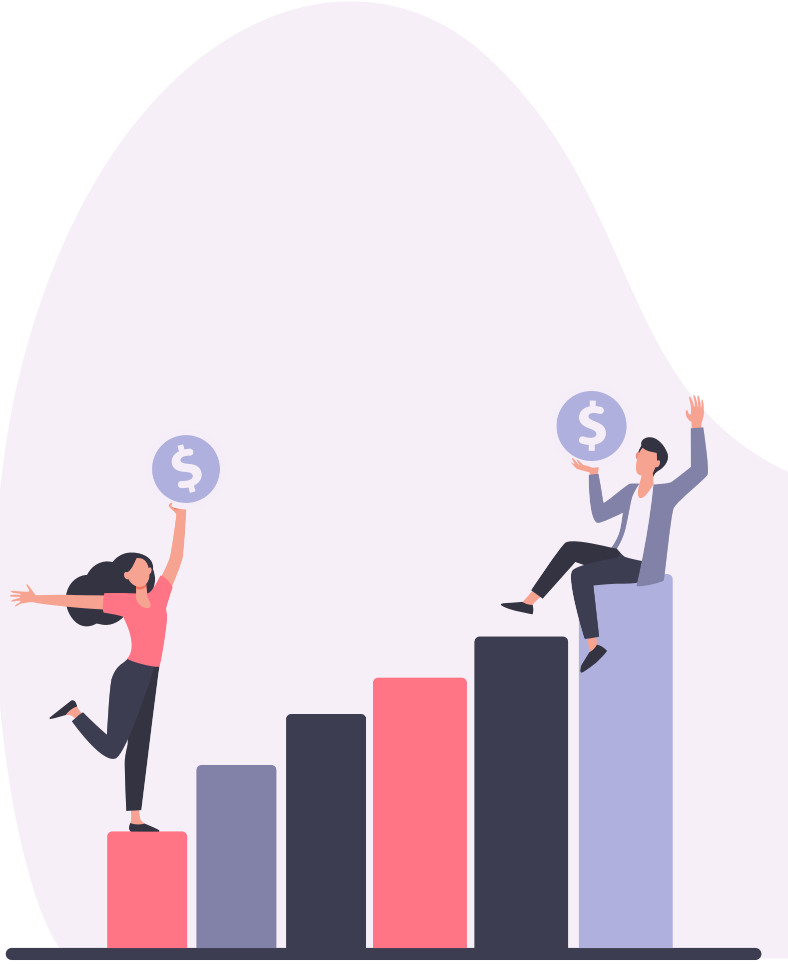
Make year end contributions to the vault account, retirement accounts, or make capital purchases as determined by you and your Profit First professional.

STAYING ACCOUNTABLE

Just like going to the gym and trying to lose weight, we all know what to do and how to do it, but the best workouts are overseen by personal trainers. A Profit First professional is your financial trainer. Use them!

***Certain steps in Profit First can be further configured optimally for your business.**

Please refer to the Profit First book for these advanced options and configurations.



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