Jaime Masters: Welcome to Eventual Millionaire. I'm Jamie Masters and today on the show, I am so excited to have Mike Michalowicz. Now he has so many books it's insane. The first one I heard from him was the *The Toilet Paper Entrepreneur* and then *The Pumpkin Plan* and I was very confused how his next book *Profit First* really made him go on the map. It was insane how many people talked about *Profit First* and not *Toilet Paper Entrepreneur*. So, I'm asking you Mike, thank you so much for coming on the show but how the heck did you go from *Toilet Paper Entrepreneur* to *Profit First* because that seems like a wide gap.

Mike Michalowicz: Yeah, yeah. Believe it or not it kinda makes sense. What I did was I wrote *Toilet Paper Entrepreneur* to some degree to correct my own wrongs. I'd grown some businesses. I had really screwed up in business and started journaling, my friends call it a diary, but it's journaling for guys, journaling. I started journaling and I was writing down all these mistakes I've made just to kinda let it out but then I also started thinking, "Ooh, what's a different approach?" Started interviewing people and all of a sudden I'm like, I'm starting to write a book here and didn't really realize it. It also was a dream of mine to be an author one day so I was like, ooh, I'm gonna do this, and I wrote *The Toilet Paper Entrepreneur*.

The Profit First which, right, is my third book it's be subsequently re-released, was a journey that my readers were going through so people started discovering *The Toilet Paper Entrepreneur* and would say, "Hey, I love that book". It's a different type of book, but it got people inspired to get their business started. Then they said, "I have a problem with growth." That's why I wrote *The Pumpkin Plan*. I'm not profitable, I'm working my ass off, I'm not making any money so I wrote *Profit First* and I wrote some other books too and my most newest book that's coming out is again in response to what readers are saying to me.

Jamie Masters: Wow, so you're just going on the journey of your customers and just giving them exactly what they want when the need it.

Mike Michalowicz: Exactly. Which, ironically a lot of stuff is like exactly what I need too. Most of the books I write I realize oh my God, I'm really actually trying to fix myself. You know, fix my own business challenges.

Jamie Masters: You might as well be researching the stuff that you have to deal with anyways.

Mike Michalowicz: Yeah, exactly. Exactly.

Jamie Masters: So, tell me, what is this new book that's coming out?

Mike Michalowicz: It's called *Clockwork* and what it's about is business efficiency. But my whole thing is, I like to ultra-simplify things to the essence of what makes impact and here's what I found. Most businesses, most entrepreneurs are pursuing productivity, which is great and productivity works but it's also a significant trap. The more productive I become, the more things I can do. The more things can do, the more things I do do. And so I stay stock in this "Oh my gosh! I have more things on my plate. I need to be more productive." and so, the stress levels are ridonculous. The other thing is – I'm sorry, I just got distracted, I was…

Jamie Masters: Good, I have ADD also, so.

Mike Michalowicz: Yeah, yeah, yeah. Sorry.

Jamie Masters: I love that.

Mike Michalowicz: So, the other component that's going on is businesses don't pursue organizational efficiency as much as the pursue productivity so what most businesses I studied, small businesses or big are saying to each employee, "Do more, do more" for myself, "Do more, do more." In *Clockwork* I study organizational efficiency and explain what it is. Productivity is the brute force approach to getting things done. Organizational efficiency is the choreographed dance to getting things done and it's way easier; it's way easier than you think.

Jamie Masters: Oh, my gosh, now I can't wait for your book. What does that book come out?

Mike Michalowicz: Not until August of 2018 so it's a little ways.

Jamie Masters: So, I'll have to have you back again later.

Mike Michalowicz: Oh, I'd be honored.

Jamie Masters: So, we'll talk about more *Profit First* stuff now and then – I'm obsessed with that same exact topic, right? And so, first though a lot of the people need to hear all about *Profit First*. Read that book right now. Get better so they have enough profit for August when the book comes out, right?

Mike Michalowicz: Yeah, there you go.

Jamie Masters: So, you can buy many, many, many, many copies for everyone they know. Okay, so tell me a little bit more about the *Profit First* formula, principle because it's a thing.

Mike Michalowicz: Yeah, so *Profit First* – let me tell you how it came about. There is an existing formula for profitability that everyone knows. I betcha everyone, Jamie, everyone watching knows this, is sales minus expenses equals profit. It's the foundational formula for profitability. But what I noticed is, there was a study conducted, I attributed it to the SBA, I'm actually now unsure if it's exactly them but in the study I read 83 percent of small businesses, a small businesses as defined by the SBA is a company that does $25 million in annual revenue or less so that's absolutely my business, I suspect it's yours, probably everyone watching is a small business. Eighty-three percent of us are surviving check by check, which means I am desperate to get money in today to pay the bills that are sitting on my desk right now piled up. So, there's this constant desperation and what made no sense to me is that means there is countless entrepreneurs watching this show right now who are intelligent enough, have the drive, have the passion, the chutzpah to get a business off the ground and do what they're doing and they're selling. It is working but there's one little piece that we're not getting right, which is profit.

