

In The Trenches_ Conversation with Mike Michalowicz

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SPEAKERS

Steve Divitkos, Mike Michalowicz

S Steve Divitkos 00:01
Mike Michalowicz, welcome to the show.

M Mike Michalowicz 00:02
Steve, thanks so much for having me.

S Steve Divitkos 00:06
I recently read your book, well, one of your books, I should say called Profit First, about 8000 reviews on Amazon, 4.7 stars of the average rating. So clearly you're onto something, you were onto something I should say when you wrote this book. So we're gonna get there. But before we do, for those who may not be familiar with your story, let's start by having you walk us through the chronology of your career as an entrepreneur and business owner, including what led you to what you're doing today?

M Mike Michalowicz 00:34
Sure, sure. So I'll try to do the quick bullet points. In the highlights, actually the darkest period. So for me after college, I didn't get a job that I dreamed of, I got a job working at a computer store, and very quickly became frustrated that I thought the business owner was sitting in the back office, smoking cigars and counting money while I worked like a slave. That's how I saw it. And then one particular night, admittedly, with the little bit of liquid courage in me, I said, Gosh, I'm gonna start my own business. And I did. I burned my bridges on the way I called my

former employer and said, I'm out of here, and I'm going to dominate this industry, and I'm gonna be the next big computer guy, you know, the next Steve Jobs or Bill Gates. And I woke up the next morning with some sobriety is like, What the hell did I just do, couldn't get my job back, start a computer business. What I found is that fear is a huge motivator to get up at the crack of dawn and keep working till the next crack of dawn. So really ran a fear based business. But in that process, I also did fall in love with the freedom, the potential always elements of entrepreneurship, sold that business to private equity after about eight or nine years. It wasn't a big exit, but it was an exit, which was substantial enough for me to think, oh my gosh, I can make huge money. And the interesting thing is, I never made money running the business, it was always check by check survival, but the exit was, it seems like, Okay, I'm gonna become this pump and dump guy build them quickly and sell them . My second business was in computer crime investigation that ended up by good fortune or bad, I don't know, but being a pump and dump. We got the Enron trial, we were the lead defense investigators for that case, the forensic investigators and other major projects and in retrospect, right place, right time, I thought it was actually genius. And I'm like, Oh, my God, I'm amazing. Fortune 500 buys us. And that time, it made me life changing income. And I was in my early 30s. But along with that, package came ego, arrogance. I just, I thought I was better than other people. I'm ashamed, embarrassed to admit that. But it was it's the truth, how I felt. And I said, I'm going to become an angel investor. We come from a similar background, you and I with with the entrepreneurial group we were in. Seems to be a chapter of many entrepreneurs that have some exit. So I'm like, Oh, I'll give this person 50,000. That person 100. And that 120. And so long as I'm investing and I'm here, we're going to crush it. And I was it was a calamity, just dollar for dollar vanquished, and I lose so much money, I was able to eradicate all of my wealth to destroy it all within less than two years, it was emptied. And part of what too was, I need to show trophies of success. So got the bigger house, we got to plays out in Hawaii for a sabbatical, we got the expensive cars and the most important element of this journey and the darkest period, but it was transformative for me. And I'm now in retrospect, so grateful for it was. I got a call from my accountant. One particular day, I'll never forget, it was February 14th, which is Valentine's Day, I'll never forget 2008. And the call came in. He said, I can't believe I'm saying this to you, Mike, but you got to declare bankruptcy. And I didn't. I didn't think my creditors were responsible for my idiocy. But I did have to come home to my family to tell them. We're done. And we got to liquidate our few remaining assets to to cover the bills. And so we got rid of the cars. We lost our house 30 days later, etcetera, etcetera. And it was a full restart. My daughter, and I share this story in one of my books, my daughter picked up her piggy bank from her bedroom. She was nine years old. She was saving to buy a horse. He had quarters, nickels in there and ran over to me. She said Daddy, since you can't support our family, I'll be the one who does it. And the tears streaming down from me and my wife and our family and this fear. And then kind of the last part of the story thing that's relevant is wasn't like the next morning woke up and said, now I have a calling. I gotta fix this. I woke up and I'm like, where's the booze and started drinking. Went through depression for a couple of years. And also, during that time started to journal. Thank God for that because I was writing down, not like, you got this today no motivational nonsense. I shouldn't say it's nonsense, but I wasn't focused on the motivational. What I was writing down was, why can I be sustainably profitable? How come my business, we're surviving check by check. And I started to investigate these questions I'd never investigated before. And it started to become a book, or at least elements of a book. And that was when I realized, oh, my gosh, I got to solve this for me, and then provide the solution to others who are in the same situation. So became an author. I've been doing that now for 15 or 16 years, I've published many books. And I, I realized, what I'm compelled to share or teach is actually what I need to learn to master for myself. Today, I have equity in a handful of

businesses. I have licensing deals, and so forth. And I'm an investor again, but a new form, almost like an incubator model. We just signed our 10th business a couple of weeks ago, and we have five more we are going to sign by April.

S Steve Divitkos 06:08

Incredible, incredible Yeah, reminds me of the quote, I don't remember to whom it is originally attributed, but we teach what we most need to learn ourselves. And it certainly sounds like that was applicable in your situation. I read one of your books, as mentioned, called Profit First, highly acclaimed, very widely read book. For those who haven't read the book. And I apologize, you probably answered this question. So many times you can do it in your sleep, but at the risk of being very repetitive. For those who haven't read your book, which certainly includes some percentage of the people listening to this, please walk us through just the high level basics of the Profit First method, I kind of thought about it as and I'm not going to put words in your mouth. But revenue and expenses are typically the primary inputs that lead to profit as an output. But your method changes that equation where revenue and profit are the primary inputs and expenses is the output that CEOs have to adjust to ensure that they hit a targeted profit number. So those are my words, let's hear straight from the guy who came up with the system.

M Mike Michalowicz 07:06

Yeah. So I'll give a little predecessor to this. This is rooted in a methodology I use in all my research. And every book I published, is a three step process. I first ask myself, what is the outcome that we're seeking in this field, so I want to be rich, or I want financial freedom is usually the most common thing I hear from entrepreneurs. When it comes to the financials. I then ask what is the method we follow? So the method is, traditionally we have sales, we subtract our expenses that we incur, and what's left over is profitability. And then I ask the final question, well, what's the statistical outcome? What's the outcome show, and the data is consistent, most businesses are in check to check survival, most businesses are not profitable. And over 83% are in the research by the SBA, US bankers, many parties studying this. So everyone wants financial freedom, almost no one's experiencing it. And when that happens, when there's a discrepancy between desire and outcome, I look at the methodology and say what's flawed here? Because we want something clearly we're making an effort to achieve it, there's gotta be something that we're doing in our process that's wrong. And hit me like a ton of bricks. I'm like, everyone has sales, everyone's subtracting expenses. And we're waiting for profit, and like, Oh, my God, we're waiting for profit. See, if it is so pervasive, this concept of profit being the last thing that happens, we call it the bottom line, or the year end? Literally, the vernacular is, it can wait, proffers a behavioral system. And what it is, is that, when something is last or can wait, it never happened. You love your family, you don't say I love my family, I put them last I put him first. My health matters, I put it first, you don't say I put my health last. So the methodology in its most simple form is revenue for your firm minus profit equals expenses. So I'm saying is every time revenue comes in this is on a cash basis, you get a deposit, we take a predetermined percentage of profit, hide it from the business, then your business tells you what you can operate on. So if you want to have a 10% profit or 15, wherever it is, take 10 or 15%. And then your business will tell you what you have to operate with. It's effectively the pay yourself first principle applied to business. Now, there's one more

