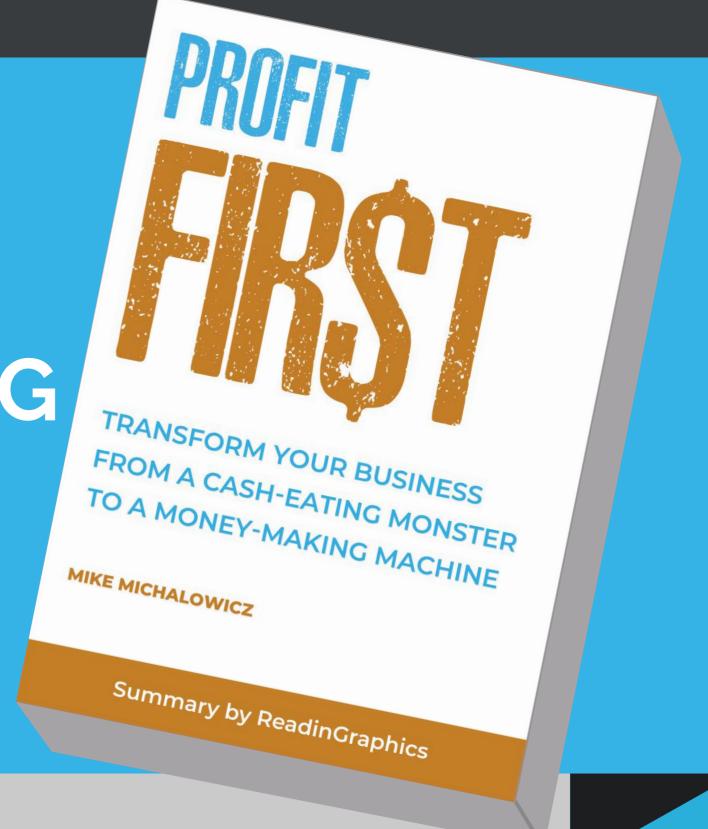
PROFIT FIRST

TRANSFORM YOUR BUSINESS FROM A CASH-EATING MONSTER TO A MONEY-MAKING MACHINE

Mike Michalowicz





Many entrepreneurs start a business to do what they love and/or gain financial freedom. Yet, >50% of businesses fail in the first 5 years, and many more hover on the brink of collapse.



Profit First is built on this simple idea: before you pay your expenses, take your profit first. Use this approach to turn around an existing business or build a profitable new business.

CONCEPTS AND PRINCIPLES

Stop Building Cash-Eating Monsters

Nobody starts a business to become enslaved by it. Understand why profitability should be your priority.







Remove misconceptions



Bigger ≠ **better**. Don't measure business success via size and growth rates. If you keep growing without profits, you're just creating a black hole. Get profitable *before* you grow.



Income ≠ **cash**. You can earn a lot and still have no profits or money to pay yourself. Each sale comes with financial costs and opportunity costs (what you could've done with the same resource). Get efficient so you can keep more of what you earn.

Get out of the Survival Trap



When you focus on income and growth, you get stuck in a crisis mode: You spend more than you can afford \rightarrow try to get more money by grabbing any client or adding more products →become less efficient + extra income is used to pay rising worsens.

Use Profit First to break the vicious cycle, refocus on your vision and financial gain freedom.

Change your Accounting Formula



Traditional accounting uses this formula: Sales - Expense = Profit. It looks at sales and expenses first, before assigning the "leftovers" as profits, taxes and compensation for owners. Profits and owners' rewards come last.



Use this new formula instead: Sales - Profit = Expenses. Take your profit first so you'll be forced to spend only what you can afford now, not what you hope you can afford someday.



4 Principles for Creating Money-Making Machines

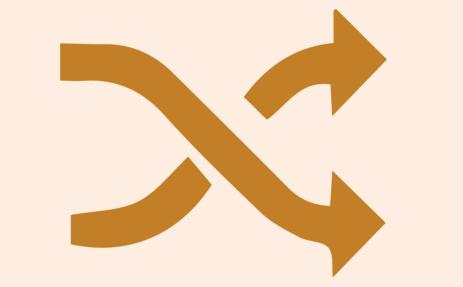
The most effective weight-loss strategies are built on strong scientific research on human psychology. **Profit First applies these principles to build business health.**



Dietary Science Principles

Use small plates Reduce your food intake

by using smaller plates.



