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# PROFIT FIRST

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

REVISED AND EXPANDED

**MIKE MICHALOWICZ**

Author of *THE PUMPKIN PLAN* and *THE TOILET PAPER ENTREPRENEUR*

## MORE PRAISE FOR *PROFIT FIRST*

“Entrepreneurs commonly confuse cash flow with profitability. *Profit First* makes the process so radically simple that you no longer have an excuse not to be profitable AND have cash flow!”

—GREG CRABTREE, author of *Simple Numbers, Straight Talk, Big Profits*

“Not only is Mike one of the most innovative small business authors of our time, his Profit First system—simple to apply and impactful in its results—can be the difference between constantly walking the financial tightrope or being predictably profitable. And a predictably profitable business is not only less stressful and more gratifying, it allows you to focus on what really matters . . . serving your customers!”

—BOB BURG, coauthor of *The Go-Giver* and *The Go-Giver Leader*

“Why are so few businesses actually profitable for their owners? *Profit First* turns accepted wisdom on its head and shows the real reason business owners struggle with the bottom line. This book shows you how to take home more money almost immediately.”

—DORIE CLARK, author of *Stand Out*

“*Profit First* is a revelation. I only wish I knew about this system when I started my first business.”

—JOHN JANTSCH, author of *Duct Tape Marketing* and *SEO for Growth*

“Finance is the top headache of an entrepreneur. *Profit First* is a must read to avoid bankruptcy for great business ideas. Clever, easy to implement and absolutely effective (plus you will enjoy reading it).”

—SOFÍA MACIAS, author of *Pequeño Cerdo Capitalista*

“Entrepreneurs and small business advisors finally have a practical toolkit for increasing profitability! Everyone who touches the small business world should read and apply these game-changing principles.”

**—JOE WOODARD, CEO of Woodard Events and Woodard Consulting**

“I took the pledge and started implementing the Profit First system after reading Chapter One. By the time I was halfway through the book my business had already turned a profit.”

**—BARRY MOLTZ, author of *How to Get Unstuck***

**ALSO BY MIKE MICHALOWICZ**

*The Toilet Paper Entrepreneur*

*The Pumpkin Plan*

*Surge*

# PROFIT FIRST

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

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**MIKE MICHALOWICZ**

PORTFOLIO / PENGUIN





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*For my daughter, Adayla, and her piggy bank*

# TESTIMONIALS FOR *PROFIT FIRST*

**Darnyelle Jervey:** *“It feels good to be building a business that serves me. Profit First is helping me to live out my mission in my own business.”*

Darnyelle Jervey owns Incredible One Enterprises, a business optimization consulting firm that offers coaching and consulting to advancing entrepreneurs and small business owners with million-dollar businesses. She started applying Profit First to her business in January of 2015. She had been saving 10 percent of what she brought in and had a consistent cash flow, but she hadn't been tracking profit. Any profit she earned stayed in the business for “reinvestment” purposes.

Before she implemented Profit First, Darnyelle's 10 percent profit savings was about \$65,000. In the last year and a quarter, Darnyelle added another \$231,763.20 to her profit account. In the last year, Incredible One Enterprises has grown 258 percent.

**Bottom Line:** \$296,763.20 in profit, 258 percent revenue growth, and more than a million dollars in sales.

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**Carrie Cunningham:** *“My business finances are organized and clean. I'm profitable (yeah!), disciplined, in control and motivated.”*

Carrie Cunningham is the founder of Cunningham Shift, a coaching practice that empowers high-achieving professionals to create positive shifts and find greater fulfillment in their lives. When she started applying Profit First to her business in 2014, she's had a

consistent cash flow, and yet she still lived month to month. No matter how hard she tried, she couldn't seem to get control of her business finances.

With the direction of Shannon Simmons, a Profit First Professional, Carrie implemented Profit First in her business, and later, inspired by what the model did for her business, she and her husband started implementing it in their personal finances as well. They eradicated all their debt by the end of 2016 and have taught their young daughters how to use the model.