And I'm like, "Is there a piece in the human brain of at least 83 percent of us that's missing? What's wrong with us?" And that was the aha moment. I was like "Oh, my gosh." The formula we've been taught, sales minus expense equals profit is a told freakin' lie. It doesn't result in profit and the reason it doesn't result in profit is because of a behavioral mechanism. Basically, the concept is this, what comes first – what we see first becomes our priority and what comes last is delayed or insignificant. Like, if I went to the hospital today and the doctor says you might change your diet, stop smoking, stop drinking, I don't do either but, you know, stop. I would instantly stop. I and I say, starting today I'm gonna put my health first. I would never come out of the hospital saying, you know starting today I'm gonna put my health last.

So, what comes first is a priority, what comes last is delayed. And in the old formula, sales minus expenses equals profit, we're told that profit can wait for later. Most of us, we wait until the end of the year and say, "Ah, no profit this year, maybe next year." We literally kick the can down the road on profit for another year? So, *Profit First*, to get back to your question, *Profit First* I simply flipped the formula. The principle I teach is what's important must come first. The new formula is sales minus profit equals expenses. And how we deploy this in our business is starting today when revenue comes into your business, immediately take a pre-determined percentage. You can determine it and in the book I talk about percentages but 5, 10, 15, you determine the percentage, allocate that money to a profit. It's the "pay yourself first" principle, apply it to your business and run your business of the remainder.

Logically, we're just moving variables around. It's a shell game from a logical mindset. But from our behavioral aspect it is an extraordinary shift in our business when you take your profit first.

Jamie Masters: Okay and I love this concept and people, my clients have been like "Okay, so I know that's really important but what about growth?"

Mike Michalowicz: Oh, my favorite question.

Jamie Masters: Because what if, we're going, "We need to grow because, so I can't, but it's an investment and we're taking that piece and putting it somewhere important."

Mike Michalowicz: Yeah. I love that question. That's one I hear most often so I'll give you two responses. First of all, I ask people, "What about happiness?" "Would you rather be happy five or ten years from now and just live under pure stress and panic and hate your life or would you want to be happy immediately?" Most people say, "I want to be happy now." Yet, it is human nature to be stuck in that job, I hate for my whole life hoping one day to achieve happiness and what the result is, is we actually see that we continue to spiral into unhappiness. When you push off something to happen in the future, it doesn't happen in most cases. So, but more of a technical response, why do we want to grow? And I ask people, "Why do we want to grow?" They said, "Well, so I can make more money." "Well, why do you want to make more money?" "So, I can take more home", which is the definition of profit. Oh, so you want to make profit for one day so you're trying to do everything to spend money today so one day this will happen for you so why not instead establish this as a habit.

It's like drinking, it's like saying, you know, one day I'm really going to stop drinking but for now, I'm gonna drink more and more and more and more. It becomes a habit. It becomes an addiction, not that there's anything wrong with drinking, I'm not making any judgment. Listen, I don't drink but I do drink Margaritas every so often so like I totally like drink.

Jamie Masters: Thanks for the caveat, appreciate it. Well all hate you right now though anyway because you're like, "Oh, it's a catch-22, hahaha, it's your own fault."

Mike Michalowicz: Right.

Jamie Masters: Yeah.

Mike Michalowicz: Right.

Jamie Masters: Thanks. Appreciate it.

Mike Michalowicz: Okay, so now here is the statistical stuff that blew my mind away. I wrote *Profit First*, the original edition, which I don't know if you can see, it's behind me there. That's the re-released edition. The difference between the original edition, which I wrote three years ago and the re-released edition that came out this year was, I now had case studies. Today, we have over 40 thousand; we estimate this, but over 40 thousand businesses implementing it. We have somewhere in between two to three thousand documented case studies and here's what we found. Businesses that implement *Profit First* actually grow faster than their counterparts in the industry. And that blew my mind. I was like, "Hold on, if you take money for yourself, you've nothing to put money in to grow." And here's what I've found, case study after case study, businesses that take their profit first now have less money to spend on growth. Which growth means advertising, reinvestment into equipment or whatever. That forced these businesses to be more selective so they went through a stricter evaluation processing.

What advertising actually does bring results? I know everyone does Facebook and when I had money, I would just do Facebook ads but now I have less money, which advertising really works? Maybe I need to do traditional advertising or a mailer campaign or maybe Google or maybe Facebook but now I actually evaluate it. The equipment I had to purchase, before I had just enough money, now I have less money, can I get used equipment? Can I find other equipment? These businesses become much more disciplined in their use of money and actually start targeting their money on things that actually bring results. The old 20/80 rules plays in here.

Most businesses spend 80 percent of their money on the stuff that brings basically no results. How we run Facebook ads that didn't work like mm-mm, I'll run more Facebook ads. And we actually – our money expires very quickly.

So, these businesses became more focused on where they concentrated their money and they found things that brought more results and then they started concentrating their small amount of money there and as more money flew in, more revenue, that means while the percentage for expenses stays the same, the pie becomes bigger because more money is flowing in. They concentrated more money here and the businesses actually outstripping their competition in a massive way in growth. My own organization represents that too. We take our profit first. We protect that like it is the jewels of the kingdom. As a result, we haven't done anything on the web of any significance to market ourselves for three years, because we didn't have the money. But what we found is –

Jamie Masters: Really? Wow.