component. We do this at the bank level. This is not an accounting system. You don't do this on a spreadsheet. It's what's called a behavioral intercept. And I say it's called behavioral. I think I may have created that term. There's probably a technical term but I call it behavioral intercept. What I mean by this is, what is the natural behavior we follow? And can we intercept it to channel an outcome we want because at the end of the day is very hard for us to change our behaviors or change who you are, but it is much easier to channel, meaning the same behavior to drive different results by invoking a system that allows you to keep doing what you do. So I survey audiences constantly, I'm very fortunate to be able to travel and meet with, I can't even count how many entrepreneurs now but I'm sure it's over hundreds of 1000s of entrepreneurs over 15 years. And in audiences, usually informal surveys, sometimes formal, I'll ask, who here even though we know we need to read the accounting statements, our accountant drills our head, know the income statement, translate the cash flow statement, you know, the balance sheet, who here follows a simpler system of logging into your bank account? And if you see money there, you know, you can spend it? And if you don't, you panic? And all the hands go up, I asked him, What's the frequency and for many people, they're checking daily, or multiple times a day, then I say, Well, that is the best behavior on the planet, because that's our established behavior, we need to now intercept that. So what we do with Profit First is we set up multiple bank accounts at your bank. So when income comes in, when you log in, we first divided it up into these different envelopes. It's the envelope system here. Now, you know, at your bank level, where you're logging in, what money is pre allocated to an intended use. So you know exactly what monies allocate to a profit, the ultimate tax liability you're gonna have, you know what money is being reserved for that. Paying yourself as an owner, a compensation for the work you do, which is far different than profit is allocated for the operations of the business and so forth. So by carving up the money, before we spend it, we have clarity on how we can spend it. And we got to continue that same behavior of logging into the bank account.

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Steve Divitkos 11:30

Yeah, and just to put some numbers around it, for folks who may not have read the book, you know, just kind of going through a simple example, in my head. Let's say you have a small business, they make \$2.2 million in revenue a year. And let's say, you're feeling very ambitious, you want to take 50% of that as profit, or not 50%. But let's say 1.2 million, which is close to 50%. Though, that's very ambitious. I'm not suggesting this is realistic, I'm just trying to use round numbers. So 1.2 million in profit equates to about \$100,000 a month in profit. So you would take that \$100,000 a month, put it into a separate bank account? And that implies you've got a million dollars a year in expenses. And if you are on track to exceed that, then you would trim expenses until you're back to a million dollars a year in expenses. And interestingly, you're kind of the way that I read the book is you were touting the merits of kind of going back to cash accounting, which is really interesting, because in my world, we typically by founder own businesses, who unapologetically engage in cash accounting. will hire KPMG to do quality of earnings and tell us all the changes that they need to make to go to accrual accounting and be GAAP compliant and etcetera. But what I found to be so interesting in your book, is you're saying, hey, there's a lot of power in the simple cash in cash out method.

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Mike Michalowicz 12:50

Yeah, I remember an accountant saying to me, and when I say accountant, my own account, and he said, I can make the numbers look like whatever you want. And that's what? He says, Yeah, on an accrual basis, we can shift things around and maximize for your tax benefits and different things. But it wasn't necessarily a real time real reflection of the business. And one thing you said that I want to just add a little adjustment to you said, you know, when we take our profit, first, it'll tell us how much money is left. And if we can't cover our expenses, we need to trim our expenses. And that's only partially true. What happens when you take your Profit First, and there's less money for expenses than you can pay? It simply means that you can't run the business in its current state to sustain that profitability. So there's a call for action. Now the call for action may actually be increasing your pricing. So we sustain the expenses, but we're not dictating the appropriate pricing for what we're selling. It could be margin, AKA, efficiency elements. Maybe it takes us too long or too much effort to produce something. We use the same expenses, resources, but move things through the queue much faster, or are there unnecessary or non productive expenses. Subscriptions now are notorious for damaging businesses because they're innocuous, you don't see them until they become excruciatingly painful. So what I teach people in is if you want to achieve a 50% profit, or wherever the number is, and little aside here, too, you can go too far too fast, too strong and damage your business. So don't Yeah, it's kinda like the gym like, oh, I haven't lifted in a year. Let me go in there and benchpress 300 pounds and your shoulders rip out of your sockets. Let's not do that. Let's learn how to stretch and build our muscle back. So we started the percentage, but what's going to reveal itself very quickly is if you can't pay your bills, there is something fundamentally wrong, there's a reason you can't afford those bills. And now we're going to use this to identify the problems. What most businesses do absent Profit First, after logging into your bank account, they fall victim to a behavioral concept called Parkinson's Law. Parkinsons is a Theorist from the 1950s studying human behavior and notices that as supply of a resource increases, we consume more of it more time on given to do something, the longer it takes, the more food put on my plate, the more I eat. The more money that comes into my account, the more we spend. So most businesses are spending up to the last penny they have and only when they feel this sense of dire straits, we have no money left, do they start making corrections. There was a, and I don't know who's who says this. But now it's become almost an axiom that most small businesses and small business as I define it, I follow the SBA principles \$25 million in annual revenue or less, most small businesses are on the constant brink of failure, they're about to go under. And I throw that around 108%. I don't believe most businesses are on the brink of failure. Because they prove month in month out, they find a way to survive yet one more month, they've proven that when things get too constrained and nothing else to do, they will find a way. So I would argue most businesses are not on the brink of failure. Most businesses are on the brink of success. They're just a few smart moves away and sticking with it to transform their business to healthy, consistent growth.

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Steve Divitkos 16:15

Yep, one of the things that I found really interesting in your book is that you made it pretty clear at the risk of putting words in your mouth, that you're a big advocate of paying down debt as aggressively as possible, going so far as to suggest that if a company has debt, they should use 99% of the funds that are earmarked for profit to pay down that debt. So I guess I want to ask, like, How and why did you form this opinion? And I guess Part B is, at today's rates, I think folks listening to this can probably see the merits of a strategy like that now. But was that equally true over the past decade when rates were basically zero?

