Ep #352: Barbara Stackhouse - Eliminate Stress and Increase Time with a Profit First System for Freedom

Full Episode Transcript

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Dr. David Phelps

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Welcome to the Dentist Freedom Blueprint, a podcast about freedom—freedom from expectations of society and the traditional path to success that has been ingrained in us from our early years, I'm joined by mavericks, renegades, and non-conformers to discuss an anti-traditional path to financial freedom, freedom of time, relationships, health, and ultimately freedom of purpose. My name is Dr. David Phelps. Let's get started.

David Phelps: Good day, everyone. This is Dr. David Phelps of the Freedom Founders, Mastermind, and Dentist Freedom Blueprint podcast. Today, I have a good friend, somebody that I really respect in what she's doing in our industry, and that is Barb Stackhouse. Hi Barb.

Barbara Stackhouse: Hi David. Great to be here. Thank you.

David Phelps: Great to have you. You've spent a good deal of time in our industry from really the ground up. I respect that, but also for what you're doing to really serve our industry in an area that is oftentimes considered kind of a black hole. Let me get a little bit of your background. We'll jump into the topics today, but this is going to be very interesting for people. Because you and I have a lot of in common with how we look at the finances in our industry. You consider relatively high income, and we'll talk about "where's the money go?". So, anyway, let me give a little bit about Barb. Since 2005, Barbara Stackhouse, and she's got a whole lot of letters after her name. I know a few; registered dental hygienist, Masters in Education. The rest of them, Barb, I don't even know what they stand for. Do you want to give me a little bit of clue?

Barbara Stackhouse: I'm trained as a traditional Naturopath Doctor as well. I like the holistic side of medicine.

David Phelps: Let's put it this way, you're very well-educated.

Barbara Stackhouse: I try to be.

David Phelps: You have helped over 400 dentists add thousands in revenue to their practice every month, and boost profits by 5 to 10%, which...we'll talk about that. That's huge. That's huge. 5 to 10%. It sounds like, oh, that's not much. No, it's huge. A Mastery Level Certified, Profit First Professional, and Profit Advisor. We'll talk about what that means. Barbara is an expert at cutting expenses, and increasing profit margins without compromising patient care. Her clients keep more money in their pockets, allowing them to fulfill their dreams for themselves and their families. Barb's extensive background in the dental industry gives her an advantage, and deep understanding about the ins and outs of running a profitable, highly successful practice. Barb is passionate about helping others in their journey to wellness in the areas of both finance and health.

David Phelps: So to your point, Naturopath. When faced with her own health crisis with an auto-immune disorder, she focused on traditional naturopathic training and became a board certified Complementary and Alternative Health Practitioner. I guess I could have taken that sentence and put it together. I'm clued in now. I'm educated to a new level. Anyway, Barb here does great work. I also want to just make mention right off the bat because you've got a new book that just came out this year. Thank you for sending me one. It's Profit First for Dentist.

David Phelps: We'll talk about Profit First. I know that the founder of this great philosophy, which is mutual friend Mike Michalowicz, who really kind of shattered the world with going from traditional gap accounting to Profit First. Do you want to just start there, and talk about the reason why accounting, and finance, and profit in business and practice, is just kind of a black hole? We tend to look at what's in the bank account, and if we can pay the overhead, put away money for taxes, and then if we have something we put in retirement. It's up and down, it's volatile. It just...it's a bad system. Go ahead.

Barbara Stackhouse: I think the core piece of this, and Mike Michalowicz' genius for figuring this out, is we've been waiting for the leftovers for our profit. This is how businesses have typically run throughout history. You have sales, you collect the money, you pay all the expenses, you pay your employees, and all the things...that the money goes out, right? Including debt payments, and all of that. Then whatever's leftover you get to take home or put in your own pocket, but the problem is there just never seems to be any more leftover, any extra.

Barbara Stackhouse: Mike came up with this idea to flip the equation. Instead of having sales minus expenses equals profit, we now have sales minus profit, take your Profit First, equals expenses. It forces you into looking at the reality of what's going on in your business.

Barbara Stackhouse: You mentioned gap, and I just want to mention that really quick. Gap has been around since the early, I'd say 1920s/'30s, and it was created by the government for all CPAs to have a uniform way of reporting. There was a lot of shady stuff going on with money, and they wanted their money, right?

David Phelps: Sure.

