Ep #224: Mike Michalowicz - Profit First - A Better Way to Build Your Financial Future

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Dr. David Phelps

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David Phelps: Good day everyone. This is David Phelps with the Freedom Founders Mastermind Community and the Dentist Freedom Blueprint podcast. Today, my interview with good friend, co-Mastermind member and serial entrepreneur, serial author, Michael Michalowicz.

Hey Michael Michalowicz, it's David here. So good to see you again, sir.

Mike Michalowicz: David, it's a joy to see you, both in person, now in virtually. We're making this a regular thing, so it's pretty cool.

David Phelps: It's a lot of fun. Lot of fun. I was a big fan of your first few books, Toilet Paper Entrepreneur and The Pumpkin Plan. Saw those and then, I got a chance to meet you in person. You since become an author. You're a serial entrepreneur, serial author. You put out a number of books. We'll talk about one in particular today, which is Profit First and why that has a lot of meaning to the people that are attending our summit today. But I would encourage people to follow up and pick up really all of your books because every one of them has a place in the entrepreneur business succession plan. So for a few people who maybe don't know who you are, just a little bio. I could go on for an hour about your bio, because it's very significant.

But Mike Michalowicz, is the entrepreneur behind three multimillion dollar companies. He's the author of Profit First, which we'll talk about today, The Pumpkin Plan, Toilet Paper Entrepreneur, Surge, most recently, Clockwork. He's a former small business columnist for the Wall Street Journal, regularly travels the globe as an entrepreneurial advocate. That is just a snippet.

You've been in all kinds of business channels. You lecture all over the continent, but today, let's just dial into what we know is the the big troubling spot for any capitalist, any entrepreneur who is out there with their own business, that want to make it. My audience, Mike, relatively speaking makes a lot of money, right? Doctors, dentists, and the public thinks, "How could they have any problems? How do they have issues?" But we both know that... You talk about the application of Parkinson's law, which is everything expands, right?

Just to give a quick example, then I'll let you dive in. I had a doctor the other day, he was saying, "Hey David, I make about $300,000 a year." Okay. That sounds pretty darn decent to me. "But I can't ever seem to get ahead." Ever heard that?

Mike Michalowicz: I always always hear that. Yeah and lived it. If I can just add one more thing to the resume, because I titled that bio or one of my team members did and there's one thing that's left out, which is actually the biggest thing, and it's losing all my money.

So you were kind enough to share the stuff I can put on my resume. But, the real thing behind... Those are the five or six bullet points I fill on a resume, but there is a whole book behind of failure and struggle. With my second business, after I sold that company, I actually started a business I leave off my resume. It was an angel investing firm, where I lost every single penny, lost my house, lost my possessions. Though, I didn't lose my family and I'm actually shocked about that.

I think it's really that part of the resume that's really the important one, to be honest. Because it was in the struggles that I had the realization that sometimes, actually most of the time, I just attributing success to luck, but thinking it was me. Success came about because I was in the right place at the right time. But, I'm like, "Oh, I'm so sophisticated. I'm so smart." And it's really when I failed that I realized, I need to understand the fundamental basics that work with my natural behavior to achieve results I wanted.

That's why I became an author, really to correct my own challenges. I just wanted to add that in because I empathize and understand, doctors make a lot of money and the outside world perceives it, which then triggers us to carry on that perception.

David Phelps: That's right.

Mike Michalowicz: I actually call that entrepreneur poverty. There's this perception, the day you graduate school and you're a doctor and you're carrying those credentials, the entire world says, "You're a millionaire now." You do a few, whatever processes at work, and then you're off to the beach drinking Mai Tai's and you go on cruises. The reality is for most doctors, work extraordinary hours, carry the business on their back. In the after hours, when they're not seeing patients, that's when they're doing the business operations. They're working their tails off and they're not making the money or it's just flowing right through the business so fast, nothing staying in the bucket. That's why I write these books, to fix those situations because I've lived it.