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Mike Michalowicz 16:51

Logically, debt is a wonderful tool, and the lower rates are my gosh, we should use it. Problem is the variable logically, most entrepreneurs are not the Spocks the world where the Captain Kirk's, we're very reactionary, we trust our gut. The reason I strongly urge most entrepreneurs, including myself not to rely on debt, is because we will make assumptions in the leveraging or return of that fact, we will use these soft terms like saying, Oh, I'm leveraging dead I'm trying to scale. And I'm like, No, you're not. You're saying those words. That's wonderful. But you don't know what those words mean. When I see entrepreneurs do is they say, Well, I'm gonna borrow \$1. And I'm hoping that it's going to this Facebook, advertising or whatever they're doing with that money. It's going to return things. And I've done this, I've borrowed money and say, Oh, if I have the nicer office, it's going to impress people is very easy to backfill an emotional decision with fuzzy logic. But I've done it countless times I borrow money, I have a use for that I feel will return the money. And in the vast majority cases it doesn't. There's three forms of uses of debt. And it's, sadly, it's a third form that crushes people. So one is debt leveraging. Debt leveraging is borrowed dollar, and within a predictable period of time, there is a predictable return. So if I borrow \$1, from you, and I know, within 30 days that I will generate \$1.20, from every dollar you lend me, I at the end of 30 days can return that dollar to you plus the interest I owe you and make the Delta. That's debt leverage. And I should keep doing that until the model breaks. But it requires a ROI investment. And many people don't do that. When I say investment, investment of time to determine that percentage and predictability and timeframe, most just arbitrarily gets they don't look at the data. That's debt leveraging and debt leveraging is great. There is what's called debt bridging. Debt bridging is where I borrow \$1 from you, because I have a unexpected or maybe an expected gap in cash flow. But I know I'm gonna recover for it. So maybe I sold a big project client is going to pay me they are historically consistent, but it takes 60 days for them to pay me and I got payroll this month, and I don't have the cash flow in the business. I can borrow money to pay that. And then when the check comes in, that deposit comes in, I can return those funds. There's not a return on that. But it bridges me through a dearth of cash. That scenario also requires analysis. And most entrepreneurs don't do that. What most do is called a debt anchoring. Debt anchoring is I'm going to borrow money because I see this opportunity. So I can plant this flag here and run advertising on Facebook. I'm picking on Facebook today but whatever it is, and we're going to borrow this money and go for it, but we don't do this analysis of what the return is going to be and it sets an anchor for the business. It locks us in there. Then the panic ensues when we have to return the money plus interest not working it, then people respond. Some entrepreneurs respond with desperation. Doesn't manifest as the feeling of desperation necessarily, but we say, oh, we should sell out of this, we should have a price drops, we can get cash flow. That often triggers for most small business owners that I've analyzed and worked with. And even myself, it triggers this reactionary behavior that causes a cashflow game, now I'm trying to do is collect more cash today to pass to cover the sins of the past the financial sins of the past. And now it becomes a collections game, if I can simply generate enough money today to cover the bills are coming. But that only sustained so long, you can only run ahead of the problem. So long before it'll catch up to you and you're exhausted, then the business is done. Stick a fork in.

S**Steve Divitkos 20:49**

You mentioned that you're an investor in small businesses now. So I'm curious to get your investor lens on this question. So the companies you invest in, I mean, I understand if one of your portfolio companies has to take out debt to cover an operating cash shortfall or they want to take out debt to fund some project with an uncertain return, I can see how you might be skeptical of such a use. Yeah. But as an investor, they may take a debt for very different reasons. Maybe they're buying another company, I mean, again, that is an example of an investment with an uncertain return. Or maybe when you or your colleagues buy the company, you choose to add debt to the transaction to complement your equity. So in use cases like that, where we're not taking out debt to invest in something we just don't have the money for. Does your stance on the issue of leverage change at all? Are you still generally averse or is debt still like guilty until proven innocent?

M**Mike Michalowicz 21:44**

I do start with guilty till proven innocent, because it forces the entrepreneur and our team to investigate. So ironically, or coincidentally, this weekend, this past weekend before us recording, our team was in North Carolina, we have an investment there, it's about \$10 million business. They're a quasi manufacturer assembler. And there's a certain process that has bottlenecked the manufacturing that we've identified, we deployed was called Theory of Constraints. There's a great book out there by Eli Goldratt, called The Goal and it really puts it in such simple terms that I can understand it. And we have concluded that a piece of equipment that can double the output in this one section will actually double the throughput of our entire manufacturing line, therefore likely doubling our product, our revenue, and potentially our profitability. So now we're actually testing. So now we say, okay, we have a thesis, but how do we test this out before we take the risk? It's an expensive piece of equipment. So we're just going through some analysis, the manufacturer of the machine, said, yeah, come to our shop and have one of your guys come and run the process. And we can do trial runs. And we're gonna spend a week there investing time, which is a small investment, consideration to the piece of the cost of this piece of equipment to prove out our thesis. And once we are higher hypothesis, I should say, once we've proven it out, then we have a thesis, and then we'll consider deploying it, I want to have a high degree of a surety that there's going to be return. So I want to be in a position where we have a 90 or 95% confidence rating that this will work. I think most entrepreneurs go into a decision to, quote unquote, improve their business, and there's no confidence rating, it's just spitballing. And that's what I'm trying to avoid. What I've also found is, as I shared earlier, changing behavior, me changing my behavior, and entrepreneur working with changing their behavior is really difficult. So that's why I start off with the hard nosed, no debt. That's easy. The guidelines, the guiding principles are simple. And we set the Profit First system accordingly. Changing the way we manage your business, and you have to if you want to grow your business, you actually have to change yourself, there's no question is a much more engaged, long term process. And we have to build toward it. And this one particular entrepreneurial we're working with, that's what we're going through now. His prior gut was, oh, I'll just by his machine, and maybe he's right. From the outside. It sounds like genius, but so does every single idea. So we're going through his very slow and deliberate process and paying for him, but I also think he and we are growing through the process.

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Steve Divitkos 24:33

Personal curiosity and for whatever it's worth, by the way, I share your general approach to debt which is to say guilty until proven innocent in most instances, just out of curiosity, does this aversion to debt for lack of a better way to put it, does that apply to your personal finances as well and why or why not?

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Mike Michalowicz 24:51

Yeah, it does. It does. So my wife and I carry no debt except for our property. And the only reason, I shouldn't say the only reason, a primary reason as we ran the ROI, and for a mortgage, whatever, when we acquired these mortgages, the interest rates they were, we were making more money by putting that money into the market. But otherwise, no debt, period.

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Steve Divitkos 25:19

Yep. So your form of debt right now is to use your words debt leveraging. And I'll just make up these numbers. I have no idea what your mortgage rate is naturally. But let's say you borrowed it, I don't know, 3%, three years ago, but now you can put that in treasuries and earn 5%, that would be an example of debt leveraging to use your words.

