

Episode 97/98 - Profit First Q&A with Mike Michalowics

[00:00:00] Oh, my goodness listeners. I Goosebumps right now. I was so excited to be sharing this podcast episode [00:01:00] with you. I was able, man, to interview one of my inspirations, one of my mentors. One of the best-selling authors in the business world. Mike McCalla. you know him, you love him. If you don't, maybe just hit pause for a second and do some Googling because he is a big freaking deal.

Now Mike has written so many books that have helped me personally, and so many of my business colleagues. , but the first book that I read that continues to have an amazing impact on my business and on my life from Mike is profit first.

Now as you probably already know, profit first is not only a book, but an amazing framework for cashflow to ensure that your business is putting profit first.

And if you've never been exposed to the amazing golden nuggets that are inside this book, I will have some, , resources for you in the show notes. But this episode [00:02:00] is really for my listeners who are already pretty well aware of the profit first framework, Mike and I went deep on some questions that I've had over the years, working through his program, working through his framework and also questions.

And challenges that I've heard from other business owners who are adopting profit first.

We touched on the importance of having profit, even if you're a type of personal brand that doesn't plan on ever selling your business. We talked about how to be really smart in terms of tweaking. The percentage that you're putting aside for profit or taxes or expenses as your business grows. And we covered a topic that I am so interested in, which is how to really think about costs as investments in your business and the importance of calculating ROI. I love. What Mike had to say on all of these points, but [00:03:00] especially on this bit of ROIs.

And, , we kicked off the conversation. , I was sharing with Mike a quick story of how, , I am such a raving fan of profit first that I gave some unsolicited advice to, , One of my sisters. , who has her own business that she's running. And I told her read. , profit first. And, , she went through it and was like, wait, the book is

telling me to do X, Y, Z. . Here's what mike had to say about it tonight you are going to love this episode let's get

, I wanna take things into the conversation of, for people who are working through Profit First. Yeah. I know that people can have questions as they're working through it or having certain hesitancy around it. My sister helps, , run. Doctor's office and they were talking about cash full of problems and I was like, Read this book. And then I reached back out to her a couple weeks later and I'm trying to be that brother who's not giving like business advice, but I was like, How is the book? It's not easy, Joey.

It's not easy. I was like, Hows the book? [00:04:00] She's , Great, but I don't think I'm gonna create five different bank counts. I was like, Okay. , okay. All right. Is she an older sister or younger sister? She's seven years older. Oh, the younger brother giving direction. It's just Well, and get to it. I know. And I'm the middle of seven.

Oh. So even worse. You have no right, Joey. No worries. I know. Yeah, I know. But , but , I know that so many people are already aware of Profit first. , yeah. But I am curious just because I know just from reading, it's very clear that you put so much time and thought into the book. Was it something that was an easy framework , to write all out and then put aside and get to your next book?

Or was this one a harder one , to let go of and say, No, this is the last draft I'm gonna accomplish here? the framework, the method was easy in quotes. , Cause I've been living it for quite a while. Then I documented it for the first time in the Wall Street Journal. I used to write for them for a couple years, and when I wrote the article, it was the one that got the most feedback saying, Oh my gosh, this is a life changer.

And it was the most rudimentary [00:05:00] version of it. , it was actually just get one account set up and start allocating profit toward it. And then, , I advanced the framework for. Wrote the book. , the hard part though, to release is the storytelling around it. Mm. , one of the criticisms I think every author gets is this book could be consolidated down to a one page blog post.

You know? Sure. As true, it's true. Anything can be summarized to a very short component. The question is, how do you get people engaged to a level where they believe it's possible, are willing to take the action and commit. And that's often told through story. It's told by sharing where people, other people or myself have struggled.

, it's building that trust factor and that's what a book needs to do. And. As I wrote the book, am I really transferring that this will really work? Do people really believe it's possible? , that's hard to release. Actually, the current prop first is they revised an expanded edition. There was a first version of [00:06:00] it and, it just, it was good.

It was there. People were deploying it, but hesitant. The new version, there's still hesitancy, just like your sister's experiencing. , but it steps you through much more incrementally, much more easily, and the stories are much stronger, I think. Yeah. And on that note of, Wanting to go back and tell kind of stronger stories that remove some of that hesitancy.