**Bottom Line:** Debt free and posting quarterly profits.

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**Christian Maxin:** *"I now need just 60 minutes a week to manage my financial planning."*

Christian Maxin is the owner of dP elektronik GmbH, a company based in Isernhagen, Germany, that is the market leader in electronic security solutions for doors, gates, elevators, and barriers. Before Profit First, Christian felt pressure all the time and "permanently insecure" about his company's finances. He spent hours every week updating spreadsheets and planning.

Since implementing Profit First in 2014, Christian now spends only an hour a week on financial planning, feels relaxed about his company's finances, and gets plenty of sleep! He has accumulated a significant "cushion," which allows his business to compensate for short-term losses in sales, and the monthly tax payments are taken care of without hassle. In less than two years, Christian increased profit by 50 percent, which translates to more than \$250,000, and grew his business by 20 percent.

**Bottom line:** Christian can see the financial health of his business at a glance: \$250,000 in new profit and business growth of 20 percent.

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**Paul Finney:** *"Once you have cash, opportunities start to appear like never before."*

Paul Finney is the owner of October Kitchen LLC, a chef service offering fresh and frozen prepared meals delivered in Hartford, Connecticut, and in retail takeaway stores. Paul and his wife, Alison, were frustrated because they could not capture more of their cash flow for all of their hard work. They were not taking a paycheck, and it was affecting their motivation. In 2015, Paul found *Profit First* on Amazon and soon after began working with a Profit First Professional.

Since implementing Profit First, Paul feels “reborn.” October Kitchen’s sales have grown from \$3,000 to \$15,000 per week. Paul was able to reduce his food costs by 20 percent, and the company has a steady annual growth rate of 10 to 15 percent. Having cash available allowed Paul and Alison to identify and take advantage of growth opportunities. October Kitchen is on track for a \$1 million annual revenue in 2017.

**Bottom Line:** 500 percent growth in weekly sales; costs cut by 20 percent.

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**Helen and Rob Faulkner:** *“After 18 years of being in business, we finally feel we’re a success.”*

Helen and Rob Faulkner own and operate the Saddle Camp, a horse-riding adventure camp and riding school for girls outside Sydney, Australia. Fulfilling a childhood dream, Helen started her business at the age of twenty-one. After twenty years of ups and downs, Helen was ready to give up. Business was down, they would have to replace ponies soon, and they had no cash reserves. Helen reached a point of desperation, asking Siri on her iPhone, “Is it time to let the dream go?” Then she asked, “How do I make my business more profitable?” and *Profit First* popped up.

In the first four weeks of implementing Profit First, Helen and Rob paid off their accounts, have a system for allocating funds for big expenses and purchases, and took their very first profit distribution. They view Profit First as the “missing ingredient” in their business that enables them to sustain it.

**Bottom Line:** Helen and Rob turned around their business and posted a first-ever profit distribution within four weeks of starting Profit First.

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# INTRODUCTION

I am a fool.”

I’ll never forget the day Debbie Horovitch stood before me and cried. Through her tears, she kept babbling “I’m a fool” over and over again.

Debbie, the entrepreneur behind the Social Sparkle & Shine Agency—a Toronto, California, firm that specializes in social media services—had approached me at a CreativeLive event in San Francisco. I was there to teach business growth strategies from my second book, *The Pumpkin Plan*. During one of the event sessions, I explained the basic concept of the Profit First system. One of the tools of Profit First is the Instant Assessment, a way to quickly gauge the real financial health of your business. When I ran the assessment on a volunteer attendee, the Profit First system clicked for everyone in the room.

All CreativeLive presentations are simultaneously broadcast live online, and eight thousand viewers had tuned in for my event. Tweets and comments started flying in from all over the world. Because the Instant Assessment is so fast and easy, I wasn’t totally surprised to see the many comments from online viewers saying that they had assessed their business right then and there. Entrepreneurs, CEOs, freelancers, business owners—everyone shared how relieved they were to learn this simple method. It was as though they had each experienced a sudden total clarity, an instant jolt of confidence about the money side of their businesses.

Then Debbie found me during the break and said, “Could we put my business through the Instant Assessment?”



“Sure,” I said. “It only takes a minute or two.”