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Mike Michalowicz 25:37

Correct. Yeah, we got actually less than 3%. And what we know, we couldn't forecast what the interest rate would be. So the discussion in our house was, we can take this cash to potentially buy the house. But the cash could serve us in other ways. We also have a predictable income based on our history, that paying down the mortgage, at any rate we choose, I shouldn't say any rate, but we can pay the mortgage down quickly or quicker if we want or we can sustain it. So we have some ability to throttle that. And we had a high confidence is the most important thing, that we're not going to miss a single payment. So we know if we took a traditional 30 year mortgage, we did a 15 year but if we did a 30 year, within 30 years, we have a high degree of confidence that we'll own this, that the value of money decreases over time. So what's a \$2,000 payment, for example, today is less painful every year that goes by, we concluded that this was a prudent use of the funds. And so that's why we did it. But it was an analysis. And in the past I didn't do, I'm like, wow, well, we want to house let's just buy it, you know, let's see if we can get it let's it lets us borrow money to the hilt. Part of this too is I've been there. I know the cost of debt beyond the logic. I know the emotional cost. When I lost all my money because of just arrogant spending I had borrowed up to I think was three or \$400,000 it was it was crazy. But I could borrow that kind of money because I was making big money though. So the creditors simply go through their calculations go well, this dude can pay it back. There was a part where I couldn't solve it, I couldn't pay it back. I ultimately did. I had to. But what happened and this scared the bejesus out of me and it's definitely part of my makeup now. I remember the stress of not being able to sleep saying how am I gonna pay back? \$300,000? How am I gonna get this money? You know, and the panic and the stress and the tears and all this stuff. And the worry, and the insomnia. Then I started getting letters in the mail. Like I would say a certain days 10 or 15 letters, my mailbox was packed with letters that said, we're a debt consolidator, Debt Free America or these things. I'm like, holy crap. There's these consolidators, that are aware of my situation. My financial woes isn't private to me, the world knows about this, this is public, and that quadrupled the stress I felt. So debt is more than just a logical consideration. It is an emotional consideration too, and motional weight, if you mess it up, so to speak.

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Steve Divitkos 28:20

Yes, completely agree with that. I want to get to another theme in your book that I really wanted to unpack with you. And that is this relationship between growth and profitability. Because obviously, you know, the books called Profit First, for heaven's sake. So a lot of it is about the idea of profit. But then you also get into the the question of growth. And you mentioned that you can asked questions about growth and profitability and their inverse relationship regularly. I used to run a software company, and particularly in software, but I'd say in many industries, there's a perceived inverse relationship between growth and profitability, which is to say, growth is expensive. So if you want to grow fast, you probably have to be less profitable, and vice versa. And you can be more profitable if you grow more slowly. But in your book, you said, Hey, I think entrepreneurs should target both and simply targeting one over the other is a big mistake. So I'd love if you could just elaborate on that stance because I don't want to say it's out of the ordinary necessarily, but it's contrary to what many of us have been told over the years.



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Mike Michalowicz 29:15

Totally, totally. And I often take these contrarian stances. And this sometimes is perceived as most controversial, but I have the data to back it now. We have over 100,000 companies have deployed Profit First, one asterisk next to this, these are micro and small businesses. So the typical business that deploys Profit First, is doing 500,000 \$2 million in revenue. The general I'd say 80 to 90% of the community is under 25 million. We have had publicly traded companies deploy Profit First and when you do that, there has to be a different approach to it and it's a little bit specialized. But the vast majority are these small businesses. And what they often say to me, is, I can't be profitable because I want to grow. And then we use I call them soft terms, they're placating terms. I'm plowing back the revenue. I am pushing back the investment. I'm reinvesting in the business. I had just one presentation I did that became a big aha, for me. This was about 10 years ago, I was presenting on Profit First. And afterwards, an entrepreneur came up and said, Oh, I really liked the system. It's interesting of taking your profit first and the considerations, but we had a 28% profit this year. I don't think I'm gonna do this. I'm like, No, I wouldn't do it either. Don't fix what's not broken. So tell me about that. Because that's a really great return for most businesses, would you do the profit? And she was oh, we plowed it all back into the business. And she said that, like these horns popped out of my head, I could tell. I'm like you plowed it back. What do you mean plowed it back? She was well, instead of distributing to shareholders, herself and other members, or whatever she was, every dollar went back in and we utilized it said, how do you utilize it? She goes, Well, we hired more people we spent it. I said, oh, so it was all expenses, right? Because yeah, exactly. Like so you were never profitable? She goes, well, on paper, we were like, no, no, you weren't, you spent it all. We need to be blatantly clear. Profit is money that's distributed to the shareholders at the conclusion of a time period that the company generated or is money that's held within the company for future distribution to the shareholders. That's what profit is. Anything that's spent is an expense. And yet, many entrepreneurs in Guilty as charged. I, too, was saying, Oh, I'm plowing back money. And I placate myself, I feel like oh, I've made a profit. Even though there's no money to show for this. I've made a profit. But it's gotta go back into business. But here's what's so interesting. Most of those, quote unquote, plow backs resulted in no appreciable gains. Nothing beyond what we'd normally expect in the businesses because they weren't doing hardcore ROI. So here's what we found is the inverse, businesses that do take their profit first and don't play them back in the business, have less money to spend, but one achieve the same outcomes. And when you have the same desired outcome, with less resources, you have to become resourceful. So these businesses are far more innovative. I'll give you two examples. I invested years ago in a small leather manufacturing business, I certainly have exited from that, amazing company. The owner, I was visiting our office regularly and there on one particular visit at this site and with the owner, and we said, okay, we're taking our profit first. And we need to get this piece of equipment. It's called a clicker press. It is a heavy duty device that clicks and ultimately molds leather. And they can cost the inexpensive ones 25,000 30,000. But the big ones 100,000. Right, we got to get one of these presses to do this. And we took our profit first and said, there's no money, we don't have the reserves to do this. We had to borrow money or what? And we said, well, let's get the all that consideration, lets us look at the money we do have. We had X \$100 in profit. So let's, let's head down to the local Home Depot. Let's go to the blue light, special section. And let's just pick random stuff and see if we can get the same result with other equipment. This speaker has become now their proprietary method, I will tell you, I can't tell you what they're doing. I will tell you what they don't do. They don't use microwaves to mold leather, because we actually tested a \$99 microwave. And it does transform how leather behaves, but not in a good way. But they found a way to click and mold leather, that costs hundreds of dollars. I mean, that's it, the competition is doing the same process for \$25,000. So we can do this at scale. I mean, we can do so many more of these units so much faster and get actually a better result. So what happened is, when you don't give the

resource, you don't follow the common path, you become resourceful. You start challenging industry norms. I'll give you one more example because this one, some people may know this business. There's a company called Savannah Bananas. It's a baseball team. And if you haven't heard of them, Steve, or anyone listening to you, please google them because you will hear them very soon. They are exploding and the Savannah Bananas have redefined baseball. I got a letter from them seven years ago Jesse Call, Emily Call, their husband wife are the founders of the organization. And they ran Profit First from day one. And they said on day one, their minor league baseball team or equivalent, 300 People go to a game. They said you charge \$10 a ticket to get \$3,000. If you don't have enough money to pay for the operations of the stadium, let alone the scoreboard. And he said they ran the analysis. They can't afford a scoreboard maintaining or operating it. So the knee jerk was, well, this doesn't work. We're going to [inaudible] and they said, Hold on. If we take your Profit First, we can't run the scoreboard. What can we do? And they started to recruit the audience to be the scorekeepers. They have people walk the stands, like it's a boxing match between innings and are holding up a score. Then they said, well, entertainment, we can't afford entertainment, they recruited the audience to become the entertainment. They famously have a dance troupe called the Grandma Bananas. These are women 80 years or older. And if you don't have teeth, like that's a bonus. And they're this wild entertainment. Fast forward. And it's not just because of profit. First, I would simply say profit versus one of the callous, Jessie, Emily have a clear mission. They want to be family friendly. They want to be extraordinary entertainment, and they're highly, highly innovative. Fast forward. Savannah Bananas are the Harlem Globetrotters of baseball. Their average attendance is 5000 people per game where the average minor league is 305,000 people per game. They sold out seven consecutive years, which includes this year, which is 2024. And 2025, has already sold out you can't get tickets, their profitability is off the charts. They're more profit. Of course, in any minor league team, they're more profitable than major league teams. And not on \$1 basis, they don't do billions of dollars. But on a percentage basis, they are more profitable than professional teams. And what what this speaks to is that when you take your Profit First, it forces innovation. When you force innovation, you redefine a market, when you redefine a market or an industry, those are the companies that have the fastest most explosive growth. So my experience is that profit correlates directly to growth, the more profitable you are, the more you grow.

