

PROFIT FIRST

A Simple System to Transform Any Business From a Cash Eating Monster To a Money-Making Machine

MICHAEL MICHALOWICZ

MICHAEL MICHALOWICZ is a serial entrepreneur and former small business columnist for *The Wall Street Journal*. By his 35th birthday, he had founded and sold two multi-million-dollar enterprises before losing everything by becoming an unsuccessful angel investor. He therefore started his third enterprise and worked to build it into a million-dollar venture. He formerly was a business make-over expert on MSNBC and is now a popular keynote speaker on entrepreneurship. He is the author of three books including *The Pumpkin Plan* and *The Toilet Paper Entrepreneur*. He is a graduate of Virginia Tech.

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MAIN IDEA

The GAAP (Generally Accepted Accounting Principles) formula for determining a business's profit since time immemorial has always been:

Sales - Expenses = Profits

While that formula is logically accurate, it doesn't really take into account human nature. Specifically, most small business owners do what can be termed "bank balance accounting" – they look at their bank balance and make decisions based on the balance they see. That relegates profit to an afterthought – something which will be left over at the end of the year with a bit of luck.

The Profit First Accounting (PFA) approach is to flip the standard GAAP formula this way:

Sales - Profit = Expenses

You take a predetermined percentage of profit from every sale first and then use only the remainder to pay for your expenses. Or put another way, with PFA, you secure your profit first and then run your business on the remaining cash.



Take your profit first and then scale your expenses to match that goal

"It comes down to this – do you want to treat your profitability like leftovers, knowing you may only find scraps or an empty plate? Or do you want to get your full, healthy share right up front? I don't know about you, but I want to get my due portion first. I have taught the Profit First system to small companies and big companies, to private companies and even public companies. It works for all of them. And it will work for you. My commitment to you is that, if you follow the Profit First system, your business will become permanently profitable from the moment of your next deposit."

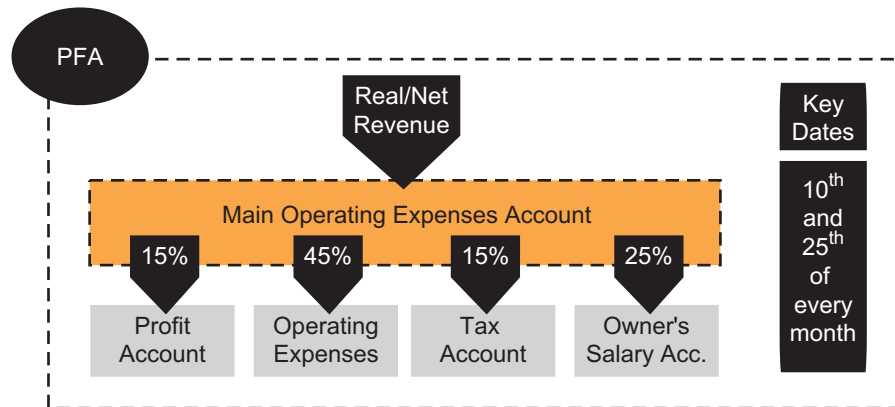
– Michael Michalowicz

1. Draw a line in the sand Page 2

As any small business owner can tell you, it's not how much turnover you have that counts. It's how much of that money you get to keep. Draw a line in the sand and declare that from now on, you will run a profitable business and make everything else secondary to that goal. Every business can and will be improved when it uses the Profit First system.

2. Set up your Profit First system Pages 3 - 4

The philosophy of Profit First is you set up the system so it aligns with the way you think and operate. You do this by setting up four accounts at your bank and then managing your cashflows between those accounts deliberately and intelligently. In practical terms, Profit First is all about getting your business profit-ready and keeping it that way.



3. Use Profit First to destroy debt and to optimize your business Pages 5 - 6

Once you start managing your business so you take your profit first, you'll soon realize debt is the main challenge you face to being able to do that. To remain profitable over the long haul, you have to destroy debt first and foremost in a savvy way. Once you have eliminated debt, you can then use Profit First style thinking to optimize and fine-tune your business so it will keep on generating profits in the future.

4. Integrate some advanced techniques into your Profit First system Pages 7 - 8

Once you get the basics down, you'll find Profit First provides a good framework for taking your company to the next level. There are numerous advanced tactics or strategies which can be added in to your Profit First system. Profit First is a robust framework for growth for companies of any size and shape.

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