Pen in my mouth, people bustling all around us, I ran through it right then and there, as if Debbie and I were in a world of our own. I scrawled her annual revenue number on the board. We ran the percentages. Debbie looked at the results and started to shake with sobs. She couldn't bear to look at where she was, or where the Instant Assessment said she should be.

“I've been a fool,” she said, tears streaming down her face. “Everything I have done over the last ten years is wrong. I am such a fool. I am a fool. I am a fool.”

Let me admit it right now: I'm a co-crier—when people cry, I go there with them. As soon as Debbie started, my eyes welled up with tears and the pen in my mouth dropped to the floor. I put my arm around her to try to comfort her.

For ten years, Debbie had put her soul into her business, giving it everything she had, sacrificing her personal life in order to give her business life, and yet she didn't have a dime (or a successful business) to show for it. Of course she knew the truth of her struggles all along, but she had chosen to dance around that truth and continued to live in denial.

Putting your nose to the grindstone is a really easy way to cover up an unhealthy business. We think that if we can just work harder, longer, better—if we can just hold out—something good will happen one day. Something big is just around the corner, right? Something just like magic will wipe away all of the debt, financial stress, and worry. After all, don't we deserve that? Isn't that how the story is supposed to end?

No, my friend, that's only in the movies—nothing like what we experience in real life.

After Debbie ran the Instant Assessment, she had to face reality: her business was sinking—for the prior ten years it had been a struggle to stay afloat—and it was taking her down with it. She kept saying, “I am a fool; I am a fool.”

Those words tore into me because I'd been there. I understood exactly how it felt to face the naked truth about my business, my bank account, my strategies, and my hard-fought success.

I first designed Profit First to fix my own financial problems. It worked. Actually it more than worked: it was a miracle. Years of struggle and financial troubles were fixed, not overnight but in hours. I wondered whether Profit First would work just for me and my flawed brain or whether it would serve others.

So I tried it with another business I co-own, a small leather manufacturer in St. Louis. It worked. I tried it with others businesses, large and small. It worked. I wrote about it in my first book, in a small, easily overlooked paragraph in *The Toilet Paper Entrepreneur*. And then something happened: I started getting email from other entrepreneurs who said they'd tried it and seen results. I wrote about it in the *Wall Street Journal*, and more success stories rolled in.

After I wrote my second book, *The Pumpkin Plan*, I included the Profit First system in my speeches. It was after I met Debbie at the CreativeLive event when I realized entrepreneurs needed more than just a paragraph or a chapter on the subject. Too many business leaders lived and worked in tormented servitude to their businesses. If I wanted to make a real difference for the Debbies (and Mikes) of the world, I knew I had to write a book about Profit First.

*Profit First* was first published in 2014, and since then tens of thousands of entrepreneurs have implemented the system and transformed their businesses. They are not only generating a serious profit; they are *growing* their businesses big-time. Two birds, one stone.

As I write this updated version of the book, I am thirty-five thousand feet up in the air flying somewhere over Pennsylvania or Texas, or maybe it's Russia. I travel so much these days that I rely on the pilot to tell me where I am. My fellow passengers are watching a movie they've already seen four times, catching up on work, or "resting their eyes" with a gaping mouth and occasional snort. A few are looking out the window at the clouds below. Me? I'm thinking about all of the businesses we are flying over. There must be thousands of businesses below us at any given second.

The Small Business Administration (SBA) states that there are 28 million small businesses in the United States alone. The SBA defines a small business as a company that generates \$25 million or

less in annual revenue. That includes my business, and I suspect it includes yours. Shoot, that even includes Justin Bieber's (his "small business" music sales pulled in only \$18 million last year). So that's 28 million of us entrepreneurial "weirdos" in the United States alone. When you look at the full size of our global entrepreneurial family, you'll see that the number of small businesses soars past 125 million.\* That's a lot of entrepreneurs, a lot of people with guts, smarts, and determination who decided they had something of value to offer the world and took a shot at building something out of it.

That's you, buddy, an entrepreneur. You might be in the early start-up phase, your plans and dreams written on a cocktail napkin (or toilet paper—you know who you are my TPE peeps!). If you're just getting started, props to you. You'll be focusing on profit from Day One, which will save your sanity, your bank account, and your ass.