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Steve Divitkos 36:58

Now another way that small businesses can increase their profitability is by quote unquote, firing their problematic or unprofitable clients, which is also something that you talk about in the book. Yeah. And I had to do this as a CEO. And from firsthand experience, as a CEO, now secondhand experience, as an investor, I can tell you, as you know, like this is a very hard thing to do, especially for the first time. So I'd love to hear more about your first experience firing a customer, and also learn more about how you think about it today with many years of experience under your belt. And I guess, at the risk of asking you like six different questions at one time, I'll just mention that most small businesses don't even track customer level profitability metrics. And as a result, most don't even know who is or isn't profitable. So if you could also maybe talk to how you went about actually determining who was profitable and who wasn't, that would be great, too.

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Mike Michalowicz 37:50

Yeah, let's start there. Because I think this will give context for anyone listening in how to deploy it. So I wrote a book called The Pumpkin Plan. And it's the Pareto Principle, packaged in a way that is accessible and approachable and the stories are unique. It's the Pareto Principle, which is the 80/20 rule. 20% of your clients yield 80%, your revenue is one example. And it's not always hard fixed analysis. But I would say, ironically, most of our clients 80% of our clients, we see the 20, 80 play out pretty accurately. So I invite everyone to do that. Sort your clients by revenue, that's what we do top line revenues to least revenue. And why this is important is while it doesn't necessarily represent profitability, it does represent engagement. A client that spends more, and especially buys repeatedly is demonstrating through actions they value you highly. You'll often see you're better playing clients, you're higher revenue clients are actually easier to work with, they're more engaged, because they have more vested into the outcome. We do a link between that and profit on product analysis or offering analysis, we look at where all the products or services we have. And then we match up and the profitability they generate, then we match up best client to best products, that is the number one client, your best clients who spend the most with you. We're buying stuff that by money, that's the heart of your organization, you need to protect it. Well, on the flip side, they're the lowest revenue clients that are also very difficult to deal with, that are constantly complaining, threatening, even, that are buying unprofitable stuff, we call that poison. And you stop swallowing poison that will kill your organization, you need to spit it out. And I don't want to get into the total math, but usually it's about 4%, which is 20% and 20%. 4% of your client base immediately should be terminated and you'll see immediate boost in profitability, and their relief of anguish from you and your team. So that's what you need to do. My first experience with this was well into my first company, we hit a ceiling. It presents itself for businesses in different ways. But most businesses it seems like when you get to a million to 2 million, I'm talking more of a service oriented business. There's a plateau. And there's reason there's a plateau is the behavior, the organization needs to change. Very early stages, the micro enterprise stage is just sell whatever you can, because you don't even know what people want, really, you may think you have a thought, but you've got to find out. So just keep selling, to find what gets what gets traction. And then once you have that, then the next stage is refine and become the world's best at that one thing, and that usually happens around the one or \$2 million period where you can't just keep doing everything, you have to do the right thing. So in my business, I got there, this was my first company, we were computer integrators, I was computer guy. And I remember saying, Okay, I can't deal with this customer anymore. It was a bank, they were difficult to deal with. Ironically, they spent a good amount of revenue with me. But they were constantly having board meetings and disengaged, and once they, they they committed to a project, they were disengaged in the project. And now we're stuck with inventory. It was so problematic. And they felt they were the big kahuna, they said, we're your number one customer and they were actually number zero. I told them, it's time to go. And it was a hard conversation saying, doing business with you. It's costing us the way you treat our organization thinking that you can push us around. I don't think I chose us words, but effectively said that it's not working, we're gonna release you. And if we can find someone else we will but we're never not gonna serve you again. And the CEO blew his top, like red faced, this was face to face meeting, red faced, screaming spittle at the corner of the mouth type of thing. Like, who are you and yet by body, we don't need you. And when I left that meeting, the sense of relief, I walked out and said, Gosh, if the person is gonna blow, it's like dating. Like, you can tell the person, hey, I don't think this is working out and they explode at you, there's clearly not a good stable relationship there. And the relief, I came back to effectively Cheers. I told my team, we're no longer working with someone, so we let them go. There was like a standing ovation. Not really. But there was an emotion, when I realized my team was now engaged in new level because I knew I was protecting them from an unfit customer. The thing we also had to do, and

this was the hard part was the costs associated with that client had to also be abandoned. They had Unix systems. This is old school stuff. This is before Novell, which suddenly became Microsoft, and Linux. But this was Unix. We had a person dedicated to Unix. And we had to let the person go, because we had no need for him. And that brought more profit to our organization, it was painful to let him go. But we shouldn't have been in that space in the first place. That experience is not something I do with some regularity, I consider who's my customer base? And if they're not fit for me, how do I let them go? Doesn't have to be a confrontational call. And, in fact, sometimes it says, Hey, we're in a new stage of business here is a new vendor that can provide services for you. And they give us a commission for the transfer fee and the customers serve better. Other times, this is a pricing adjustment, we move prices up and unfit customers will say this is too much we want a convenience buy or we're looking for the cheap price. And I never, for my businesses want to be in that model. So I'm like, oh, if you want the cheap provider, consider alternatives. So it's not confrontational. But it is a discipline of regularly mastering and staying focused on your core competency, and not allowing that entropy to happen by taking on customers that aren't a good match for you.

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Steve Divitkos 43:42

You know, at the beginning of this conversation, you told the story that I read in your book, which is after your first two exits, you had spent your exit proceeds. And obviously that led to a lot of personal and financial challenges for you. The question that came to mind when I was reading that very vulnerable story is, you know, there are likely 1000s of small business owners listening right now who are either about to sell or have recently sold or contemplating selling. And I guess my question to you is based on your personal experience, what advice might you give to these post exit entrepreneurs, both financially and otherwise? And I'll just start with my own personal anecdote. Because when I exited my business, I talked to a lot of post exit entrepreneurs and basically ask them the same question, you know, based on your experience, what would you do differently? And I probably got, you know, 30 different answers. However, two things kept recurring over and over and over again, and they were as follows. Number one is assuming you can do it financially, take more time off than you think you'll need. And the second one was don't spend the money in the first 12 months. So I got a whole bunch of advice, but those two were almost unanimous. So I thought that was super interesting. How would you go counsel these post exit entrepreneurs or soon to be post exit entrepreneurs?