Change meal sequence

Eat low-calorie, nutritious food (e.g. veg) first.



Remove temptations

Remove junk food and stock up on healthy food.



Build a rhythm

Eat small, regular meals so you won't get hungry.



Take profit first and split the balance into small With less accounts. cash, you'll be forced to find innovative ways to achieve more with less.

Always take profits first and pay your bills last, so you only spend what you can afford.

Once you've taken your profit, keep it out of sight, out of mind and hard to access (except for the right reasons).

Log in daily to check your balances. Manage your allocations and payables twice a month.

IMPLEMENTING PROFIT FIRST



Set up your accounts



Create 5 core accounts: Income, Profit, Owners' Pay, Tax and Opex. Pick a bank that allows ease of account viewing and transfers.



no-temptation Create 2 accounts: Profit-Hold and Tax-Hold. Pick another bank and make it hard to access the money.



Assess your Business + Define Percentages

Do the **Instant Assessment** using the form and details in the book

or text summary. Gauge your business health, identify the gaps between reality and ideal, and identify how to fix the gap.



Target Allocation Percentages (TAPs) are the ideal % to split your income into the other 4 accounts. Start with the recommended % and refine them later.



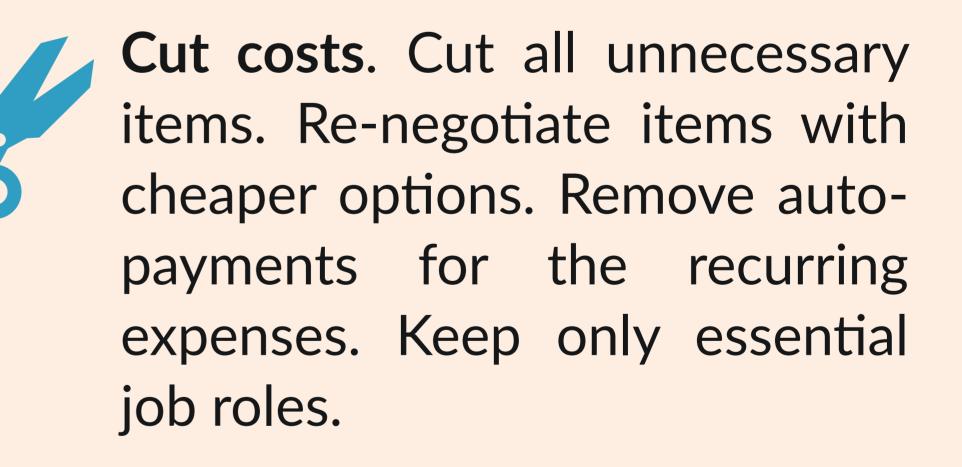
Current Allocation Percentages (CAPs) reflect the state of your business. Improve your CAPs by 1-3% each quarter so you move