Barbara Stackhouse: So, they created this. The basic formula of that, of gap, is just what I said; what we've been doing for years, sales minus expenses equals profit. We were entrenched in that, and we still have to do that. What I want to say is your CPA can do something totally different. They can still keep doing gap to keep you legal with the government. The whole idea behind this book, and my passion, is to help dentists know and understand their own numbers from a Profit First perspective. Really and truly be able to increase that profit, and know where their money is going. I think the black hole that you talked about is staying in that gap where we don't know what's going on. That's the black hole. When we implement Profit First, it's like the light bulb coming on, right? We know where our money's going. We're faced with it. We have to make some decisions.

David Phelps: What are some of the core principles of Profit First? What's the essence of the setup? How do we make this new equation sales minus profit equals expenses? How do we actually make that work within our practice?

Barbara Stackhouse: We use something called bank balance accounting, and all that means is that we set up some additional bank accounts. All of that sales, the first part of the equation, all of that money flows into what we call an income account. We don't pay any bills from that account. We don't pay any bills from that account. That account just holds the money. Then once a week, we allocate money by percentage to four other accounts.

Barbara Stackhouse: I think one of the biggest hangups that dentists have in implementing Profit First, and I try my best to explain it in the book, but it's one of those things that if you're not a numbers person, it can seem daunting is, "What should my percentages be?". If I'm going to allocate to profit, if I'm going to allocate to an owner's comp account, if I'm going to allocate to a tax account...I'm going to allocate to an operating expense account.

Barbara Stackhouse: "What should my percentages be?" I think that's the biggest question, but that's what happens. Once a week, we divide the money up from the income account, and we put it into these other four accounts and we hold it there only for that purpose. It allows us to see "Where's my money going? What is the purpose for that money?" You already have your taxes by having a tax account, having that set aside. But knowing that your business is going to pay your income tax now, not withholding it out of your check. That still happens, but your business now funds that, which is huge.

David Phelps: Yeah. I was going to say, that's the best feeling in the world. Nobody likes to pay taxes, but the worst kind of taxes to pay are taxes you weren't prepared to pay. How many times, I know you hear it, but I hear it, is people are just rocking along and they're having a pretty good year. They think things are going great. Then out of the blue comes their CPA, and says, "Oh by the way, you need to write a check for this amount." And it's, about four or five times, maybe more, what they anticipated. How did that happen? And that really is a bummer. It really deflates you because, all of a sudden, the plans you had for that additional capital you thought was there...now you're scrambling to try to...where am I going to find the money to go down and pay the tax? That's just one issue, the taxes.

David Phelps: To your point, to have this set up so you don't have to worry about that anymore. The money is there. It's still not fun to write a check, but at least it's not as painful to write a check.

Barbara Stackhouse: I hear from dentists when I talk with them...that scenario you were just talking about. At the end of the year, worrying about, "What am I going to have to pay in taxes?", and thinking that they have set aside some money or that there's enough in their account. Then they get that surprise from the CPA. They say, "Why? I don't have that money sitting around. Where is it? You're saying I'm this profitable, but where is that money?" Just in the book, again, I go back to try to explain how that happens. It especially happens when you have debt. All of that principle that you pay off when you're paying down your debt...

David Phelps: Is taxable.

Barbara Stackhouse: Is taxable, yes.

Barbara Stackhouse: Many times I work with a dentist, and they're like, "I just don't want to have debt anymore. I'm struggling with debt. I want a plan to pay down debt." That's a very noble plan. If we don't plan for the taxes with it, then we've really done a disservice.

Barbara Stackhouse: It's just understanding the give and take, and how that all works. We can set all of that up using the Profit First system. There's those five core accounts. We do other accounts as needed. I have some doctors with a couple extra accounts. I call that "Ninja" Profit First. We get into some other things, and you can set some goals and make it happen by having those bank accounts. It's a behavioral system. I think that's the key to it is that once a week you know going to take that money, and you're going to move it. You're literally going to get online, and you're going to transfer that money from one account to another. Then you're not going to touch it there. You're only going to use it for that intended purpose. That's the behavior part. There's something mental that just kind of clicks, right? Or hopefully it does.

David Phelps: Some of the accounts, operating expense, taxes, are definitely obligations that you have to get paid. Back to your first premise that the challenge for a lot of docs who are wanting to try this out and set it up is- how much, how much should it be profit? How much should be owner's comp? I'd like it to be as much as possible. I'm trying to be realistic. I'm "x" profitable now, and I'd like that to be bigger. Or, I know my expenses have to be paid. How do you keep from trying to still reverse engineer the whole thing? Even though I'm going to do Profit First, I've got to make sure I put enough money in the expenses. You started with some allocations and percentages. You can change those and modify, but it's just a starting point.