I work with a lot of companies who are, , personal brands, online course creators, coaches. Sure. even fellow lawyers and law firm owners like me, with little to no overhead. Mm-hmm. . And for those types of companies, I think it's becoming. A more interesting kind of weird realm where someone might read this book and as they dive into it, say, Huh, I never really thought about it, but why exactly would a business like mine need profit?

Profit? Yeah. Especially if I don't have any plans to sell it. Yeah. Oh yeah. Well, it [00:07:00] does, and , I'll give you a context. Yeah. First, talk about your sister's business. Imagine patient. Imagine me walking in, Hey, , I need to be checked out cause I have this ailment. Yeah. And then they say, , sure.

, we just want you to know we're not profitable. We're surviving. Check by check. Come on In. The fear that would be invoked to me, I'm like, Hold on. Wait, wait, wait. You're desperate to make money. You gotta get more patients in. You can't pay full attention to me cuz you're not profitable. Because that's the reality.

There's this constant underlying panic that turns to manic. And this is true for single practitioner law firms to mega corporations. If there isn't profitability, there isn't sustainability, and then our behavior becomes desperation. So that's why a single practitioner needs to implement profit first.

What happens is you will and need to take a normalized salary compensation for the work you're doing, but if you're just doing that and every dollar is depleted, you just. Eat what you kill next week is this constant [00:08:00] survival mode. There, there is no, , weapons, cash or cash of cash waiting for you for the quiet periods or when you don't land that big client.

So what profit does for the single practitioner, just like everyone else, it adds this buffer this period of time and it reduces that emotional state of panic. It actually elevates our ability to be optimized to our, do our best work, to be fully present for our clients. So we are all responsible to be profitable for the benefit of our clients just because we can be fully present.

Now, there is a secondary bonus, and I think it's just as valuable on a periodic basis, we're gonna take out percentage of that profit as a bonus distribution, which is different than salary. Mm-hmm. , they give context around this. You, Joey, have started a business. You are contributing to our economy. You are a big effing deal and I thank you and our economy.

Thanks you. You may not have any employees, but you surely have vendors. You're probably buying or using technology of some sort. You're definitely serving clients. That's our [00:09:00] economy, like that's effing huge. And statistically, very few people run a business ever. , about 14% of the world population will start a business and run one that's basically very few, and only 20% will do it on a sustainable basis.

Healthily, fiscally, healthily, that means 3% of the population. The globe depends on 3% of the population. That's you. That's me. And that's every entre. So we have to be profitable because if small business is not successful, if we aren't successful, we are, aren't sustainable, everything goes away. Just last thing, cause I'm soap boxing here, but I can't help myself.

And , here's my last step on the soapbox. I was saying like, you heard this before, that small business is the backbone of the economy. I did my research and it's actually not true. Unfortunately, small business is not the backbone of the economy. Small business is the economy, and what I mean by this is small business.

, it represents as current state 96. Percent of [00:10:00] existing businesses. The other 4% all started as small business, small businesses, every business that exists, it some grew large, some stayed small, it doesn't make a difference. Small business has always been the inception of all business, and therefore, we need small business to be successful.

We need small business to be profitable, even if it's a business of one. My gosh, off my soapbox. So how high that soapbox was. Let me get back on that. Amazing. Amazing. Well, and okay, , back, , that was, , I love the way you answered that question , and really gave us the full context for why this matters individually, but just also as the world and the importance there.

, going back to the nitty. Gritties, one of the things that I probably turn to the most when it comes to profit first is, Allocation chart Nice. Of depending on where your business is at, revenue wise, the different percentage breakdowns. Yeah. And that has turned into a real like carrot for me as I grow my business.

Oh, I love that. I love that. Now we get to go into this [00:11:00] new column, right? Yeah. And as businesses are growing, Next kind of range is on the threshold of, , maybe they're in the range of 250 K to 500 K a year, and they're, , they're starting to see that they could become a million a year business, , on the, that something that as they're seeing that projection.

They give themselves permission to slide over. When do you recommend that people officially jump and say, Okay, these are our new target allocation percentages? Yeah, so I think the starting point is what the context is around that. Cause that'll give you a good sense of when to jump. What I did, my company did, we did research.