Maybe you've built a business or are managing one. Maybe you read the first incarnation of my book, and you want to kick your Profit First system up a notch. Regardless of your entrepreneurial status, you are a miracle worker, so to speak. You convert ideas into reality. You find customers; you make stuff for them; you deliver a service to them; and they pay you for it. You keep selling; you keep delivering; you keep managing the money. All of us are smart, driven people. Really smart. Really driven. But there is one really friggin' nagging problem: eight out of ten businesses fail, and the number one reason they fail is lack of profitability. According to a Babson College report, "A lack of profitability is consistently the major reason cited for business discontinuation."\* Are you surprised? Probably not. I wasn't. It's true, and it makes me want to drown my sorrows in Margaritaville. The majority of small businesses, and medium businesses and even some big ones, are barely surviving. That guy driving the new Tesla whose children go to private school via chauffeur and who lives in a massive house and runs a \$3 million company, is one bad month from declaring bankruptcy. I should know; he's my neighbor.

The entrepreneur who says "Business is great" at the networking event is the same woman who, because of her tears, later tries to

ask me an indecipherable question in the parking lot—she’s crying because she hasn’t been able to pay herself a salary for almost a year and will soon be evicted from her home. It’s just one of many similar conversations I’ve had with entrepreneurs who are afraid to tell the truth about their financials.

The SBA Young Entrepreneur of the Year award recipient who is changing the world, who is lauded as a member of the next generation of genius, who is destined to be on the cover of *Fortune* magazine because of his business acumen, is taking out bank loan after bank loan and racking up credit card debt to cover payroll behind the scenes. I should know; that was me.

How can that be? What’s wrong with us? I mean, we get basically everything else right, or damn close. We made something out of nothing. And yet why aren’t most businesses profitable?

I used to brag about the size of my business. I patted myself on the back for hiring more employees, for moving into a fancy-schmancy office space, for making big sales. The truth is, I used all that as an excuse to cover up one ugly fact: my business had never once posted a profit. The reality was, my business (and I, as a result) was drowning, and I kept trying to make it grow bigger to keep my head above water. I would say, “I don’t want to post a profit, of course. I just want to break even. That way I’ll save on taxes.” In other words, I’d rather lose \$10 than have to pay the government \$3. I continued to sink month in month out. Year after year. Constant stress.

In fact, I survived check to check from the day I started my business until the day I sold it and cashed in. Man, I was relieved! My business had been dragging me down, and I’d finally gotten rid of it. But that relief came with a bitter aftertaste. When I started the business, my goal wasn’t mere survival. I mean, survival is the goal for POWs and refugees, certainly not what a businessperson would aim for. I was convinced I was the problem. For the longest time, I thought I was flawed, that my brain was messed up. It took me a long time to ask, what if I’m not the problem? What if the system I have been told to follow is flawed?

Profit First works because it doesn't try to fix you. You work hard, you have good ideas, you already give 100 percent to your business. Profit First is a system designed to work with who you are already. You don't need to be fixed. The system does.

Imagine that you were told you could fly if you simply flapped your arms, and then you were encouraged to jump off the nearest cliff. That's right. Just flap your arms, and you'll not only survive the bajillion-foot drop, you'll soar. What's that? You're plunging to your death? Quick! Flap harder.

Flapping your arms in order to fly is crazy because *humans can't fly*. Following a financial formula that isn't designed for how humans are naturally wired is like asking you to flap your arms harder and harder until you take off. Sorry, pal, it ain't gonna work no matter how hard you try.

The system for profitability we have been using since the beginning of time is totally stupid. Actually, it is horrible. Yeah, sure, it makes mathematical sense, but it surely doesn't make human sense. While some businesses succeed by following the old system, they are the exception, not the rule. Relying on traditional accounting methods to grow profitability is the equivalent of telling you to jump off a cliff and flap the living crap out of your arms. Maybe two or three of the millions of people who try it, by some miracle, live. But pointing to the miraculous survivors and saying, "See? This works!" is ludicrous. Millions die and a few survive, yet we blindly say the arm-flapping, cliff-jumping system is the best way to fly. Absurd.