Mike Michalowicz: Yeah. I mean we have a nice website. We actually just upgraded out website for the first time a week ago.

Jamie Masters: Congratulations.

Mike Michalowicz: But here's what we found, with less money available, we said "What's better marketing than web marketing?" and we found our own clientele. We empowered them to spread the word about us. They're handing over clients to us left and right in introductions. Because we actually don't even say "Hey, could you market us for us?" We serve them better because we've concentrated our money on them and they're blown away. The second thing is, the book is a tremendous generator of revenue – of prospects and revenue. So, what I did is I said "Okay, the book is so popular in generating leads for us, what can I do to get the word out on the book more?"

And so I what did is I started speaking. Tons of speaking and here's the great irony, I get paid to speak. Which means I get paid to prospect. It's unbelievable. So, we reversed it. But I will tell you this, as a kind of a summary to this, if I let all the money flow into growing my business it would have been on ads and marketing and blah blah blah and I wouldn't have measured the results and I'd have been frustrated. By not having the money, I had to figure out what's already working and then amplify it.

Jamie Masters: I love the data because most of the time it's like oh, that's great to say and all but what is it actually do in real life because it's a very different thing. So, what about the people that are hurting over their bills or over payroll and their like "Okay, how do I pull out that top ten percent or even five percent or whatever, now I'm going to be even more stressed because I can't pay my payroll or whatever."

Mike Michalowicz: Right. So, here's the hard truth and this is the one if you're willing to face it, you'll be successful, if you're not you'll be stuck where you are. If you can't pay your bills your business is telling you, you can't afford your bills. It's that clear. So, if you can't pay your bills, you can't afford your bills. When you start taking your profit first, the money available to spend on bills is representative of the actually money you have to be profitable. You are reverse engineering your profitability. So, when you take your profit first, your business is telling you, this is all the money we have left. This is what we have to work with.

If you can't pay your bills, you have to get real honest with yourself and say, "Okay, my business is in the position to spend this money. How do I cut costs? How do I increase margin, meaning how do I dictate more money coming in, bigger premiums, more margin and reduce my costs?" And I have day after day – actually 40 emails came in this morning already. People emailing me through the book saying, "But Mike, I have all these expenses here, I don't know what to do." There's one person it must've been like a trilogy they wrote, and I do read every single one because it's important to me, and my response is always the same, "If you can't pay your bills, you can't afford your bills and it's time to face the truth." And they have all these excuses why "But I'm unique, I have to or just trying to get to this next plateau, this next threshold."

Jamie Masters: "If I hire this one person right now… I mean I just hired them now I can't fire them right away because I just hired them…" and all this other stuff, yeah.

Mike Michalowicz: Yeah, it's – I know I'm picking on alcohol and drugs, it's really not my thing, but now I'm thinking drugs, like, if I have a drug addiction and I'm shooting heroin into myself saying "I got to get off of heroin," you don't get off heroin by saying "Let me take more shots." I'm gonna get off heroin one day but for now, I need to inject more heroin. No. To get where you want to go, there must be an immediate action. The big thing, and this is the little caveat, its slow steps, slow steps. I've seen businesses that say "Oh my gosh, I get it, I want to be profitable, I'm gonna take 50 percent of my money and put it in profit." That's the solution and now it's such an abrupt change. It's kinda like going to the gym to work out. The very first time you go to the gym to work out, do not try to bench press 300 pounds, to squat a ton, to do the cycle for 6 hours straight. Maybe we're trying to build toward that. The key is to start slowly and build momentum.

Jamie Masters: Okay, so tell us how to cut expenses because that's the thing – I came from paying off 70 grand in debt so that was a thing for me. I loved cutting expenses and seeing the numbers. Most people avoid numbers like all heck, so.

Mike Michalowicz: Yes, absolutely.

Jamie Masters: Yeah or we sign up for all these things that we forgot we signed up for a long time ago and now we're being charged yearly and we never notice or something like that, right? So, what do you specifically suggest for people that actually be paying more attention to their expenses and how do they determine what to keep verses what not to keep?

Mike Michalowicz: Yeah, yeah. So, there's a difference between expenses or costs and investments. So, the first thing is, go through print out your PNL, print out your credit card statement and just only circle things that are an investment. Now here's what an investment is, that you have an appreciable and quantifiable return. So, don't say, "Hey, I send out a mailer, that's an investment because it could bring prospects." How many prospects did it bring? How much can you attribute to that? If you don't know, it's a cost. You have to find which ones are a true investment.

Then once you distinguish investments and costs, we cut costs. This is what they call in business when you can either cut the fat or cut the muscle. We want to get rid of the fat but you can damage a business by cutting costs too much. Investments we don't want to cut, costs we want to cut. Be careful of insidious costs like those recurring bills, that software that was only $13.00 a month, it's not $13.00, it's 13 times 12 you're paying 140 bucks or whatever that calculates out to be. So, when we see the small monthly costs, we don't appreciate the impact it's having on us. One thing I do, cancel your credit card. Just cancel it. And this flushes out – it's kinda cockroaches, you turn the light on all the cockroaches go – cancel your credit card and watch how all of a sudden your phone starts ringing, people start going "Hey, the bill, I tried to process the monthly, what's going on?"