David Phelps: Yeah. The problem that so many have is many people will hire an accountant or a CPA, right? Because they're supposed to help us keep the books. Really what they do, I'm talking about CPAs, is they're really good at just putting numbers on tax forms and makes-

Mike Michalowicz: They're fantastic at it.

David Phelps: They're fantastic at that. But the problem is, no one is really helping us with our behaviors. It's not just discipline, but it's our behaviors and as you said, there's this entitlement thing. We make enough money and people say, "Well, if you don't have enough or you just can't say enough, just go make more money." And that's not the problem, right? That's not the problem.

Mike Michalowicz: Yeah and it's not the solution, making more money. I want to defend the accountants and bookkeepers of the world too. They are doing their job. Accountants job is to make sure that we, the client of them, are complying with the law and they do that. Bookkeepers are to make sure that the money is moved accordingly to the rules we set and we set the rules of where the money goes and the bookkeeper complies with that.

Neither of them are emotionally associated to the business. When I went bankrupt, I don't think my accountant had a bad night's sleep and I think that's reasonable because it's not his money. I'm the one who's living the day-to-day financial stress. So they are filling the roles and they shouldn't be expected to have a degree of vested interest as the cash flow changes and to be emotionally reaction to that. They're just doing their job.

So we need a system that allows us to capture our behavior to channel the results we want and what I do with profit first, and I know you know this David, is looked at how we naturally behave currently and structured a system that allows us to capture our existing behaviors. So we don't need the change, that's the big thing, but channel the results we want and bring about financial assurity, permanent profitability.

David Phelps: We'll get into some of those pieces here in just very shortly. So GAAP accounting, that's what you're talking about. The factors that accountant CPAs have to follow because financially, that's what they're responsible for. But you talk about GAAPs Frankenstein formula. What is that?

Mike Michalowicz: So it's funny. So to your point, accountants and bookkeepers have to follow because it's a law, a legal requirement. For large corporations, it's actually mandated small business considers it a best practice. So GAAP, the foundational formula and every entrepreneur knows this, sales minus expenses equals profit. That's the formula they follow.

The thing is, they're mandated to follow it. We don't have to, but we do because it's taught in every accounting book. Anytime you talk to another entrepreneur, it's like, "What's the bottom line look like?" The vernacular we use tells us that profit's the last consideration, bottom line, our year end. What I discovered was, and in my own business is, every time I've tried to make more money because I thought more money was the solution to profitability, it never is, I'd seen that my expenses almost uncannily went at the exact same rate.

The reason is, I've discovered, is the formula that we use, sales minus expenses equals profit, tells us, look at your sales first and see what you can spend it on. Sales minus expenses. It then tells us, look at profit at the year end later on. But it's human nature, when something comes first, it's the priority and the focus and when something comes last, profit, it's the mañana syndrome. "Oh, maybe next year, maybe next week, next month." Most businesses, myself, for the life of my businesses until I discovered profit first and use it for myself, I would wait until year end. There would be no profit there. I'd say, "Oh shucks." I'm using a little more verbose words in that. But, "Oh shucks. Maybe next year."

I'd literally wait for another year to even revisit profitability, hoping it would just happen and it never did. What we need to do is flip the formula and I call it the Frankenstein formula because sales minus expenses equals profit teaches us, the only way to fix this is to keep focusing on sales, keep trying to increase sales and maybe something will drip down.

The solution to this is actually to flip the formula. I propose it's sales minus profit equals expenses. What I mean in practice is every time you have a sale for your practice, you immediately take a predetermined percentage, five, 10, whatever it is, a predetermined percentage as profit, remove it from the business hideaway and tuck it into an account, and then, the leftover is what you actually have to run your business off of it.

This is where our business starts speaking us. You mentioned Parkinson's law and I'll give you a quick basis on this because this is a very important theory. Parkinson was a theorist in the 1950s studying human behavior and he noticed that, as supply of a resource increases that our consumption increases. Food, the bigger portions of food they're serving in front of us, the more we consume. So if you want to actually control your diet and lose weight, simply serve smaller portions and Weight Watchers knows this.