If you aren't profitable, the natural assumption is that you haven't grown fast enough. I have news for you, people. You're completely fine. You don't need to change. The old formula to profit is what's wrong. It needs to change.

You know the formula I'm talking about: Sales – Expenses = Profit. That crusty, bifocal-wearing, old-person-smelling formula at first blush makes total sense. Sell as much as you can, then pay the bills, and what is left over is profit. Here's the problem: there are never any leftovers. Flap. Flap. Flap. Splat.

The old profit formula creates monsters of businesses. Cash-eating monsters. But we stay loyal to the formula, and things get

worse.

The solution is profoundly simple: Take your profit first.

Yeah, it is that simple.

What you are about to learn is so simple, so obviously effective that you may hit your head and say, “Why the hell didn’t I do this earlier?” But it may seem hard at times because you haven’t done it before. It will challenge you because you will be required to stop flapping your arms. You will be required to stop doing what wasn’t working. (It is very hard to stop doing something even though it isn’t working out for you. Remember that last nasty hangover, when you said, “I’m never drinking again”? How long did that last?)

Profit First will challenge you because you will have to totally change the way you think about business. And change is scary. Most people suck at trying new stuff, let alone sticking with new systems. Chances are you’ll consider trying Profit First, but you’ll tell yourself it’s so much easier to keep doing things the old way, even if the old way is slowly but surely sinking you and your business. So before we get started, let me tell you about the courageous people who went before you and jumped on the inaugural flight of Profit First.

As of this very second, there are 128 accountants, bookkeepers, and coaches working hand in hand with me to guide entrepreneurs on an implementation of Profit First. (No worries. You can absolutely do this on your own, but for some people, having an accountability partner who knows the ins and outs of their industry who can guide them step by step is a better approach.) Of these 128 Profit First Professionals (PFPs), on average, we have directed the Profit First implementation of ten companies per PFP. That means we have guided 1,280 businesses to success using Profit First.

But the majority of people who have read *Profit First* so far, I can only assume, have followed the process on their own. I get roughly five emails a day, every day, from entrepreneurs who tell me they have started the Profit First process or have used it to transform their businesses. Over a two-year period, that is 3,650 emails of new implementations. But I know that even more people read the book and just do it, without ever saying a thing. So my best estimate on the high end is that more than thirty thousand companies are now

doing Profit First. Even if that estimate is spot on, we have barely scratched the surface. Thirty thousand is a nice number, but when compared to 125 million businesses, we are not even at the starting line. So let's move this puppy forward, and let's start with you.

But first, I'd like to introduce you to Keith Fear.

Keith is a longtime fan of my books. I know because he emailed me when I first launched *The Pumpkin Plan*. He fell in love with the book, he tells me, and his hot-air balloon business skyrocketed as a result. His business grew, but his profits didn't. He actually surpassed a million in revenue and still had to have a separate full-time job just to make ends meet. Then he read *Profit First*. And did nothing.

Nothing at all! Why? Because Keith couldn't imagine Profit First would work. He had been trying to flap his arms all his life, which seems particularly strange when you fly balloons for a living and the feedback has been the same: flap harder. The concept of taking his profit first, before anything else, was so unfamiliar that it didn't seem possible. But after two more years of check-to-check, panic-to-panic survival, he gave in and gave up the familiar and decided to give it a shot. The results were . . . well, I will let Keith explain, as he wrote in his letter:

Mike and Team,

I thought I would take a moment and share something with you. I just finished reading *Profit First* for the umpteenth time, and actually had to buy a new copy. I kind of wore out parts of the first copy I had and then gave it to a friend to help them out. I own and operate a hot air balloon ride business. We have operations in St. Louis, Missouri, Albuquerque and Taos, New Mexico, and now also in Cottonwood, Arizona, near Sedona.

When I read your book for the first time, I thought you had lost your mind. No way could this work. So for the last few months of 2014 I did nothing. I kept doing things the way I was. After all, I was making a small profit, but my cash flow wasn't the best. It was all I could do to deal with the cash issues, honestly. Finally, about the beginning of this year, I read the book again and, this time, started trying it.