Barbara Stackhouse: What I teach is go back for your last year, and look at your numbers. Even though you weren't allocating to these four accounts, you could go back and find those numbers, if you dig deep enough. They're not always super easy to find, but you could. Imagine you had those four buckets, and you were going to put..."Did I save any money last year? Did I set aside any profit?" Sometimes that's a zero bucket, lot of times. "What did I pay myself?"

And when I say that, what did you take home? This doesn't include your taxes. What did you actually take home? It forces you to look at that. "What did I pay the government in taxes? What was my total for the year?"

Barbara Stackhouse: "What were my operating expenses? I think one of the things that gets forgotten when we talk about operating expenses, because it doesn't show up on the P&L, is loan payments. Yet those come around pretty regular every month. Here we have all this money flowing out of the practice to pay these bills, yet it doesn't show up. Doctors will look at the bottom of their P&L and say, "Where's this?" It's not there, but if we were doing it in Profit First, it would be included in the operating expense. You just go with that, and you figure out what those percentages were in the past. I can surely do that this year. What if I could just change 1% or 2%?

Barbara Stackhouse: What if I could just put 2% in my profit account, and I could reduce my operating expense by 2%, keep the other the same. That would be a step in the right direction. We just look at it from a different way. It's amazing when there's less money in the account. The whole premise is when there's less money in the account, we actually do spend less. That's a behavioral thing.

Barbara Stackhouse: Mike talks about Parkinson's Law in his book. I talk about it in my book, and the demand for something expands to match its supply, and vice versa. The more money you have in your account...we all do this. When we want to make a purchase, we want to go take a CE course, we want to pay the bills. What do we do? We go look at our bank account and see, do I have the money to do that? If you want to pay bills, sometimes you'll get everything paid. Then all of a sudden, payroll is coming again. You're scrambling to get money in the account to meet payroll. This takes all the guesswork out of that. It just...I love it. I can definitely tell you, it works.

David Phelps: It seems to me, Barb, that it would also take away the tendency for doctors to use their practice as an ATM. In other words, there's money there, and I'm just going to borrow it out short-term to go do whatever. Of course, that's a bad behavior. Or again, I'm not trying to put anything on spouses because there's a lot of spouses that are way more financially disciplined than sometimes the one who's doing the actual technical work. So please understand spouses, I'm not talking about you as a group, but there sometimes a tendency...I hear a doctor say "My wife", who may or may not work in a practice, says, "You produce so much money in the practice. I don't understand why we can't have x,y,z."

David Phelps: There's all kinds of reasons for it, maybe dysfunction there in a family's environment. Seems to me that this way, by setting up the separate accounts, doing the allocations right out of the gate, and not keeping a pile of money in this one account where it could become accessed or, "Hey, we've got that money there. Let's go use it for whatever we want to use it for." It will take that tendency away. Is that true?

Barbara Stackhouse: It absolutely does. When you do everything by allocations, by percentage, there's always enough. That's what I love about it. Even if you had a slower month Let's say you started this, and you're on track. You have three good months. Maybe one of those that's a little bit higher. You've been allocating by percentage and then boom, a bad month comes. We all have it. That's dentistry. It's life. It's what happens. You have that bad month. You still allocate by percentage because if you're really following this system, you've got excess now built up in those accounts because you had a good month. Everything evens out.

Barbara Stackhouse: When there is this temptation...I'm going to just use the word "to steal from yourself" because that's what it is. It's not borrowing. We have no intention of paying it back. We're stealing from ourselves. That becomes very apparent when you have Profit First. The beautiful thing is this- you start a profit account, let's say it's 2%, or even 1%, that's money you didn't have before that is sitting in an account. At the end of the quarter, the owner takes a profit distribution, not all of it. There's a system to that, and what you do with that money. The owner gets rewarded for doing the right thing.

Barbara Stackhouse: When I see doctors getting to that 5% mark, to that 10% mark, that they're setting aside for profit. When you mentioned early on increasing profit by 5 to 10%...I'm saying 5% of what you collect.

David Phelps: Yes.