They actually make the cups and stuff they use a specific size, so you can't default to a bigger side. That's Parkinson's law. Less available, less we consume. It's forced frugality. But also, he noticed that, when there's less of a resource available, we become more innovative in its use. We'll actually eat more slowly. We'll save her the flavors more because there's less to savor.

Well this is true with every aspect of resources, including or maybe particularly, money. As money increases it's availability, that means more sales comes in, it is our natural behavioral law of humans to say, "Oh, there's more to feed the business." Therefore, the business becomes more ravenous. We justify the spends. "Oh, we need to buy the equipment. We need that brand new machine that can see 3D imaging of someone's tongue." I don't know, something crazy, but I can use that.

So, we buy the new equipment and then, we say, "Well, now we got to make more sales out of it." The equipment sits there static and we're like, "But I have this." And we stay in this sell, sell, sell, expense, expense mode. By taking our profit first, removing it from the practice, the remaining money is what the business must run off of. Now the business starts to speak to us. It says, "You can't buy that new piece of equipment. There's not enough money there." You have to figure out a way to drive the practice forward, to attract more clients, to be of great service without making that spend. Can you do it? And the thing is you can, but you won't do it if all the money's made available to run the business. Take your profit first and your business starts to speak to you and tell you what's truly available to operate it.

Parkinson's law, as we restrict the resources, there's less stuff available. We start to savor what's leftover. We become innovative in its use and we make it happen.

David Phelps: Then, you get all the other stakeholders on board as well because they understand the program. They understand that there's only so much that we can spend on overhead, on operations. So they've got to learn how to fit within that box and then, we get to make decisions on where that money's gone, now that we know what's left, after we take our profit out first.

Mike Michalowicz: That's perfectly said. So one thing David, I don't know if you do this, I do this. I used to say I didn't, but I really did. I do what's called bank balance accounting. Bank balance accounting is where I yank out the phone and I log in and see how much money is in my bank account.

Would I would say is, "No, I look at the P and L and the balance sheet and the cash flow statement." Because that's what my accountant told me I should do. But entrepreneurs, the vast majority, not all of us, have a tendency to run our business by instinct and gut. We have a talent to skill set, we have the ability to sell. Most entrepreneurs are extremely good at sell because we're so enthusiastic about what we do.

But when it comes to the meticulous components of numbers, that gets shelved for many of us, permanently. So the shortcut we have is, log into the phone, see how much money's available in my account. Based upon what I see, make decisions. If it's a good day of deposits, business feels great. If it was a bad day of deposits, business feels like crap.

So it's that understanding that we log into our bank accounts, we need to manage or set up a system that channels that behavior. So we can continue to log into our bank accounts but drive our results of profit. So, we do this through bank balance accounting.

David Phelps: So you alluded to using health and fitness expert, in terms of how we structure our finances in our businesses in small portions. So can you take us down that road a little bit and what do these portions look like? How do we set up the right diet for our business?

Mike Michalowicz: Yeah, so there's four fundamental, physical kind of steps we take for physical fitness. They all translate to fiscal fitness and the fundamental one is the concept of small plates, as you alluded to. Where I notice, at Thanksgiving for example, when the turkey comes on the table, everyone ooo's and ah's, but the host and hostess never says to everyone, "Hey, grab your knife and fork, everyone fight for it. Everyone for themselves. First person to eat the turkey wins." I mean, it'd be ludicrous.

What everyone does is the tradition of carving the turkey and the reason we carve the turkey, is so that everyone can get a portion, a piece of the meal. Everyone gets served. That's what we need to do with their money. You see, when money comes into our account, we look at it very reactively. We say, "Oh, there's one plate of cash? It's a big turkey. I can use it for the first one that jumps on it." So we're very kind of reactionary.

What we're going to do is step one, and set up these multiple plates or envelopes, is another way of looking at. When money comes into the income accounts, there we're going to rename income, we're going to allocate money out to four other accounts. Collectively, I call these the foundational five. Incoming being the first.