Of about a thousand companies, , in all different industries to identify what the fiscally elite we're doing. So Microenterprise, a company that's often a solo entrepreneur is \$250,000 in revenue or less. It's not always that case. There's bigger businesses that have a solopreneur, but that's usually the case.

and therefore the owner derives [00:12:00] all of the salary cuz they are all of the, , employees. And so there's usually a lot higher compensation for the owner, but as the business gets bigger, we need to employ people and so forth. So the percentages change, but these are what, the best companies we're doing in all different industries.

Hmm. So the objective of that, and I call 'em taps target allocation percentages, is if we're going into a new column, a new category of revenue, my gosh, we should target to be the best. Now you can even be better than the best. That simply targets to give a sense of where we can go. Yeah. To make the leap, I think we should have one year sustained at this new level.

Mm. For 12 months. So , if I'm doing 250,000 for the last four years and I bring on that first employee and I start going and all of a sudden I'm at 500,000, , at least I project to be, Cause I'm doing about 40,000 a month for the next few months. It doesn't mean we're there yet. Some things they will still need to maybe flush out a little.

So try to sustain, , longer at your prior percentages and then make the adjustment. Now, here's one thing [00:13:00] For a small business, if you're, one

person and you hire one more person, that's literally a hundred percent growth, You're doubling the amount of people, and sometimes your expenses will go up very quickly.

So waiting on the old settings could take too. , almost breaking my own rule here, but, , in the really microenterprises, we probably want to adjust more nimbly faster. Mm-hmm. It's the more established ones that are maybe one or two or 3 million as I go to the four or \$5 million point that can really use an afford a full year of adjusting that man.

, really great insights. And , I love the idea , of waiting those 12 months in part because, , one of the things that affects is, Take home, pay your salary. Oh, totally. And there's a risk there of making that jump before you can really sustain it and then not paying yourself what you could have.

Oh, and brother, I gotta hack for you cause you're totally right. I would say, I can't say it's your case, but in most small business cases, the biggest fear is when do I hire my first full-time person? Yeah. [00:14:00] Because . My salary has to go down. , are they gonna be ready to go? It's pretty overwhelming.

There's a. Set up an additional account and , what we do is with five, Oh no, Mike, you're gonna one more account. , your sister wants to come across. , if she's watching it, she wants to come across the screen, she's like, Punch me in the face. She's like, Where? This guy's an idiot. , I do have a solution for that too.

If you feel that five counts too much, , we start slow and we let it grow. You just prove to yourself this supports you or not. , but we set an account called New employee and it's how it. You set an account and you start allocating money to pay the salary that you project, you'll pay this new employee before you hire the new employee.

Mm-hmm. . So now we're allocating the money and what we're doing is we're proving the business can handle the cash flow. You will feel the impact you really need to adjust your salary. Maybe, hopefully not, , but maybe some other adjustments need to be , made, Do that for a sustained period, three months, maybe six.

Once you get that six month point and you can keep on paying this new employee who doesn't exist yet, [00:15:00] you've proven cash flow capability, so now you have comfort and confidence. We can handle this now, hire that

employee. There's another beautiful benefit when that employee comes on board. You don't have to worry about finding a salary.

You have six months reserve for them. There's no rush or panic. You be billable right away. You can bring up to speed appropriately. So you have the confidence, you can cash flow it, and you have the reserves to bring 'em on board. That's the hack man. That's so good. And I feel like you could use that , for different types of things. anything that's like a big investment thing, really having a, applying the whole profit, first idea of let's put money in there and then have that little small plate that doesn't get touched.

That's the idea. And , at a certain point, of course we can go off the chart. Someone could theoretically said, 50 accounts. So my rule of thumb is if an allocation is ever gonna be less than 5% of your total income, it's probably not worth setting up an account. And if you, every allocation was 5%, which I've never seen play out that way, the maximum accounts you'd have is 20 businesses.

I've implanted profit first. [00:16:00] Most of 'em get between eight, maybe 12 accounts, and they're on top of their cash flow left and right. Yeah. , because they know exactly what the money's intended for. , your sister situation is a common point of resistance. Like, , that's insane. , , I can't have all these accounts too much to manage.

And what most business owners do is they simply, , store all the money in one account. They have an accounting system that we don't look at. We don't know how to read the cash flow statement or balance sheet. And so then we look at that one tranche of cash and that one account and say, Oh, today we have \$10,000 in there.