Barbara Stackhouse: You have to understand, that's a big number. If you're able to set aside, let's say 5%, and we've been able to really manage and cut expenses over here. Now we have that sitting in an account? It's huge. No matter what the goal is, dentists have different goals. Some of them come to me and say, "I just want to start paying down debt." Some come to me, and they want to make a purchase of something. We can set up whatever it is that their goal is, use these accounts to do it, and still maintain all your expenses over here and keep them under control.

David Phelps: A big factor and question that is up, I think in the minds of every business owner; is making those decisions about adding technology, adding additional capacity, maybe enlarging in the business, the practice, the number of chairs, or adding associates or other providers, making these kinds of decisions and keeping it within the line of Profit First. The system really allows for that proper decision making rather than a guesswork. Correct?

Barbara Stackhouse: Yes, it does. For sure, and I love how Mike Michalowicz teaches. When you're thinking about hiring another employee, begin by setting aside that extra money that it would take to hire that person. I love to do this when I've worked with doctors who have hired an associate. You've got to save up that income for about six months of their pay. If you can't do that right now, you're not in position to hire them because the truth is when they start, there's going to be a mentoring process. There's going to be about six months until they get on their feet. They're up to speed where you need them to be. They're probably even going to take away some of your patients. So all of these things...we talk about the reality, this is what I see happen. Let's just plan for that. So it's really setting up a plan for your money. I always say nobody likes to hear the word budget, right? But we're all going to spend money, all of us. Let's have a plan for spending. So we know where it's going.

David Phelps: It's really a plan for success because going back to the associate model- how many of those opportunities/associateships actually work? How many fail? Not because either person was bad or the associate necessarily wasn't any good. As you said, there's a ramp-up period. If the senior doctor-owner didn't plan for that, and expected the associate from day one to come in and produce X. Now, financially he or she is constrained. And now feeling pressure, where is that going to be released? Maybe feeling disdain for that associate, when the associate is just having to learn and ramp-up. You've got to prepare for these things. If you do it that way, it takes that pressure off, and you actually cannot feel the financial strain. The productivity is actually down a little bit because I'm mentoring; I'm getting this person brought up to speed in the right way, not just throwing them out there as they go to work.

Barbara Stackhouse: It makes a mindset shift as well that you're really investing in this person. I think that when we look at making the hire, we're expecting that return right now. I like to look at it as we're investing in another human being who will bring that return eventually. You have to ask yourself the question, "Am I willing to invest my time and my resources in this person?" That's a really great question when you're hiring someone. If you can't say yes to that, then maybe it's not the right fit.

David Phelps: Exactly. Here's a question, Barb. Again, we have some people that are very debt-averse once they pay down debt. It's like, "I don't want to go back into debt again." I totally can understand that, kind of a Dave Ramsey. Just pay off the debt, and live your life without any more debt. There's one side where you can say, "absolutely, that makes sense." There's another side where people would say, "In order to grow or expand, it will take me too long or X amount of months, or maybe years to save up the amount of capital would take me to buy another location if I was just going to go bigger." Or to buy that—that's going to be 48 months down the road. How do you help doctors in that situation balance between, "Do I utilize debt today to make that investment or should I save up and self-fund?"

Barbara Stackhouse: It's a combination. There's never one way that fits for everybody. I think you have to look at, there is good debt. There's good debt, and there's bad debt. Dave Ramsey will even say that. If you're investing in something that is building equity, you have good debt. Real estate a lot of times is good debt because you're growing it. Expanding to another location, and going into debt to do that, maybe you would save up enough that you have a sizable down payment. That's fine.

Barbara Stackhouse: Same thing with equipment. What I like to do is look at what is it that you're looking to purchase? Number one, does the dentist have the training that would allow them to use that piece of equipment to the highest capacity? Sometimes when dentists get sucked into this...going to the CE course...I write about this in the book, the CE junkie, right?

Barbara Stackhouse: You're just taking CE. I love to learn too. I love to go to school, but then it's "oh, well I need this equipment. I need this equipment." I need this to be able to do that. Are you really prepared and ready? Do you have systems in place? Is your team trained? Are you going to use that piece of equipment now? I can go back and look at countless clients who've said to me, "I wish I hadn't made that purchase." When you're ready, and it is going to work well, and your team is trained and you're trained, I'm all in.

Barbara Stackhouse: I also think that you need to save enough money to make a sizable down payment, and not borrow all of it. I think it's too easy to borrow the money because you never see the cash. When you save it up, and you've got $40,000 in an account. You're going to pull that $40,000 out, and put down on this piece of equipment. It makes you think twice. That's pulling that money out of your account. It's no longer going to be sitting there. I think that's the difference. It's when you have to put your cold hard cash, that you worked hard to earn...then it makes you stop and think, "Do I really, really want this?"