Second account is called the profit account. As we already alluded to extensively, we're going to allocate a predetermined percentage of that cash turkey, we're carve a piece of it into profit, before we do anything else. Then we're going to allocate a piece to owner's compensation. One of the biggest challenges that doctors have, actually this is true in any profession, any entrepreneurial endeavor, is knowing their consistent compensation that they're taking. There's variability in it and their life becomes usually to adjust to the high peaks of that variability, and then they're in manic mode using credit cards and so forth when the money's not flowing to sustain that level of living.

So, our level of living ramps up very quickly. To fix that, we're going to have this owner's comp account. We're going to allocate a predetermined percentage of money in there and then pull from that predetermined percentage, a consistent salary. I call that the lifestyle account. Different than profit. Profit is a reward. You're going to get on a quarterly basis, as a shareholder of a business and that's a reward. That's not to support your lifestyle. That's to enjoy and to have your thrills and to do amazing things with, as a reward for taking risks of starting your practice.

The owner's compensation is what you need to live your lifestyle off of and adjust your lifestyle to that. The next account's called tax. We started our business, I hope for financial freedom and for being of service to others. That tax account is part of financial freedom. When the tax man comes knocking every quarter or at the end of the year, most of us get caught with our pants around their ankles and panic ensues.

No more. The business is going to reserve our tax liabilities for us and then pay those. This is regardless of the formation of company you have. You're going to have S Corp, C Corp, LLC, Hybrid, Sole Proprietorship. It doesn't matter. Talk with an accountant, S Corps and C Corps do what's called a tax reimbursement distribution to the owner. LLCs, LLPs, companies like that, will do a direct tax payment from the company. So it can be done, but the business is going to be responsible for it.

The last account is the actual operations, the OpEx account. That's the money you operate your business off of. So just to kind of wrap this up in a nice bow, we will put a percentage to each account. Income gets all the money, but you never eat off that tray. You may allocate, tells us a 10% to profit, 30% to owners pay, 10% to tax and that leaves 50%, in this case for operating expenses.

So if $1,000 of deposits come in today, it used to be, "Oh, I have $1,000 for my business." No, you have 100 for profit, you have 300 to pay yourself, you have $100 to go to taxes and you have $500 to operate the business. Now by logging into your bank account, as you always do, you have absolute clarity on the intended use of money before you spend a dime.

David Phelps: This is what Profit First, I think, does such a great job in outlining... Because, as you said... And I've been a business owner entrepreneur for many, many years, but never really understand these concepts. And I did, I admit, I did a lot of bank balance running of the business and as you said, there's a vast distinction between owner's compensation. That is, what are you getting paid for the services you render? What's right for your industry as a doctor, dentist, lawyer, CPA, whatever it is, what should you get paid?

What happens as entrepreneurs, as you said, we look one day and go, "Well, there's a lot of money in the account this quarter." You haven't allocated for taxes yet? You go, "Well, you know what, honey, let's grab that money because it's ours. It's our business." There's no discipline. There's no continuity. There's no consistency. So as you said, it's up and down, up and down, up and down and at the end of the year, then the accountant says, "Well guess what? You had a great year." You go online and check and you go. "What do you mean I had a great year? I don't have any money."

Mike Michalowicz: Yeah. Thanks for your integrity and sharing that because that is the true story for almost everyone I meet, including myself, obviously including you and everyone. The interesting thing about the accountant comment because I've had that too, is the accountant is accurate. It is a good year from an accounting perspective. Not a good year from the entrepreneur because we define profit differently. The accountant just looks at the numbers on a worksheet, and says, "Oh, that number was bigger than the prior year."

And in accounting terms you've had a profit. Sometimes, they'll circle that number and say, "Congratulations." But we often respond and say, "Where the freak is that money?" Then that's when they say, "Oh, you actually already spent that. That's an accounting profit."