Now, some of those bills, you should be paying. They are an investment and they're good for you. Give them the new credit card number or ideally, I only use debit cards, use your debit card; I'm a believer in that. Other ones, you'll say, "Oh my God, I believe I was spending that money that way. That was a waste." Cancel it. Get rid of it permanently. Sadly, and this is the hardest one, most businesses, the two biggest costs are their staff themselves. Most businesses are overstaffed in a big way and rent of space. So, figure out that space situation. Work out of home is a great thing; I'm a big fan of it. In my own business, we're now in an office space because we have eight or nine employees here. The most I could fit in my basement was seven people and my basements like this big. We were jammed in there.

Jamie Masters: That's awesome.

Mike Michalowicz: But very proud of that because it moved us along to that point where now we have a space that we can very comfortably afford and it affords the space we need. But the other thing is, employees. Again, most businesses are overstaffed. Here's the rough rule of thumb for a service-based business, you should be generating, most businesses, about a $150,000.00 in revenue per full-time employee in a service-based business. That's usually, and again, this is a rule of thumb, it's usually the profit threshold. If you're in a business that's like McDonalds where it's usually a low labor cost but you have to have a lot of people flipping hamburgers the generation of revenue is not $150,000.00, it's lower. If you're in a very high-end technical space, maybe you make rocket ships, now you're talking maybe 2, 3, 400,000 per employee because they're paid so well.

But I find the average business, take your revenue, divide by a 150. So, if I make say $1.5 million in revenue, divide that by 150, that comes out to ten employees. If I have 500,000 revenue, divide that by 150, that comes out to about three full-time employees. And I know businesses that do 500,000 in revenue and have like six employees. And they're like, "Why isn't it working?" because you have way too much overhead.

Jamie Masters: Okay. So, I have a thousand questions for this. Okay, so, yay. So, one caveat though that's where the growth thing happens, right? So, I agree with you a thousand percent. A lot of people are like, "Oh, but I feel more important when I have more employees. My business is doing better when I have more employees." Or on the contractors side we have a bazillion contractors and barely any employees and you feel like you're pulling teeth, right? So, when we're looking at the growth model of going "Well, I need to always be looking for the right hire, so and then I found them and now I am a little overstaffed but it's okay because the trajectory looks like this." What do you feel about that kind of stuff?

Mike Michalowicz: Yeah, so I've made those bets but when you do that, realize you're making a bet and your job as the owner of the business is to assure a positive outcome as much as possible. I know people that say, "I hired this great person." "Why are they so great?" "Because they're great." "What are they gonna do?" "You know, everything, sell, they're gonna do my stuff, they're great." That is usually the worst plan ever. If you say, listen to move this business forward we need to amplify sales of a certain product or service by 200,00 this year. If we have 200,000 more in sales this year in this product, profitability will go up by 100,000. And this person I want to hire, I think 50,000 is it and that's gonna be their job.

Okay, now we have a measurable outcome. Do they have the attributes and stuff that support it? Okay, do they know that's the goal? Do they have a reason that that goal is important to them? Maybe they share in profit. Maybe they just realize the impact their service is having by selling what they're doing but do they realize it? Is it crystal clear to everyone? And then what are the milestones as we get there? Every week for the first month or two, we should be checking in. Are we making the gains we need to make this a success?

Then on a quarterly basis, re-evaluating it. Do we have an exit plan if this doesn't work? If our best plan doesn't work out, what's the exit? When do we cut bait? Most business owners, they make the hire, it's fairy dust, just make things happen and then six months in to it, it's not working and they go, "Oh, maybe the next six months". A year into it it's not working, a year later, their like "Oh, my God **[inaudible] [00:21:18]**, maybe next year and they keep kicking the can down the road and expenses get bigger and bigger, they money flows out and they dig a deeper and deeper hole. So, you gotta have a plan if you're gonna make that bet.

Jamie Masters: Yeah, and the hard thing is that as you probably know, we have a hard time as business owners to even do quarterly evaluations over our employees let alone go, "Hey, are they actually making any money?" Right? It's a year and you're like "Oh, crap!"

Mike Michalowicz: Yeah, so right. Right, to stick with that schedule, I've got so much going on. Put the onus on your employee. Have it their responsibility. And here's what I do. I have my colleagues here, I don't think we're employees – I don't like 'employees' because that shows a hierarchy, I like colleagues. But my colleagues, we all will write a self-evaluation. We'll write our own goals and objectives and we'll write what my compensation should be or whatever my structure should be if I achieve those results. Then we sit down at the end of the quarter or the year or whenever we do the review, we do it every six months typically, sit down and say, "Ok, let's discuss the progress you outlined to achieve and the actual results and then let's address that accordingly."

So, that's how we do it. We don't miss our reviews because it's the responsibility of the person that's benefiting mostly from the reviews so to speak. Well, we're both benefiting, but…

Jamie Masters: Yeah, that makes a lot of sense because otherwise it's like, "I'll do that later, it's not that important." Right? And you're like, hahaha kinda the most important thing, how much money are you spending every month on these people?

Mike Michalowicz: Exactly.