David Phelps: Good point.

Barbara Stackhouse: I say it's a combination. I'm not averse to debt, but I am if it's done in the wrong way.

David Phelps: Makes sense. That one's accountant can still continue to do the gap accounting, which is the way the government wants to see tax liability reported, but can also still institute Profit First and there not be a conflict. Are you able to work with dentists who right now have an accountant they like, that's doing their books for them and taxes, but they're not called Profit First? Can that still work or do they need to have someone who is also enjoined with Profit First from a CPA accounting standpoint, to make it all work?

Barbara Stackhouse: I would say the majority of the time, I don't ask them to change their accountant unless there's a problem. The majority of the time, there's not a problem. I work with a lot of different accountants. A lot of times the accountant is actually really happy that the client is getting some help in this area because they're not trained to do that part of it. You have to understand, your CPA is trained to file your taxes and make sure that you're legal. They're not there to be your financial coach. The way they handle their money personally, probably isn't the way you handle yours. It's just a mis-fit, I think, to expect that your accountant is going to do all those things for you because they're not, it's not their job.

Barbara Stackhouse: When someone comes to me, and they don't have a solid relationship with the CPA. Maybe there's been a breakdown and they ask me...Or let's say the CPA, for whatever reason, decides they don't really want to support the Profit First method. Then we have to sit down, have a conversation, and there are Profit First CPAs. There are several of them. Obviously Drew Hendricks, who wrote the book with me, he is one of those. We can find a CPA who does support Profit First. I don't say you have to because you don't have to. I have many, many accountants who do just fine with this, and are happy for their clients that they're finally seeing that profitability.

David Phelps: It makes their client happier too. They're not having those tough conversations, like you owe X more and X liability for this year. That just takes out the tables and everybody's happier.

Barbara Stackhouse: I had someone say that to me the other day. They said their accountant said, "Now, be prepared because here's what I'm seeing." She said to the accountant, "Don't worry. I have all that in the bank."

David Phelps: Perfect. That's the kind of client to have.

David Phelps: Well, great. Barb, where can people pick up the book Profit First for Dentists?

Barbara Stackhouse: I would love for you to go to my website, profitfirstdentist.com. There are some resources there. They're free resources that go along with the book. There's a link there that'll take you to make the purchase of the book too. I would say go to the website. All you have to do is put your name and email in, you can have those resources for free, and then make the purchase. There's a link, just click on the link. That's profitfirstdentist.com. Just look at the tab at the top that says, "buy the book". Hit on that link there, and it'll all be there.

David Phelps: When somebody buys the book, or they're interested in looking further at Profit First, how do they contact you to see if there's potential fit in working with you, and having you help implement, rather than trying to do it yourself?

Barbara Stackhouse: I like to just start with a call together, and really no pressure on that call. The call is for you, the dentist. If you're listening to this, and you just want to find out...just get some clarity about your practice. Yes, I do have a program called Profit First for Dentists, and I love helping dentists, but that call isn't...I don't have any intention of trying to sell you anything. I really just want to help you. If you'd like to have that call with me, the easiest way to do that is just go to call.profitfirstdentist.com. And that's call.profitfirstdentist.com. You can get right on my schedule. Just find a time that works for you. We'll spend about an hour together, and literally that call was for you, the dentist.

David Phelps: Barb, you're very easy to talk to. You make what we typically think is very complex, you simplify it, which is the key in life is to take the complex and simplify it; put it into categories, put it into frameworks, put it into disciplines, behaviors that allow us to enact it without going crazy with all the other things we have to manage. When you're able to do that, everything flows. I think that's exactly what you do here with finances. Guys talk about taking the stress off of the ups and downs of the volatility. As we know, happens in every discipline. Every business owner, without a system in this case to simplify it and get the habits in place, there's no better way to do it. I really applaud what you've done. The book is fantastic.

David Phelps: Grab the book and read through it. If you like what we talked about today, and you can get a little bit deeper into it. Then if you want some help implementing, Barb's there to at least give you some clarity on what that would look like for you. Whether you do it yourself, or she helps you, it's an option. It's a very much a benefit. Barb, we thank you so much.

Barbara Stackhouse: Thank you so much for having me, it was my pleasure.

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