The sad truth is Enron was profitable until it's very last day, when 100,000 plus employees that get fired because they had no cash. There were lying. Now, that's an extreme example. But what we're talking about in this system, by allocating little cash to a profit account first, we're talking about cold, hard cash available for you at the end of the year, our definition of profit. That's what this system does.

David Phelps: Going back to taxes for a second. What's your philosophy on... Let's say it this way. I think that business is one of the best places to get tax preferences because every business has tax deductions and people a lot of times think about, "Well, I needed to do all kinds of... I call it crazy outside of the box. You know where my bias is right now. I need to do all these crazy things. I need to go into captive insurance. I need to do conservation easements." I love real estate, but I don't buy real estate for taxes because people will push that can down the road. They'll tax defer next for... get into crazy constructs to save tax. The problem I see there, Mike, is what do they do with that tax savings, that tax deduction that they got that year? Where's that usually go? Into lifestyle and maybe down the road, to a future year when they just kind of come back and have to-

Mike Michalowicz: It's going to bite you in the ass anyway. So it's so funny. So Profit First is all based on behavioral study. So I am not certified as a behavioral psychologist or anything, but it is my passion to study that stuff. Actually, almost every book up there, most of them is rooted in behavioral psychology and it's just my little sidekick.

So Profit First, when it comes to taxes, I started this concept of loss aversion. What loss aversion is, is when we possess something, we put more significance in it than when we didn't and it makes sense. But we act illogically to protect what we have because we're so afraid of losing it. That's the challenge.

Here's a classic example. You see that shiny red sports car in the window at the Weber dealership and you're like, "One day I'll have that." You don't work an extra job. You don't start being a Lyft driver after you do your dental work for the day. You know hop in the Lyft car. That's absurd.

But one day you have enough money, you put a deposit down, you get that car. Now that's no longer a shiny red car in the showroom window. That's your baby. That's your baby in your garage. Imagine that you get a call from the dealership saying you missed a payment and your late. We're going to repossess the car. What do we do? We drop the insurance because that's not a necessary cost. I'll just keep it in my garage and protect it. I will get a Lyft job, just so I can make extra money. We'll start doing extreme things to retain something we possess because the pain of losing something once we possess it is so extraordinary. The funny thing is, the pleasurable gain is not nearly as significant as the pain of loss. Therefore, we don't go to extraordinary measures to acquire. We go to extraordinary measures to retain.

Well, the same is true with taxes. When tax flows to us, when you actually get that money and it's in your account for a little bit and then, the government comes with their long arm and pulls it out, it is a very emotionally, behaviorally painful experience and we start doing illogical responses like, "Well, now I'm going to be a Lyft driver. Now I'm going to drop insurance." We will do all these different programs and it feels justified and right, but we have to realize it's a behavioral response. We wouldn't have done those things if we didn't have that tax situation and we wouldn't do those things if the business reserved the taxes for us.

So, this tax account stays at the business and this is the key because it prevents loss aversion. I get emails and we just actually did quarter end just recently. The last quarter just ended, so taxes were due about a month ago and I got email after email. Actually, met a gentleman yesterday, he said, "I can't tell you what a glorious day I had about a month ago." And he said, "You'll never guess what it was." I said, "I know exactly what it was." He goes, "What?" I said, "You paid your taxes right?" And he's like, "Yeah, that's exactly it." Then he goes, "How do you know this?"

Every person, including myself, when tax time comes, I don't feel that I'm paying the taxes. The business pays them for me. I actually feel no loss aversion because I never held that money in the first place and I realized this looks and sounds like a shell game. Money's just money, just money. But in our behavioral animalistic mind, it's not. Once our hands touch it, we take possession of it and we go become illogical. If the business reserves for it and we don't feel that pain, we can much more logically proceed.

Now, let me add one additional component. We do want to logically reduce tax consequences. The government has a document tax legislation that's this thick, that gives you two instruction sets. One page says, one sentence says, you have an obligation to pay the government taxes. The remaining 10,000 pages give you all the ways to reduce your tax consequences. So as crazy as it sounds, the government gives us the script to reducing tax consequences. We have an obligation but we can reduce it. They tell you how to do it and now because it's removed from our loss aversion, we can approach this logically and reduce our tax consequences and that's how you do it.