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Mike Michalowicz 45:05

I wish I got that advice when I sold my companies. But honestly, I think my arrogance would have ignored it anyway. So I sold my first company, within a day I was in the new business. When I sold my second company, I was right onto my next thing. I started spending the money right away. Here is the challenge. I see in retrospect that presented itself. And there is behavioral theory around it. And I don't remember the terminology but but effectively is this, as our income adjusts upwardly. We adjust our expectation and life standard to be at that level very quickly. So the examples like the lottery win, right? So so someone wins the lottery that's had a low income in the past, and now has millions of these are experienced before. They're all buying a house within that week. And the other component is, there is this continuance assumption that this is my new life standard, and it will be like this forevermore. And there is

actually a behavioral theorem about this, but what I'm experiencing now will be forever. And then there's this concept called loss aversion. Once we possess a new life standard, we are very hesitant to ever take a step back. So when I made all this money, I said, oh, now I'm a big hot dog, look at how great I am. And I need to have his life standard. When it wasn't working, instead of saying, okay, take a breather here, let's ratchet back down and resort things out, I actually doubled my spend and said, well, I gotta move faster, and find the next thing to sustain this. So my spend actually increased, which makes no logical sense [inaudible] as my behavior, what's interesting is as income decreases, our ability to adjust downward is very difficult. It takes us a long time. So I make a lot of money within a week will say, I'm now living to this big money standard, I lose a lot of money. Give me a year before it really sinks in, this is what I have to do. And usually a few financial heart attacks along the way to really wake me up to this. So we climb very easily, we decline with very great difficulty. So my suggestion is, hide the money from yourself, allow that behavior, don't try to resist it, it's very difficult. What I wish I could have done for myself is when the income came in, is immediately reserve it in some capacity, where it starts dripping out to me in my life standard is incrementally improved. And then I can see if I through my new activities can sustain this income, and then maybe I can release the money a little bit faster. I also believe we all need a third party involved someone who's not emotionally attached to it. I'm very emotionally driven. And what's mine is mine. what I've achieved, I've achieved. if I brought in, I have a trusted advisor. His name is Ron, he's amazing. Ron G, I have a few runs my life has this guy's name. Last name starts with G. And Ron looks at my things with detached emotion. He cares for me, I would say but he doesn't care about my financial situation, and can bring a much more logical approach. He could have helped me assert certain controls in place where I wouldn't have had this, this imminent collapse or this catastrophic collapse. In fact, I even did it in my own business. Another gentleman named Larry, when I realizing my own behavior, kind of protecting me from myself, I set up these trip wires that would prevent me in my worst moments from harming myself by overspending or doing something. I wish I did this earlier. So with Larry, what I did was when I got another business going, and we're generating profit, I made him the signer on the account. So I could I literally could not write checks from this profit account to myself, because I knew in my weakest moment, I would steal from myself. So when it came to profit distribution times, I call Larry and say, hey, it's time for profit distribution. He would say, Alright, come on over. And then you say, what's the use of your funds? And I said, Well, you know, I need to plow back in the business stick. No, no, no, get out of here kid. When I said, Oh, here's here, I'm gonna go triple my wife, we're gonna use it to celebrate and businesses healthy. You say Okay, show me the receipts, prove you're doing this and he goes, Great. And he writes the check out. It was a disciplinary there outside of us. And one little last component. You see this with athletes, anyone that comes to income quickly, our journey is no different. And it was so easy for me to criticize, you know, cute quarterback selected in the draft number one makes millions of hours blows it all within five years is broke. It's so easy to point at that person say What idiots when looking in the mirror is like oh my God, I am that idiot. I got it. The draft. I did that. So I set these tripwires up for myself. That's what I do now and that's what I would have done then.

S**Steve Divitkos 50:05**

Cool. We share a mutual friend. He's a fellow CEO and entrepreneur who's now an investor and a CEO coach and I actually reached out to him before this conversation I said, Hey, I'm speaking with Mike Michalowicz wits. What do I absolutely have to ask this guy? And he told me asked him what his personal B hag is. So for those who may not be familiar, B hag stands for big, hairy, audacious goal. So I don't know what it is. I've had no priming. But in light of his feedback, I have to ask you, what is your personal B hag? And why did you choose it?

M**Mike Michalowicz 50:38**

I assume you're talking about rich who puts together, so Rich and I to give context, talk every two weeks. And one thing I mandated for our group, so it's a group of us. And I say before we start the call, I want everyone to have a I am statement and a mission statement, of purpose statement, or B hag. Mines to eradicate entrepreneurial poverty. So Rich has heard it ad nauseam. We've been doing this for a decade or more of these calls. And every morning, or afternoon when talking with Rich and saying, Hey, Mike here and I'm on a mission to eradicate entrepreneur poverty. What it is, is my passion is with micro enterprise. If you're making \$2 million [inaudible] less than revenue, it's pretty depend on you the owner, person, and I don't know why. But my heart just sings out. I actually I do know why. Because I've been there myself and my heart sings out for its community. And for the micro enterprise community, most entrepreneurs start their business for financial freedom, personal freedom do I want, when I want, we have this vision for ourselves. And then the reality is, most micro enterprise, the entrepreneur is making no money. It's check survival, their time is a joke. There's no time for family or holidays or personal time. It's just work, work, grind, grind, hustle. So this is belief of what we want to achieve is this dream becomes this nightmare of what we're actually experiencing. Then we say why it's gotta go harder. And it actually gets worse. That gap between the vision and reality is I call entrepreneur poverty. The irony is, we, as a country, us as a globe, we need small businesses. There's a saying that small businesses are the backbone of the economy. And I call bullshit on that. Small business is not the backbone of the economy, small business is the economy. Every single business that exists today was a small business. Look at the big players. Now, Bezos started out of a garage, Apple started out of a garage. And look at all these companies, Google started out of the garage, other businesses have grown. We're small ideas, it start with an individual and maybe we were invested in and got fueled very quickly, because other people were engaged, and maybe hundreds or 1000s of people put money into it. So it took a step forward, hopefully, profitably. But every business starts off small. If we lose small business, we lose it all. So it's, to me the ultimate sin, that small business, micro enterprise is the struggling community. And dammit, if I can fix this, I will. And I've devoted my life to that.

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Steve Divitkos 53:22

You know, you recently published a blog post about this concept of time tracking as a CEO, and how doing so has helped you manage and prioritize your time in a number of ways. And I wanted to talk to you about this, because somebody, I'd actually don't even remember who but someone forced me to do it when I was a CEO. And I was shocked by how much I learned through an exercise as simple as tracking my time. And then better understanding the difference between how I thought I was spending my time and how I actually spent my time. So it's a deceptively simple practice that pays large dividends in my experience. So that's why I want to ask you about it. So maybe you could just walk us through why and how you've tracked your own time and what tools you use if you use any tooling. And maybe how CEOs listening to this might be able to get started on tracking their own time and making any necessary adjustments.