We can afford \$10,000. Yes. But the reality is you can't, You have multiple parts of your business that you need to feed that aren't even at the table yet. What about, do you consider the tax consequence? Did you consider, , payroll? Not next week, but the week after and the week after that, Did you consider, , the, , put capital expenses that you may need to incur?

Doctor's offices have new equipment? What about all that stuff? Human mind, it's called the priming effect, is that when something is presented, we attribute that's fully available to the next thing we [00:17:00] need. We have to overcome that. That's a human behavior. By carving up these accounts, what happens is you log into the account and you see, I don't have \$10,000 for the next thing.

My opex is actually at 4,000. I have 4,000 for the next thing. I have payroll reserve, though I have profit and taxes taken care of, and so we carve up that. The analogy I use when I do a keynote, I'll say, Hey, when you pull out the Thanksgiving Turkey, do you sell? Say to all the guests, Hey, everyone, grab a knife in fork.

Fight for it. Whoever fights for it the most gets it. Of course not. You carve a Turkey so everyone gets a piece of the pie or a piece of the Turkey . , I conflated , terms there, , but in our business, there are multiple guests at the table. We need to feed the entirety of the business family, and therefore we need these plates to allocate money too, so everyone gets their portion.

Oh, man. , and speaking of that plate of opex or operating expenses, , let's maybe end our time there. Yeah. Because I know. For me and a lot of my business friends, that's one of the hardest pieces to all of this, is now playing [00:18:00] with this smaller plate, This slice of the Turkey that , is smaller than you realized , and in our world, probably once a week you're talking to a coach or a marketing agency or someone who says, I know that you're on unlimited budget.

This isn't a cost, this is an. Yeah. , and it is becoming more and more common for businesses, especially when they're starting to make huge investments because they feel like that's what they need to grow. Can you speak at all , to what extent we as business owners should be clocking like a fixed cost versus a maybe an ROI type of investment?

Yeah. Well, you used the term roi that it gets thrown around a lot. I've never. Seeing anyone doing a proper ROI analysis. Mm, I might say never, maybe one out of a hundred thousand people. So here's what most entrepreneurs do that I've observed, , and I'm guilty of this too, Sure. I say, Oh, if I put a hundred dollars into crm, [00:19:00] I'll be able to track sales.

My sales will increase. I'm gonna get thousands and thousands of dollars back. This is worth. It's purely hypothetical. There's no measurements, no milestones. It's just , let's just do this and then let the next thing say, Oh, if I spend \$7,000 on this one day retreat, I'll come away with a million dollars of ideas.

Right? But then the reality is, do I implement a million dollars of ideas? , I'm sure the ideas are there. Did I actually implement it? Did I use a software? So the real investment is that investment of integration, the investment of doing and utilization. So good. Okay. , and we don't count for that.

So when we do an ROI analysis, we have to say, what is the dollar cost? What is the time cost? And am I committed to this and do I have some even accountability to it? Then what's the expected return? And when you look at the time cost, you're gonna start seeing, Oh, I don't actually have the time to use a software, go to the different retreats and events and actually implement all this stuff.

So now I gotta cherry. If I go to just a one [00:20:00] event this year, what's the one event that I'm gonna listen and I'm gonna be able to apply everything cause I have the blocks of time available for that of the software. Getting the crm, the new accounting system. What's the one thing they I'm gonna devote the time to, to really have an impact on my business and block that time out.

That will slow the role of the spend and turn what we could make an investment into a real investment. Cuz there's a. My final point is this, , of course, everyone's gonna pitch their offering as an investment because it's authentic and true. It is, but it's not gonna say if you actually do this part.

So most people are saying, I'm making an investment when they're actually incurring in a cost. We just have to change that framing, saying, , ? Am I willing to commit the time to make this an investment? And just ask yourself that question, and then it does become an investment. So I've got one more question before I do, just to clarify.

Yeah. This software that you spoke up, is this like a Mike Mcic software or is this just a software that you use and recommend, like the crm, , the ROI [00:21:00] tracking software? Oh, there are, Yeah. I have available now if you wanna invest in it. No, I'm kidding. Great. No, , is not software. Oh, I software.

I thought you meant that you, as a tool that you've created to help people break those numbers down. No. No, I don't. , I don't. Okay. I would be real careful about buying tools to do stuff like this. Ah, okay. Yeah. That's why I don't offer that, and I don't think you should. I think all of us should spend the time I think entrepreneurs are, The biggest value we bring to the table is strategic thought, just contemplating and considering and running the variables in our head.