Jamie Masters: And them, they have to actually like what they're doing and get feedback, huh, what a surprise. When we're looking at now only the profit first side of it, do you also or tell me what your thoughts are on safety, right? So, lets say they can pay their bills, right? So, they can afford them, that's good. But how much do they have in "savings"? To be able to cover how many months worth, or? Because I deal with a lot of safety or fear-based issues with people anyway so let alone the profit side of things but the 'I feel it's never enough' feeling.

Mike Michalowicz: Yeah, so, I did a statistical analysis on exactly this.

Jamie Masters: Great.

Mike Michalowicz: The concept of profit first just to set the stage here, is it's like the envelope system. This is something that's been around in people's personal lives for centuries. Someone in your family – you have done this, someone in your family tree Jamie has definitely done this –

Jamie Masters: Yup, I did it.

Mike Michalowicz: And what it is, is we put money into different envelopes. Profit is being one of the envelopes and several envelopes. So, we pre-allocate money to it's purpose and only use it for that purpose so it's very clear before we spend the money. One of the envelopes, I suggest the business creates is called 'the vault' and the vault is there for these emergency purposes. Businesses do have volatility. Unexpected things happen, problems come, competition swings in. You don't know what's going to happen so you do want to cushion the money. On our analysis I found the ideal amount of money for a business is three months of operating funds. It's funny because I've talked with other people, I've said, "Well, you should be prepared for a full year, what if you have a bad year, or at least six months."

Here's why I find three months to be ideal. Is when you have three months, when the business starts having a bad experience and starts losing it's sales, you start using those funds to bridge. After one month of bridging that business, if it's still tanking, now you're in the position, you've got to start making some serious decisions. You've got to cut costs. Maybe sadly, you have to lay some people off. Don't try to save one person by not laying them off while compromising the entire business. You know, save one but let the boat sink and kill everybody? No. We have to remove those people because the business cannot afford it. You have to cut other costs.

So, what happens in one month too now, is that the business is still struggling, we start cutting our costs so the costs are coming down, therefore the money that was covering us when we were at full capacity now can stretch longer and longer and longer. The other thing I found too is usually revenue dips for most businesses they don't just all of a sudden one day all the money stops coming in and business is over. It usually is this long slide down and it kinda hits rock bottom and bounces around. There's still revenue and some profit to be extracted out of that. So, my calculation for most businesses if they have three months of saving, when they go through a slow down, that three months can actually be stretched up to 12 months with a slow down. So, it can get you through a full year.

Jamie Masters: See, that's so smart. And so much like the personal finance side of things too. I know when I was sort of doing the debt pay off and the quitting the job and stuff it's just sort of like a balancing act of going, "Okay, we're good, we're good" and by that long, hopefully we're figuring out a way to get it back up so it's not so crazy.

Mike Michalowicz: Yeah, be aware of what's called loss aversion. So, *Profit First* it's kind of a hidden behavioral psychology book actually, because it's all about behavior mechanisms. And there's this thing called loss aversion. Loss aversions once we possess something, we put more appreciation and value in it then we didn't possess it. For example, I don't care about a red Porsche because I've never owned one and I don't have one but if today, all of a sudden I decide, "I'm gonna buy a red Porsche" now that item becomes very significant to me. If I can't afford the payments and the Porsche dealer calls and says we're gonna repossess the car, what I'll likely do is say, "Well, this is my baby. I'm gonna work a second job. I'll start working Lyft or something or Uber so I can make some more money. I'll cancel the insurance on the car and just keep it locked in the garage because that's my baby."

I will do extraordinary things. Work harder, longer once I possess something. The irony is, I don't possess it, I don't work longer hours, I don't work more crazy to possess it. The problem we face with loss aversion in our business is once we possess colleagues or employees, space, we will go often to irrational measures to keep those expenses, and that's what crushes us. We have to have the courage to tear off the Band-Aid. When you see the business going down, you have to realize, this is a behavioral mechanism that's not serving you, you're going through loss aversion. Tear it off. Get rid of that space. If you've got to remove one, two or three employees, remove three employees.

I'm not saying it's going to feel good, I actually once had to lay off half my staff, I was crying for the entire day. I felt like scum because I was the idiot that put us in this position. I put us in such a bad financial position. It was my fault but I also knew if I didn't make and take decisive action, that everyone would be losing their job. So, once you have to remove expenses, do it on the spot. Do it full out.

Jamie Masters: So much easier said than done though.

Mike Michalowicz: So, much easier said than done. I get it.

Jamie Masters: Especially, like a) not only firing people but like, "Oh no, what is everybody else in the industry going to think?" So, if you're a service-based industry, you're like, "I had to lay off my staff and get rid of my office, now what are my clients gonna think? What is this…" How do you deal with all that?

Mike Michalowicz: Yeah, so communication's king. And Emily Dickinson said a wonderful thing, she said, "Speak the truth and speak it with slant." Meaning, I don't go to my employees and say "Oh, my God, everything coming down! We're dead! We're dead!" No, I'll say – I'll tell you exactly what I did so, it was with my forensics business, my business it was ultimately a $7 million annual revenue company. We had to pull in projects of 250,000 to 500,000 every single week to sustain, right? Two hundred thousand was the more normal one. If I have two or three weeks of nothingness, I had salaries I had to pay out the gazoo. It was very stressful.