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Mike Michalowicz 54:16

Yeah. So I use a couple of tools that are simple. I want to start off with deception. So what we're talking about this time, deception is what we believe is happening. And the reality is the deception that plays out in the use of debt. Right, we believe we're using it and then there's the reality. And this plays out in all facets of our business in our lives, what we believe to be true, and what the data shows. When I, and I guess I'm acutely aware of this because when I had my forensics business doing forensic investigations, it was computer forensics, specifically. Our tagline was, data speaks the truth. And there was always stories, and then there was the reality of the facts. So when it came to this time analysis, like how I spend X, you know, hours a day working on strategy, I spend X hours a day promotion, it's an X hours day, HR, whatever the things are. I use two tools are so simple one is, I use a calendar, I use Google's calendar, but there's countless counters in every minute my day is accounted for. And right now we're doing our podcast. Look at my calendar, we started at 10:30 promptly, we have allocated because we're gonna have a conversation afterwards, up to 12 Noon. But when we're done, we may finish at, you know, 11:55, I will make an adjustment in the calendar as I'm looking at to be 11:55. So what I can do is I can go back now in time, anytime and see with absolute clarity, how I'm spending my time I categorize it. So there's this promotional, so it's categorized as promotional, selfishly that's how it benefits me. Later today, there is a event I'm doing that's also promotional 1:50 pm today. So that's how I track it. And now I have years and years of history, and I can look forward projecting, I've started using a technique that Rich, our mutual friend told me about color coding, he's like, he wants to have this balance in his life. And if it's healthy, colors it green, if it's business, he colors it red, or whatever he says different colors. So he can look out and he says if my life is out of balance, looking forward, I don't have the right colors, I can make adjustments. So tool one is for me Google Calendar. And I always find the simpler the tool, the better. The second thing is up here, you may hear a beep. I don't know if you heard that beeping. But this is a little cube. And it has time increments on it. 15 minutes, 20 minutes. When I turn it to any one of those particular numbers, I just flipped over to 15 minutes, it starts a countdown. And this is kind of the Pomodoro method or whatever. But what I found is without a time constraint, which is a smart Parkinson's Law, productivity, the less time available, the more productive we are, the more time we give ourselves, the more time we consume. When I start constraining time to do things, I become more focused and doing things. And a little bit between those two things. I have clarity in what I'm doing, and have a mechanism to enforce. Focus on what I'm doing when I'm doing it.

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Steve Divitkos 57:25

I love that. I love the simplicity of that color coding method and my experiences aligned with yours in that the simpler the tool, the better. I'm sure there's a bunch of fancy apps that one can use. But I question whether, you know, one needs those. Two things happen when I was forced to track my time. One I already alluded to, which is the way that I thought I was spending my time was actually completely dislodged from the way that I was actually spending my time. And I don't know why as human beings, it's so hard for us to see the difference between the two. But nonetheless, that's certainly what I found. The other thing that I did is I tracked my time in increments of I think it was 15 minutes, 15 to 30 minutes, something like that. And then over the course of a week, a month, I put everything into one of four quadrants. So either do I like doing it? Yes or no? Am I good at doing it? Yes or no? And so I put every increment of time into one of those quadrants. And when I looked at the bad quadrant, which is I don't like doing it. And I'm not good at it. What I found coincidentally was it formed like the perfect job description for somebody else, it turned out that a lot of the things were in a similar category. In my case, it was a CFO. So I said, Oh, my goodness, I can find someone who loves doing this and who's good at it. And they're going to be thrilled. And I'm going to be thrilled because I no longer have to do it. So in a sort of unintentional way, it also turned into a great clarifying tool as it relates to the logic to making a hire.

M**Mike Michalowicz 58:53**

I think it was Dan Sullivan, I just started researching or reading about his work, his stuff is amazing. I feel shameful that I've only started in the last year. I've heard his name a million times. I think he wrote a book called who not how or something. It's that effective label, and that's it. I was reading one of his books this morning it's another one called 10X Is Easier Than 2X. And I read, I try to read every day. I shouldn't I try I have allocate time to read every day. Sometimes emergency will replace that and but it's maybe once a month that something comes up that I can't read. And this morning I was reading the aha from today was we all have a unique strength that is truly unique to us, because of A, our genetic makeup. B, the environment we grew up and in our history. So no one here has anything that's the same. And we will have more impact and growth, success and however you want to. I don't know how you define that. But we'll have that if we lean more and more into our strengths. And therefore we have to, abandons other word, but delegate the stuff that we're not good at, the stuff we can do, but we're not extraordinary at. What's beautiful is there's someone else that probably is far more extraordinary that and gives them joy, accomplishment, success. And so we start building this, this network of other complementary folks, and everyone is coming out winning and the impact collectively, is so much greater. There's that saying, well, if you want to go fast, go alone, if you want go far go together. I think that's the mentality. And that's what I'm trying to do, too with my own organization. It's funny, someone says, Oh, you're in the business. So do you do HR? Do the meetings for the team? I'm like, No, I don't do any of that stuff. I'm a business owner. I'm not the president of the company. I'm not the leader. And I think people are conflating that, I have a role and responsibility, I hope and I think our team believes and least for now, I'm the most appropriate spokesperson for our brand and what we're doing, I'm surely not the leader of the organization. That's Kelsey. That's her talent. When I realized this, this was six years ago, when she became president and I got rid of that ideology for myself or that term. I think our team would have done anything for the company, or redefine anything. Now I realize, our team here will do more than anything, they will take a bullet for Kelsey. They have such an affinity and affection toward the mission, that she has her company's course on, and we've elevated and the performance of our organization is so much better because we have such a greater affinity toward our mission. And it was necessary for me to step out something that I could do, I just couldn't do it well.

S**Steve Divitkos 1:01:47**

One or two questions left before we conclude here, I noticed that you have another book called fix this next. And that's basically all about helping CEOs think through what to prioritize, what not to prioritize, and how to sequence their various company goals. So that got me thinking about the idea of setting company like goals in general. And the question I want to ask is that, in your experience, what are the most frequent mistakes that you see leaders make with respect to setting goals for their companies? And my personal experience, at the risk of answering my own question was setting setting too many goals? My experience was that the more goals you set, the less likely you are to achieve any one of them. So now, when I'm on boards, I'll often ask the CEOs, what is the one thing you're trying to accomplish this year? Right, just that tends to be a very clarifying question. So that was kind of my experience. What is your experience been with respect to company goal setting and where leaders tend to trip up most frequently?