Remove Debt

+ Free Up Cash

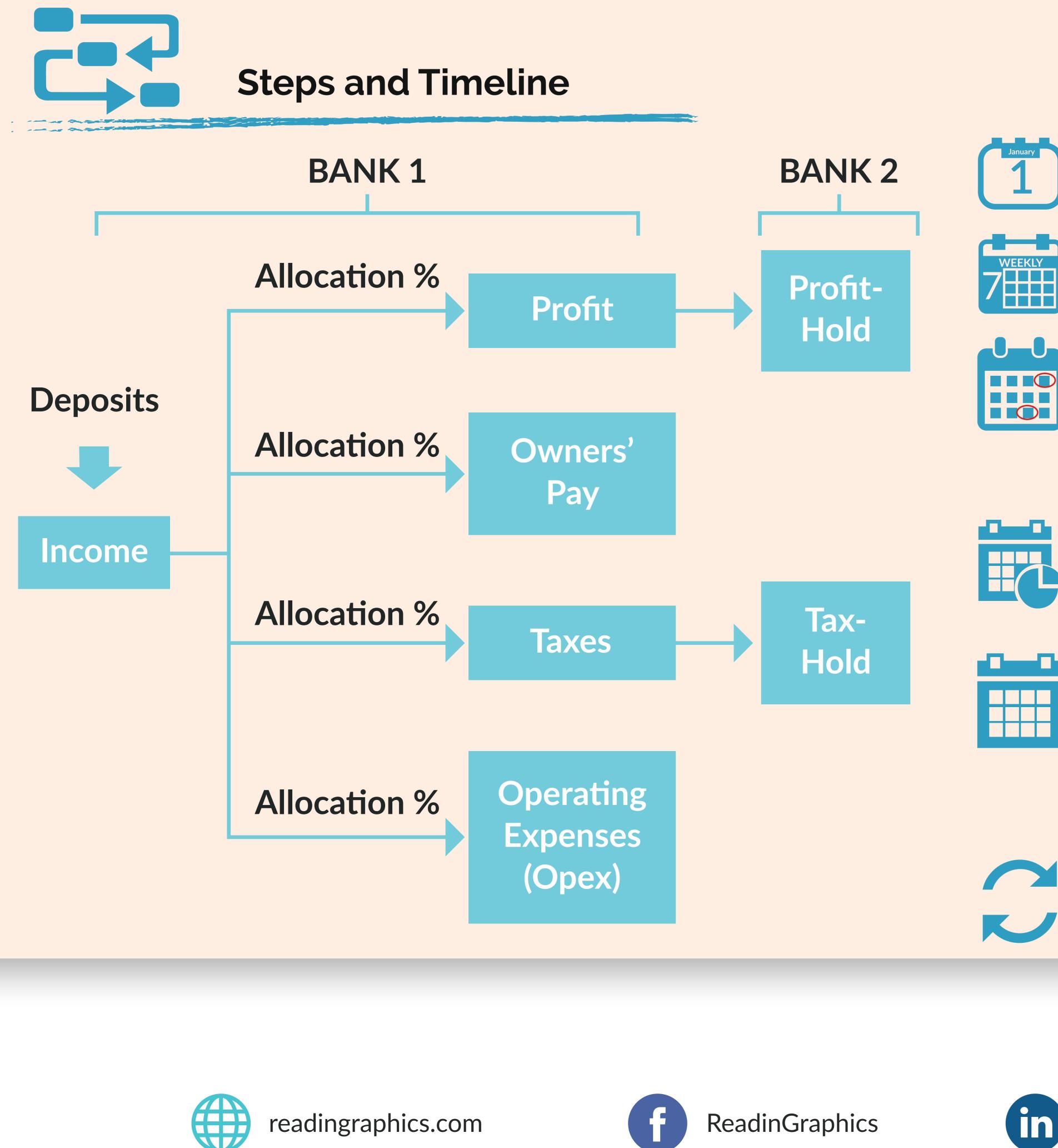
Freeze all new debts while you remove existing ones.





Innovate to improve efficiency. Remove the worst clients and duplicate top clients. Focus on the few things that matter most to your top clients; find ways to get 2x results with $\frac{1}{2}$ the effort.

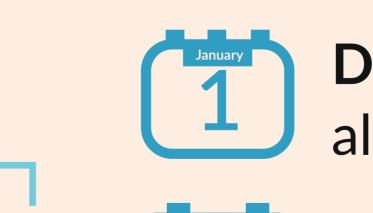
gradually toward your TAPs.





READINGRAPHICS

Ideas Come Alive



Day 1: Get buy-in. Set up accounts. Make your 1st allocations. Celebrate.

WEEKLY 7

Week 1: Review past 12 months' expenses. Gradually cut costs. Aim for Opex TAP-minus-10%.

2x a month (10th/25th): Allocate money from Income to the other 4 accounts. Transfer full amounts from Profit/Tax accounts to the No-Temptation accounts. Take Owners Pay & pay bills from Opex.

ReadinGraphics

Quarter 1: Distribute 50% from Profit account to owners. Keep 50% for rainy days. Decide on CAPs improvement for the next quarter.

Year 1: Pay taxes. Any shortfall or excess comes from or goes to Profit account. If cash reserves in Profit account exceeds 3 months, the extra can be business efficiency improve used and to profitability.

Ongoing: Small things add up. Keep taking small steps and you'll see massive improvement in profits!

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