Well, we hit this wall and there was no money left. I couldn't refinance my house again, there was nothing left. I called a company meeting and I said, "We're facing a very difficult time." And I said, "The reason we're facing a very difficult time is because of me. I did not understand or appreciate or anticipate the financial sways we're going through, as a result our business has to take an immediate action to sustain. We could try to continue to run for two or three weeks as we are but we're all gonna be out of a job so I've made the extraordinarily difficult decision to meet with every person individually, tell them the status and how it is affecting you. I am sorry. I'm embarrassed. I'm ashamed but this is the reality." And that's when I met with each person. It was the most brutal day of my professional career.

I then also went through all of our expenses. I called our landlord and said, "Listen, I can't afford to pay the bill. I know I have a three-year contract with us. You can't squeeze blood from a stone, so here's the deal, I'm gonna move out because I gotta find somewhere else to go or if you're willing to afford me reduced rent, I'll consolidate my space, but that's the only two options I have left and if you want to sue me or you want to come after me, I get it. I would probably do the same, but I got nothing to give you and it's the God honest truth so, you'll spend money." And landlord, I didn't say it that callously but the landlord appreciated the integrity and the honesty.

The other part is regular updates. There's a saying that no news is good news. That's bullshit. No news is still news. Even if there's nothing to report the people who are navigating this with you, keep them abreast that there is no news. No news is still news. And so, once we went through this process, I kept my employees updated on a weekly basis, I said "Here is the state of affairs and here's what's going on." We were able to recover in about two months and actually brought back one employee that we had to let go.

The one greatest mistake I made though and I encourage no one – don't ever do this. If you have to remove employees, I also said, "Well I'm gonna reduce people's salaries. I'm gonna cut salaries by ten percent across the board." That was a grave mistake because now what happened is I had people who stayed with the company. They were now doing the work of people that had been removed from the company so people's workload doubled. I was paying them less for this and first of all there was some resentment about that but secondly they said, "When's the shoe gonna drop for us? He can't even pay me my salary." They started looking for jobs and that was a mistake. What I should have done is actually terminated one more person so I could pay the salaries for everyone else and protect the people who were staying. Again, very difficult. Easy to say, extremely hard to do, but necessary.

Jamie Masters: I actually really appreciate the crisis-mode stories because I think everybody just assumes, "Well, then I suck as business owner in general if something like this happens." But a lot of the times – exactly, right? Not only have you were able to come back from it but also, sometimes you have to go through what you have to go through because we can't see the future. So, what do you tell people, like you came back, what's some advice for somebody that's potentially in a crisis-mode right now and maybe having to make decisions but doesn't want to. What about the after effects? Like how do you come back from that?

Mike Michalowicz: Yeah, so you said, "You suck if you're in this position." That's not true. You do suck if you don't take action for this position. I see my business as my family. Would I let my family be at risk, threatened, terrified? No, my job, part of my job is to protect and defend or however you want to define it. So, if I don't take action and I watch my family being torn apart and just kind of stand in the wings, that's sucky. So, realize that crisis is a call to action. In the crisis moment, you have to get logic and it's very hard to be logical when your phones ringing, bill collectors and panics in there and it's very easy to be reactionary. One simple rule that I've used, it was written by Jack Welch's wife in a book call the *10-10-10 Rule*. I think her name is Suzy Welch, but here's the 10-10-10 rule, it was a genius idea she had.

Any decision you're making, consider the impact it's gonna have in the next ten hours, the next ten months and the next ten years. Most of us are looking at the next ten hours. I'm like, I'm just gonna fire everyone and say, "Well, good I'll get my money back." For the next ten hours it's going to be painful but everyone's gonna have money. But then if I say, "What's gonna happen in the next ten months?" Well now, all my clients – I don't have enough people to serve my clients. There's gonna be panic, so firing everyone, that's kind of reactionary. What's the impact in the next ten years? And I say, "Well jeez, that will compromise the momentum we've had. Some of these employees have been here a long time or whatever."

You want to break out of that very reactionary, in the moment decision and you can do this for any situation. If I had a disagreement with my wife, it's very easy to say, you know, screw this marriage, just screw it. Let's just get a divorce. In the next ten hours, that feels great, it's very empowered. In the next ten months I will be sitting at home, sucking my thumb crying everyday saying "I love her. I miss her." And in the next ten years, who knows where my life's gonna go. So, we need to get out of that reactionary mode. That's how you manage crisis.

The second thing is bringing in an outside party who's not in the trees, a mentor, a friend possibly but someone actually who's not associated with you personally, doesn't know the relationships you have and doesn't care about the business from an emotional standpoint so they're not emotionally invested. They can give you a vantage point that you literally cannot see. They can open up those blind spots for you. Coming out of crisis, embrace that you manage the crisis. A lot of people now put this in their book of shame. Like, I'm never gonna tell anyone I went through a crisis, life is great and perfect and it kind of sits there. Actually, put it on the table, not as something to be proud of and say, "Look at what an idiot I was," but say, "I made mistakes. I navigated it and I've been through it, but I've been there." What I've noticed is that it attracts empathy from other people.