David Phelps: Super good, super good. Let me touch back on profit again. We talked about profit being shareholders, owner equity. It's your right as the owner to have that profit account because that's what equity is. You're growing equity. You can do anything you want to with that profit account. I mean, that is the owner's discretion. You can take that profit, that capital, and if you decide you could put it back into the business to expand, grow the business in the right way, right? You can do that?

Mike Michalowicz: Well, that's so funny. Thanks for saying it because that's the most common question. You can, but I want... I tell people, that means it's not profit. See, that's an accounting game. We take money and we allocate it to a category called profit, but then we spend it in the business.

Well that's not profit. That's an expense. Anytime money's spent in the business, it's an expense. But we said, "Well, temporarily there's a profit, meaning I didn't have to spend it." Well, you don't have to spend any of your money. You can decide to not spend a single penny. It may not serve you well. You probably need a place to do your services. You probably need certain things. But by saying something as a profit and then, putting a back in the business, it was never a profit. It was always an expense. You need clarity because people start playing this game. They say, "Well, I had a profit, but all the money's gone again. But that was my choice." And I tell him, "Yeah, it was your choice, but it was never a profit." And they get frustrated that they were never profitable.

So the rule of profit is this. When profit comes to the business, you celebrate with it. It is a reward to the shareholder. Here's an example that drives it home. I own Ford stock. I'm not a big investor. I own 100 shares. They sent a check for me, a few quarters back, it was $13. I got the check and I didn't look at it and say, "You know what? I don't deserve this. I'm going to plow it back." That's the term we use. "I'm going to reinvest it in Ford." Make an expense. I'm going to reinvest in Ford? Of course not. I said, "I'm a freaking shareholder."

The evaluation stock, I hope will go up. But recently it seems like it's going down and I've taken risks. So this is for me to spend. I also didn't say, "Oh, now I have an obligation. I need to go work at Ford." No. I said, "This is for me, for being a shareholder."

We have to understand, as small business owners, you are a shareholder. It's an identical scenario. You've taken risks, you've invested in a company, you just probably own 100% of the equity. You've taken on massive risk. When that money comes out, you do not give it back to the company. You wouldn't give back to Ford. Don't give it back to your company and you don't go to work for it. It's a reward.

So the rule of profit it is, you use it to celebrate and celebrate, that's what you define. Maybe it's a vacation, maybe it's a dinner out, maybe it's paying off personal debt, maybe then, that feels good relief, maybe it's paying for your kid's education. It never, ever goes back into the business. The lesson is, our business must learn how to operate off the OpEx.

If you want to be achieving whatever that profit number is, your business is not telling you, this is the OpEx that needs to happen and your job is to figure it out. Your business is speaking to you. We're reverse engineering profitability. So be very cautious about plow back reinvesting. It actually unwinds the system

David Phelps: So then, real quickly, not go too deep on this, but would you recommend then, if a business owner really believes there's an ROI by a capital asset expansion or expenditure, that you acquire that with debt?

Mike Michalowicz: Okay, that's a great question. So, there's two caveats to profit and you just pinged one of them. So I say, "Never do anything except for celebrate with it." As I said, two scenarios happen. If your business has debt, the only way to pay off debt is by being profitable. So we have to start eradicating debt first, but we need to establish this profit habit. Put it in this account, put it in this account, get rid of our past debt, and then, that next profit check comes out and it goes to you.

The second thing is if you have what I call it, a guaranteed ROI. Most people figure... Let's say they have an ROI, but it's not guaranteed. Guaranteed is where you have a very specific measurable knowing that you'll get a return, usually at per capita at 90 days. If I put a dollar in today, do I have a extremely high degree of assurance near 100%, 95% or more, assurance that 90 days from now that $1 will be $2? Well, that's an opportunity and that's where I look at and becoming my own bank from the profit account.

