

PROFIT FIRST

Transform Your Business from a Cash-Eating Monster to a Money-Making Machine



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 using 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; try to get more money by grabbing any client or adding more products; become less efficient + extra income is used to pay rising expenses, cash shortage worsens.



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



Use small plates

DIETARY SCIENCE PRINCIPLES

Reduce your food intake by using smaller plates.



PROFIT FIRST APPROACH

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



Change meal sequence

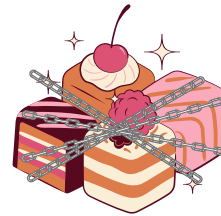
DIETARY SCIENCE PRINCIPLES

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



PROFIT FIRST APPROACH

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



Remove temptations

DIETARY SCIENCE PRINCIPLES

Remove junk food and stock up on healthy food.



PROFIT FIRST APPROACH

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



Build a rhythm

DIETARY SCIENCE PRINCIPLES

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



PROFIT FIRST APPROACH

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.

Create 2 no-temptation 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 gradually toward your TAPs.



Remove Debt + Free Up Cash

Freeze all new debts while you remove existing ones.

Cut costs. Cut all unnecessary items. Re-negotiate items with cheaper options. Remove autopayments for the recurring expenses. Keep only essential job roles.

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 1/2 the effort.

Steps and Timeline



BANK 1

BANK 2

INCOME

ALLOCATION %

PROFIT

PROFIT HOLD

ALLOCATION %

OWNERS PAY

ALLOCATION %

TAXES

TAX HOLD

ALLOCATION %

OPERATING EXPENSES

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

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.

Quarter 1: Distribute 50% from the 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 the Profit account. If cash reserves in Profit account exceeds 3 months, the extra can be used to improve business efficiency and profitability.

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