But there's these really candy like shortcuts that's like, Oh, if you buy this, it makes these beautiful pictures. If you do this, it does these wonderful things. And we start acu. I just, with tv, I cut the cord and now my TV costs me three times as much because I'm like, Oh, if I just get Hulu, I can see this.

And if I just get hbo, I can see that. Right. , and I just, I have all these little micro components and , know, in Netflix I've watched one 1000000th of what's available. And same with HBO and so forth. And that's what we're doing with all these technologies. Ah, so I invite [00:22:00] people f the technology, get rid of all these tools and stuff.

I'm not saying they're bad, I'm just saying we're it utilizing 'em so poorly instead just do it on paper. Just do it in your mind, and if it becomes something habitual that you're regularly doing, Mc got some way to automate it. But master it in your mind first. Oh, that's so great. That's so great.

Thank you Mike. , very quickly, I wanna play a super quick game of what would Mike do. Let's say that you, , hear about some PR person who tells you they can get you in the media, they can give you tons of people, and you reach out and you're like, Hey, what's the cost? Yeah. And they say, Hey, just so you know, we don't really work with people who view what we do as a cost.

We work with people who see what we do as an investment, and they're a little bit older than you, that seem to be more seasoned. What would Mike Macit say back to that person? I would ask, Give me your successes that you've had this past year. I'd also say, Give me your failures from this past year.

No one asks for that, so I want to interview them too. Okay. I'm not a big fan of [00:23:00] PR agencies. In general, there's some extraordinary ones, and ironically, the landlord of this building is a PR agency and they're, I think they're actually very good because, , there is no measurable roi.

It's so ether, Hey, you'll be on television, right? Yeah. , if they say, I acknowledge the peer agency says, If you want your big, fat ego, Mike to get a little bit bigger, we'll get you on tv. You know what? Kudos, because that's what it's about. . I don't see in moving books, I've, and I've been on television, I've never seen that have an impact on, , the products I wanna move.

, but more contextually when asking a vendor about services, of course they're gonna put their star client in front of you. And of course that person's gonna rave because they are perhaps the exception to the. Regularly asked the other side, I'm like, Give me clients that didn't work out. Now they're like, No, we can't tell you that.

Well, that's a big red flag if a client doesn't work out. , but there was an equitable depart. There could be good reason me, the person said I did it, they

did get me on tv, I got no return, and I was looking to sell [00:24:00] bugs. And I'm like, , I'm just looking to blow up my ego. So that's good information.

if they don't give any referrals that have a bad experience, that's a problem. so seek those out for sure. Okay, Mike, thank you so much. , I know that, Oh dude, again, People. So many people are, I mean, we live in a really cool world where people are already aware of profit first.

My sister is working on it. I got, yeah, I got a call. Her sister, Oh, let me give her a tip if she's listening in. Sure. , What's her name by the way? Josie Jo. And Josie. Josie. Listen to me. I just listen to me. You don't have to believe me. Just listen. If you're hesitant to set five accounts, I get it cuz I was.

I just challenge you if you're up for it. Josie, set up one account and we'll call it profit. So keep all the business running as it is. Just have a profit account and allocate a meager 1% of the money that you're have coming in put to profit because it won't have any impact on how you run the business.

Run the business the same way, but for the first time ever, perhaps that doctor's office, [00:25:00] because of you, Josie, will now have a small. And keep allocating 1% of any deposits. And I suspect it's only a matter of time that maybe you can try to challenge 'em to go to two or 3%, maybe takes six months, maybe take it's a year, but maybe just maybe you'll try different accounts, but you've no excuse.

I think now just to try it out. Does that deal, Jesse? I'm feeling it. It's a deal. It's so good. So it's a deal. , as we were talking, I was like, I'm not gonna show this to Josie. But now I'm like, No. I think she, now you gotta show, you knew it's trust. Your younger brother. I know he is younger and you were beating him up as a child and he deserved it.

He deserved it. Jo , Mike, thank you so much for your time again. Such a pleasure. Such an honor, Such a blast to be chatting with you. An to be with you. Thanks for having me, Joey. Of course. Of course. And , we'll get you in time for your next. Okay. Sounds good. Really appreciate it. Thanks again, Mike.

All right. See you brother. Bye-Bye. Bye.