To give you an idea of what this has done for us, at one point early in 2015 our net profit year over year from year to date 2014 versus 2015 was up 1,721 percent. Nope. No typo. I truly am not kidding. We ended 2015 with net profit up 335.3 percent overall. On top of that, we ran about a 22 percent net Profit percentage!

Keith's business was saved by Profit First. Today his business is thriving. And so is mine.

Profit First saved my business and ensured that every new business I started would be profitable from day one. Yes, *day one*. The day I opened my newest venture, Profit First Professionals, I did two things: I signed the incorporation documents and then went straight to the bank to open my five foundational Profit First accounts. To date, Profit First Professionals is the most profitable business I have ever owned—by a long shot. It is not the biggest I have owned, at least not yet, but it is posting profits that are 1,000 percent bigger than the best year of any of my prior companies, which sold for millions. That is not a typo—1,000 percent more profitable. This company is not even two years old and is growing so strongly that it will likely be the biggest company (on a revenue basis) that I've ever owned.

Profit First, I promise, will do the same for you. If you need to make your first profit or just need to amplify the profits you already have, this is the path.

Helping you and all of our fellow entrepreneurs become more profitable is my life's purpose. I am flying all over America and beyond to speak about Profit First. Tomorrow I will speak to more than 1,100 pharmacy owners at an event in Houston, then to 25 people (if I am lucky) in Casper, Wyoming, then over to New Orleans to talk with 200 folks in the morning and then a panic dash (via plane, train, and Uber) to Washington, D.C., for an evening keynote. Then I'll travel abroad for more events. In between, I will do interviews for about four podcasts a day, recording my own podcast (ahem—The Profit First Podcast, of course) and updating this book at night. I do *all* of these with joy. I will teach this to anyone and everyone. I will not stop. I am here to eradicate entrepreneurial poverty.

At CreativeLive, after Debbie calmed down a bit, I said, "The last ten years were not wasted. I understand you feel that way right now,



but it's not true. You needed to experience those years to get you where you are today, here with me, doing this. You needed to reach a point where enough is enough." To finally change, she needed her enough-is-enough moment. We all do.

The truth is, Debbie is far from a fool. Fools never seek out answers. Fools never realize there is a different way, even when it's staring them in the face. Fools don't admit they need to change. Debbie faced the music, realized what she was doing wasn't working, and decided she would not stand for it anymore. Debbie is smart and courageous, and a hero, too. She implored me to put her story in this book and not cloak her name. Debbie wanted you to know you're not alone.

You started your business, I suspect, for two reasons. First, to do something you love. And second, for financial freedom. You did it for some degree of wealth. You did it to put profit in your pocket.

That's why this book exists. We are going to put profit in your pocket. Starting today. Literally, today. Your profit will start today and will occur permanently.

All you need to do is commit to study this and then *do it*. Don't skip the doing. Pleeese do not skip the doing. You can't read this book, think "awesome concept," and go back to business as usual. You need to get off your butt. As Debbie did, you need to push past your feelings about the choices you made in the past. And like Keith, you need to put this into action as you read the book and follow the action steps at the end of every chapter. Your (profitable) life depends on it.

I want your profitability more than anything. I know it will bring you stability in your business and in your life. And I know you are the seed for other entrepreneurs, your employees and contacts, and perhaps even family and friends to do the same. Join me. Let's eradicate entrepreneurial poverty together.

Since I published the first edition of *Profit First* two years ago, I've received tons of feedback and questions that have given me ideas for improvement. I've also learned of dozens of shortcuts, tweaks, and solutions that individuals had discovered in their own implementation of Profit First and were kind enough to share with

me. All these streamlined improvements, new advanced concepts, and clarified solutions are in this revised and expanded edition of *Profit First*. If you read the first edition of *Profit First*, you will find the core system hasn't changed a bit. It is foundationally identical. But this revised and expanded *Profit First* is packed with new knowledge, new stories, and new, easier techniques.

If you are new to *Profit First*, you have the best of the best in your hands. The implementation of Profit First in your business will be easier, faster, and better than ever before.

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