I'm not a fan of debt and some people say, "But Mike, the only way to grow is you need to leverage debt. You need to put everything back in." I call bullshit on that. I was actually just down in Nashville meeting with some people, associate with Dave Ramsey's team, not a meeting with Dave himself. It's a $600 million company that's never used debt. They are wealthy in cash and they're growing explosively.

Okay, if he can do it, we can do it. There's a big freaking... Listen, if someone's doing $600 million or more right now, okay, maybe you got a reason. But if you haven't hit that $600 million in revenue, you don't need debt. You don't need to plow stuff back. Dave Ramsay hasn't had too, so it can be done.

David Phelps: Yeah. TAPs, the starting point or the end game. Describe TAPs.

Mike Michalowicz: TAPs is the end game. It stands for Target Allocation Percentages. Our office here, conducted a survey of about 1,000 businesses, a little bit more, industry agnostic dentists, pizza shops, lawyers, its sounds like the beginning of a bad joke, but all these people we analyzed. But we analyzed only the fiscally elite. Not the average dentist, but the fiscally elite and found out the percentages they did and then, averaged it out across the fiscally elite.

Then we did it in different revenue categories. Based upon the revenue of the firm, we found these are what the fiscal elite are achieving. So in the book, it's TAPs, Target Allocation Percentages. When you set the system for an established business, you never start at TAPs. You start off where you are now and we start building to it. Some businesses rollout the profit first system to the full effect, over about two years. So we step into it, but we're targeting TAPs. What our current positioning is, is called CAPs or Current Allocation Percentages.

David Phelps: All right. Last piece here and I think this is very important, because people read the book. They go, "I love the constructs but my accountant CPA just doesn't get it.

Mike Michalowicz: Projects it.

David Phelps: So, how do we implement this? Because this is what you've also done to connect the dots here.

Mike Michalowicz: Yeah, so I want to defend the reason why many accountants and bookkeepers will reject it. So, if you go to your established one and say, "I want to set up multiple accounts." The common response is, "It's unnecessary." Second thing is, the fees you'll incur at the bank. The third one is, the additional reconciliation, so the time to sort this out, it's unnecessary. The question I ask that you ask of yourself, perhaps your accountant and say, "How many of your clients are extremely profitable?"

What we found is that the vast majority, over 83, 85% of businesses are actually in check to check survival under traditional accounting. Most businesses are dying on the vine and yet, accountants keep on promoting this and so do bookkeepers and it ain't their fault. That's the training. You go through college and you go through the CPA exams and all the different things, the formula keeps telling you, profits the last consideration.

So they've been trained to teach this method. I would argue, it's just not working. Statistically, most businesses are not and will never be profitable. When it comes to Profit First, we have over 150,000 companies now, that have implemented it fully. They are all profitable. At times when their sales die or something, the system has to be put on hold. But the ones that stick with it, are consistently more profit than they ever were before and are achieving the fiscally elite. So what I'm telling you is it's the program that that's been out there of sales minus expenses equals profit, for you. It was also there for accountants and bookkeepers, so they're just following the standard protocol.

There was a community for the longest time, eons ago, that thought the world was flat. Everyone's like, "Yeah, don't take your boat far out in the ocean. You'll fall off the edge of the planet." Until someone finally said, "Nope, the world's round." And it still took a long time, it took actually 2,000 years, Greek philosophers found the world was round, for Christopher Columbus and his pals to leverage the round globe.

So I'm just saying, the world ain't flat. I'm pretty sure it's round and it's just going to take time for people to adopt. Profit does not come last. It's not the last consideration. It's actually the specific reason why we started the businesses for profit, so profit must come first.

David Phelps: Perfect. Michael Michalowicz, I appreciate you so much. Thank you so much for being with us today and just bringing key nuggets. Just get the book, get the book, read it, understand it, and then, go out and start implementing. It will change your life, change your business. I promise you it will. Thank you sir.

Mike Michalowicz: Thank you.

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