No one expects perfection, except for Facebook, no one expects perfection, right? Facebook, everything's perfect but real human communication, we expect people to be tarnished, to struggle, to have scars. So, put it out there. You'll actually find – what I found is when I put my crisis and stuff, it builds affinity. People say, "I've been there too and let me give you my vantage point." And then the last thing is, set up staff to prevent this from happening again.

It's very easy to go back into that groove or rut of what's familiar doing the same process we have in the past. Associate with a group, I do it through a mastermind or you can do it through a community.

But find a group that is willing to be your board of advisors. And say, "Listen, here's mistake, everyone, that I made in the past. I want to avoid this going forward. I want to be much more logical and selective in how I proceed. I want your guidance." And let's meet – I meet with my group once a month. I sit down and say, "Here's my businesses. Here's the decisions I'm considering." And they actually help me control the throttle.

Jamie Masters: You can see the forest through the trees on the outside too so you always have that outside perspective.

Mike Michalowicz: Yeah, totally.

Jamie Masters: I love all this. I know we have to start wrapping up soon before I ask the last question though; I have to do a caveat of this. So, let's say, in that last business that you had the crisis, if you would've had three months expenses, that would've been a lot of money, right? So, to have three months total of whatever your expenses were. Which, would've been great, but what if your profitability wasn't all that great and we couldn't save that fast. You'd just be consistently trying to actually get that three months safety in forever or what would be goal with that?

Mike Michalowicz: Yeah, no it's a great question. So, the three months safety is something you build but don't compromise profit. Profit is a very important component. Profit – the purpose of profit is celebration. Think of a Fortune 500, whatever, any public company that's traded in stock. I own Ford, this is not a stock tip by the way, but I own, a 100 shares, right? Ford sent me a check, my distribution check for $13.23. Yeah, I'd be, "Oh, my god!" Here's what happened. I opened it. I didn't look at that check and say, "Oh, this really should be plowed back to Ford, I should reinvest it in the company, they can maybe make a hire, at least an intern or one hour at $13.20… I should give this back to them."

What I said is, "Hmm, that money's for me. I took on that extraordinary risk. Ford hopefully will go up in value but it could decline. This is a reward for taking on that risk." So, I used it to, you know, I bought some Starbucks. But here's the deal, in our business we need to reward ourselves regularly. This is different than your regular compensation. So, your business will be paying you a salary equivalent, now you may take it out in paychecks or distributions, that doesn't matter, but you have some kind of regular compensation.

On a quarterly basis I want to do a profit distribution, just like the big companies. And when that money comes out it is a celebratory account. You are not to use that money to plow back into the business or reinvest or push back. Those are all very soft, generic terms for saying it's really an expense. I can't run off my expenses now so I'll put this money back in as an expense but I'll call it profit. It's not. It's either an expense or it's for you, that's the only two things. So, when the profit comes out, it is celebratory.

Next profit distribution, I'm on the calendar year, December 31st it's coming out, there is a good chunk of cash in there. That moneys gonna come out, my family and I, we're going on a really cool vacation with that money. Now here's the thing, when that comes out and I'm on that vacation, I fall back in love with my business every single time. Like, yes! This what I always wanted, financial freedom my business is providing for me. The first time you do it, listen, the profit account may have ten bucks in it. It feels just as good because that's how I started, the ten bucks came out and I had the nicest deli sandwich I had in a long time. I'm like, "Yeah, baby!" and I couldn't wait for the next one.

We need that constant affirmation from our business and profit. Use it to celebrate. Use it to reward yourself and you'll fall back in love with your business. The vault, that's to protect you, that builds over time but never compromise profit.

Jamie Masters: I love the correlation though because everybody doesn't want to look at the numbers so much that it starts getting all sticky and you can actually enjoy, you can actually enjoy it more even when you're not in the position you totally want to be in, you can still enjoy that $10.00 sandwich as much.

Mike Michalowicz: Yeah, it's fun getting there because I'll tell you this, that $10.00 ham sandwich is amazing when the prior year or years of your business, you never took a profit. It starts manifesting itself, it's like "Wow, this is really happening. I can do this." I'm not gonna do ten bucks, can I do twenty? Or Fifty? Or a hundred? And you'll just keep on building a bigger and bigger belief system and usually a bigger belief system comes bigger profits.

Jamie Masters: Thank you. That is a perfect note to end on. So, my last question, I ask this all the time, you already knew what you were gonna so now I'm really curious. What's one action listeners can take this week to help move them forward toward their goals of a million besides buy *Profit First* and reading it? Okay.

Mike Michalowicz: **[Inaudible][00:39:40]**.

Jamie Masters: Buy the book now. Go!

Mike Michalowicz: Yeah, no actually, I'll tell you one step that will have an immediate impact, like literally we can make your business permanently profitable today, probably in the next ten minutes.

Jamie Masters: What are you a **[inaudible]** marketer? Wait a minute. What was that?

Mike Michalowicz: And by the way, you don't need to buy anything. You don't need to email me you don't need to opt in. Here's what you can do in the next ten minutes. Call your bank or you can do it on the web and set up one checking account and call it profit. So, at your existing bank, you don't have to find a new bank, add one new checking or savings account's find too and call it profit. That's step one.