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Mike Michalowicz 1:02:47

There is a health expert who's very popular and Peter Attia is excellent. And he shared in a podcast in the last year or so this thing called the Four Dark Horsemen of Chronic Disease, and he talks about cancer and heart disease. And these four elements is like, oh, it's really interesting, because there's, I think, five elements of business that, if not addressed, will bring chronic disease to a business. But it's only five things I see over and over again, and this is interpreted from [inaudible]. When I invest in businesses, we go in, it's always which one of these five horsemen do we have to fix? And when we fix it let's go for the next and it becomes a cycle. So the first one is this belief that sales cures everything, it doesn't. It's total nonsense. In fact, sales brings organizational stress. So the more I sell, the more obligation I have. So a business that's struggling and trying to sell their way out of it is in real trouble. They're actually amplifying the problem. So we need appropriate sales. We need adequate sales, but there's a link between sales and profit. So we have to do is kind of correlative analysis, are we selling but are we selling profitably? And that's where margin comes in. So first, we look at sales. Are we just selling to sell and that's a problem. Secondly, and we talked about selecting the best customers the best products, that's the key. Secondly, we look at margin. Do we have the right margins, small businesses inevitably undervalue themselves and underprice themselves. And it's a major trap and panic ensues. My wife and I've had a conversation. We're very fortunate. We have a housecleaner that comes to our house periodically to do like a major clean. And the team came yesterday, and they charge a price that's clearly too low. And they came yesterday and was disappointed to get in and out. Because they had to get to the next customer. And they started cutting corners on the work they're doing. And my wife's like, I don't know if we should keep them. And I'm like, I don't know if they're gonna be around much longer because they're not charging enough. But that's a classic trap. And it's also affirmed, because if you charge less, you'll get more customers who want to pay less. You'll see very little value, but they see the cheap price. So it becomes this insidious trap. So margins the second thing. So sales, are we selling the right things the right way? Secondly, do we have the right margins? Third is do we have a Profit System is there some form of a bitul profit draw. And that's where Profit First comes into play. There's other ways of doing this. But if the business isn't consistently generating profit, and isn't doing quarter in, quarter out, day in day out, there's a fundamental problem with the business. These businesses that hope to make a profit, or maybe we'll make it in a couple of years, really is a huge turnoff for me. And we got to fix that. The third thing is cash reserves, or fourth thing is cash reserves. If the business doesn't have any cash, it has no runway and if it has no runway there is inevitably a problem that will present itself and now this business is in desperation mode, organisers tank, we got to build a cash reserve. There's a concept called protective capacity to manufacture in principle, but you need to have a protective layer of cash to navigate the bumps and hills and valleys of business. And then the last thing is organizational efficiency. What is the throughput of the organization? And can it be improved? Using we always deploy Theory of Constraints, regardless if it's a manufacturing business, or a service business or anything in between every company is taking raw input and making a final output, the deliverable. So between that is a sequence of events, and if a business owner doesn't resolve those efficiencies, it just overtime, loses ground to the competition has an unnecessary costs. So we address that. So what we do is we it's those five kind of dark horsemen and we evaluate. But we only pick one at a time, we say that our biggest issue right now is efficiency, or is sales margin, we're gonna see this through to resolution to the best level we can now. And once it's resolved, then we identify where the next biggest issue is among those five, and we circulate among those five over and over again. In most cases, we've identified about 25 to 30 common issues in a business. But if we did the 80, 20 rule, that 20% is those five.

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Steve Divitkos 1:07:14

Very cool, very cool, the simplicity of that framework. Lastly, Mike, I'm going to ask you a totally self indulgent question. And it's going to be pretty much, you know, pretty dislodged, let's say, discussing this far. The reason why it's self indulgent is because somewhere on my lifetime bucket list is this idea of writing a book, and also no way anyone, I don't know why anyone would ever listen to me. But to the extent that, you know, my mom, and my dad, and my two sisters buy enough copies, maybe it'd be worth it. But the question I have for you is like you so you've written nine books, after he founded and operated and sold several different companies, I understand why you wrote it, right. Given your personal behavior, you want to eradicate entrepreneurial poverty, so I totally get why you did it. It seems very much aligned with your personal mission. I guess my question to you is like, how did you pitch yourself and your book ideas to publishers who probably declined 1000s of good business book ideas each year? I was told by a friend that roughly 20,000 business books are published each year. So he said, you know, think of a major hockey arena, for example, they probably have 25,000 fans, every game, they said, so think of every person published a business book of that year. I think he was trying to talk me out of writing a business book. So in light of those pretty daunting numbers, how did you pitch yourself and yet another business book to these publishers who've probably read a million of these things?

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Mike Michalowicz 1:08:45

Yeah. And my experience is, I don't think it's 20,000 a year, I wouldn't be surprised if it's 200,000 books a year, because there is a massive movement in the self publish base, PDF production, stuff that doesn't go through the traditional publishing model. So the challenge exasperate has been exasperated. I actually tell aspiring authors, the world does not need more books. It needs more great books. So the friend of mine said, with the advancements of Chat GPT, and you know, these different AI tools, the volume of bullshit is exponentially growing, and the cost has dropped to zero, to cost nothing to great bullshit. And so we're seeing this massive output of just garbage. There's also many are some extraordinary books that go undiscovered and that, for me, that's the biggest sin of all. And I think with all the work you've done, Steve, your experience you probably have that. And it would be such a shame if the world doesn't discover it. So I became an author 15 or 16 years ago now, the game has changed. It used to be, go there with a cool idea, because this was before social media was at. And now some of the judgment is, well, how big is your following and so forth. But the one thing I've seen play out over and over again, that drives interest is do you have something that is applicable, approachable and doable? Meaning, is there something that can be done. And by the end of the Journey, the book, the reader has appreciable gains, that have been achieved, that accessibility, so that component, publishers are looking for it. The second thing is, does the author know that writing the book is about 1% of the effort. It's ironic, you put 100% of your soul into writing the best book you can to make it as accessible and easy and consumable as possible. And then when it's done, you got to spend 99% of that, I mean 99% of your effort, so 100, or 1000 or million times, however it works out of what you just did in writing, in marketing the book. If you see your book as a product of a business, you are so much more likely to have impact. And if you see it as a political piece of your effort, or are something that's representative of you, or a trophy of some sort, or any of those things. It's the marketing. And so what we need to do is convince, if we're gonna go to the mainstream publishing, that's what I do, I honestly recommend it for everyone, but it's what I do. You gotta convince the publisher, and they have to convince themselves that this book will transform lives, and the person backing it will not stop until lives are transformed. That's the key.

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Steve Divitkos 1:11:43

Very cool. Very cool. Mike, this has been really a treat for me. Anytime I read a book and I find that its content resonates with me, I always find it to be such a treat to talk to the author like you. I'm a fellow reading geek and read every day. So this has been a huge treat for me. Is there anything that we didn't cover today, knowing that we have an audience of small business CEOs and investors and entrepreneurs, anything that we didn't cover today that you want to leave our audience with anything left unsaid from our conversation?

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Mike Michalowicz 1:12:12

I think we covered so much but there is one thing I want us to compel. The small business owners listening in right now to consider is this, that your clients want you to be profitable, your clients are starving for you to be profitable. But they'll never say those words, you'll never have a client come to you and say, Hey, can you charge a little more? Can you rip me off a little bit? What your clients will say is, I want your undivided attention. I want to be treated number one customer. I want the best of you. And the only way to do that is by being sustainably profitable. I mean, imagine, Steve, you rushed me to the hospital because I'm having a heart attack and two doctors come out. Dr. One says, I'm really in dire straits right now. I'm not making much money. I'm trying to get my clients through here. Are you ready to go? Dr. Two comes out and says I'm making tons of money. I am crushing it. And your procedure is something I do all the time, charge a premium for it. I have a 99.9% success rate. Who do you choose? Of course Dr. Two. That is not all clients but there's a portion clients that see our services as life altering, our product is life altering, it is significant to them. And then they want the person who is sustainably profitable. They want a person who is going to bring all of themselves to that circumstance and it has no worry or weight on them. And I suspect your best clients want that. So your best clients. Perhaps the majority of clients want you to be profitable. They won't say those words, but they know what translates in for them or translates into for them. So you have a responsibility to be profitable, your clients need it.

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Steve Divitkos 1:13:53

Fantastic, Mike, what a pleasure to have you here. Thank you for joining us today. We really appreciate it.

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Mike Michalowicz 1:13:58

Enjoy. Thanks, Steve.