Step two, every time money comes into your business take one percent of the deposited money into your business and immediately allocate it to the profit account. And one percent is such an insignificant number it won't adversely affect you. If you have $100.00 of deposits comes in, take one dollar, move it to profit because if you can run your business off a hundred bucks, you can run your business off of ninety-nine bucks. Conversely, say $10,000.00 comes in, congratulations. But if you can run your business off $10,000.00, you can take one percent out and run your business off of $9,900.00. It's an insignificant impact on your business and how you operate it. But it is an extraordinary impact on the money that starts accumulating in your profit account. And what will happen is you will not get rich overnight but you will be profitable literally immediately. And you'll notice as that profit account starts growing that maybe that one percent could be two percent or three percent. And then you start building that profit muscle and move it to where you ultimately want it to be.

Jamie Masters: Okay. I love this. I have a follow-up question. You get paid daily or whatever, how do you go in there and take out that one percent all the time or if you get tons of different deposits like, that's a pain in the butt so I've a profit checking account or savings account so I do the same thing but it's a pain to figure out what you do when and stuff like that. Give me one little tip on that for all those people that are gonna ask that question.

Mike Michalowicz: Yeah, I would sync the allocation of money with when you pay your bills. Most businesses pay bills either once a week or twice a month. Some do it once a month but for most businesses I've found, twice a month is pretty good. I happen to do mine on the 10th and 25th, I'm an advocate of that. Because what happens, money comes in on the 10th, until the 10th, the next trigger day and on the 10th I take all the money that's piled up and I allocate it to these envelopes. The profit envelope, the expense envelope, the vault envelope and there's other ones we didn't talk about. Then, I look at what's in my expenses envelope and I look at my bills and I pay only out of that envelope. And the nice thing about doing in on the 10th is when I pay those bills also that day, it'll arrive at my vendor's by the 15th, that's when most money is due to vendors, mid-month and then I'm gonna do this again, the next trigger day is the 25th. When I pay bills on the 25th, they arrive by end of month, that's when the other half is due.

So, I get in a rhythm with my vendors but also now I have my income accounts swell, that's my deposits and then allocate out back to zero, swell and it starts getting what I call a pulse, you start seeing what your normal income flow it just by logging into your bank account. That's actually the final point I want to make. The beautiful thing about *Profit First* is you don't need to read income statements, profit and loss statements, balance sheets, cash flow statements. Listen, I know your accountant says you need to read those. I question if she knows how to read those. So, what most entrepreneurs do I call bank balance accounting, this is my phone here, we login to our phone, we see what money is available in our bank account and we make a decision based upon it. I'm telling you, don't change that behavior, that's your natural existing behavior. Congratulations, we're gonna change the system to support your existing behavior. We're gonna set these different accounts here so next time you log in you say "Oh, I have X in profit. Ooh, I have so much for expenses." And you just live by those envelopes.

Jamie Masters: That is awesome. Thank you so much for coming on Mike. We're gonna have you on again, of course, to talk all about the organizational side.

Mike Michalowicz: Oh, okay. I made it. Second round.

Jamie Masters: I know. Go you. That's impressive. I said that at the beginning even, wow.

Mike Michalowicz: Ah, **[inaudible] [00:43:27]**.

Jamie Masters: Where can we find out more about you because I know you're last name is ridiculously hard to spell and we talked about this before.

Mike Michalowicz: **[Inaudible]**.

Jamie Masters: So give us where we can find out, follow you, get the book, all that fun stuff.

Mike Michalowicz: Okay, so I'll give you three methods, how many people do that? So, the first method is if your really a masochist and you really hate yourself, trying spelling my name. It's mikemichalowicz.com and that's my website but give it a shot and if you don't kill yourself, I'll be amazed. The second approach is you can go on Google and type in Mike M-I-K-E spacebar Mic M-I-C drop downs will appear, the longest, most Polish name you've ever seen, that's this yucko, pick that one. And then if you’re the type of person like I am like let's just get there fast and easy, my nickname in high school was Mike Motorbike, so just go to mikemotorbike.com, it'll bring you to my site and what I have available for you is a couple things, all my books, free chapter downloads of course. I'm a blogger. I'm a podcaster. You can get all that stuff. I used to write for the Wall Street Journal for a couple years, so if you elected to subscribe, that's my little ethical bribe there, if you decide to subscribe, you'll get all of my archived Wall Street Journal articles. Of course, if you're a Wall Street Journal subscriber you can do it that way, but if you're not, you can get them for free from me. And the last thing and perhaps the most interesting, I can promise you one thing, if you do elect to visit my website, it is the most different experience you'll ever have with an author's website. That's my promise to you. Definitely different.

Jamie Masters: Ooh, mystery. I love it and I also, I did Mike Profit First and I found you on Google. I had to Google you also which was so sad.

Mike Michalowicz: Yeah, yeah.

Jamie Masters: I know you and I still had to Google you. Thank you so much for coming on the show today. Everyone check it out and check out his podcast, it's awesome. Please, thank you, have an amazing, amazing day and I can't wait to have you back on the show.

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Duration: 45 minutes