Ep51 - Mike Michalowicz - Profit First for Contractors

Dominic Rubino: Hey everybody, Dominic Rubino here from CabinetMakerProfitSystem.com. Today the focus is on the word profit. Got an interview coming up with Mike Michalowicz. Now, some of you have probably have read his book. Books, actually. He's written quite a few. He's written, "Profit First." Today, we're gonna be actually, we're gonna be talking about "Profit First for Contractors," which is a book he wrote based on the success of the first book and he made a specialty just for contractors. Just for us, which is why I invited him to be on here.

Dominic Rubino: But he's also written "Surge," "The Pumpkin Plan," and other one that's got kinda of a funny title, you might remember, "The Toilet Paper Entrepreneur." He's a great author. Just simple, easy to understand. There's no b.s. in his language. He's just straightforward guy and I met him first in Frankfort, Germany. I was there as part of a business group I was in called "Entrepreneurs Organization" and I was the chairperson for the global student entrepreneur awards out of my city and because of that we all went to the global leadership conference, which happened to be held in Frankfurt.

Dominic Rubino: Long story. Mike was one of the featured speakers at that event and so I moved things around just to get see him, because I knew about his other books and everybody says they're blown away. I was very, very impressed with not only the message that he gave, but looking around me, all my friends and colleagues who are also running very successful companies. People were taking notes. They were taking a lot of notes. That's what I thought, there's something different about this guy and there is. He's smart. And down to earth and a good guy and he's got a message just for us as contractors which I think we'll appreciate.

Dominic Rubino: I've been working to get him on the podcast for quite awhile now and we've managed to get our schedules aligned and here he is, today. No more preamble. We're just gonna get to Mike Micalowicz, author of "Profit First" and specifically "Profit First for Contractors." Hope you love it.

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Dominic Rubino: Hey, Mike.

Mike Michalowicz: Dominic. Thank you so much for having me.
Dominic Rubino: Are you kidding me? I'm so excited to have you. I can't wait for my guests to hear the stuff I've already learned from you. I want you tell 'em all. Tell 'em what you got.

Mike Michalowicz: Yeah, listen. I'm excited to be here. We're gonna be digging into "Profit First" and by the way, it's good to reconnect you. The last time we saw each other, ever so briefly, but it was in Frankfort, Germany.

Dominic Rubino: That's right.

Mike Michalowicz: I think it was two years ...


Mike Michalowicz: Yeah, about two years ago and "Profit First" had just started to catch on kinda on a global level. It's been quite a ride. What's so wonderful, I know we're talking about cabinet makers and contractors and the application there. But "Profit First" has taken on a life where it's penetrated all types of industries and that's just been a joy to see that.

Dominic Rubino: Yeah, it was when you first launched the book and you presented to us there and I was taking notes as mad as I could. You know your room, you may not have known this because you were standing anyways. But we were standing in the back. It was packed.

Mike Michalowicz: Yeah. That was really remarkable that ... Here's what's, as a quick aside, what's funny about presenting and rooms specifically, the same number of people. I don't know how many people were in there. Say a 100. It was a small room. You put a 100 people in a room that seats a thousand, it is the most lonely feeling in the world. You put a 100 people in a room that fits maybe 80, like that room did, it feels like it's packed and energized.

Dominic Rubino: There's a different energy. Yeah, I had that similar experience. I did a Ted talk, early last year. It 3,000 people. And I think there were 2,995 people in there.

Mike Michalowicz: Yeah.

Dominic Rubino: I should add. I'm Italian. About 4,000 of those people were my relatives. It was still packed and it's just great talking to an audience like that, but it's easy to feed off of.

Mike Michalowicz: Yeah, it's easy to feed off of and I know we got some serious stuff to talk about. Just one last thing on audiences. They do dictate the speaker's performance in so many ways. Sometimes it's an audience that's just placid and they're like placid. They have no interest in listening and it's so hard to present. And then
there's what we experienced at EO, where people were just scrawling down notes and firing questions and you know it's resonating. And these people are gonna carry that message, not just back to their own business, but propagate it.

Dominic Rubino: Well, I'm gonna boomerang off what you just said. Anybody listening to this podcast episode that's going to be at the AWI Spring Conference in New Orleans, please give me some feedback while I'm up on stage 'cause I'm the closing key note speaker for that. I don't wanna see a bunch of as I say, easter island statutes staring back.

Mike Michalowicz: Right.

Dominic Rubino: Yeah. Mike, so that people know. You know that this is for cabinet makers, architectural mill workers. And so that means people make everything from kitchen cabinets and furniture and casinos at high end hotels worth ... beautiful stuff. But let's give them a sense of who you are and how you come to be here, because I think that's important for context for them.

Mike Michalowicz: I'm an entrepreneur, first and foremost. Have been the entirety of my life, I've been a business owner. Ever since I graduated college, I've been running businesses and I've had the ... If I look at my resume, you see the bullet points. I've had the good fortune of selling a couple of companies. One was acquired by a Fortune 500. Another, private equity. I've been involved in marquis projects that are non internationally. The Enron trial, my company was actually one of the lead investigators in that. I've had all that, which sounds amazing, but when you peel back, that's a resume of bullet points.

Mike Michalowicz: That's basically it. To fill out my entire resume, I have to say, "Proficient at Word. Speaks English, marginally." But the real meat of my resume, which I think is the important thing is actually the valleys. I ran two of these companies into the ground and barely got out. I was lucky to sell them. I refinanced my house to cover payroll once. I decided to start a business as an angel investor, because I thought I knew all things about business, which by the way, arrogance and ignorance is a deadly combination. I collapsed so fast, I evaporated all my wealth out of the community.

Mike Michalowicz: I was broke, had to start again. I lost everything. I lost my house. I lost my possessions. The only thing I didn't lose was my family, which is remarkable and I started again and decided ultimately, from the experience that I'm gonna declare and do something that my heart sings out to do, even though I don't know how to make it successful and that's become an author.

Mike Michalowicz: 10 years ago, I declared I'm gonna be an author. I'm gonna write books that solve the challenges that I never understood. I didn't know how really to be sustainably and permanently profitable. I didn't know how to do anything but
work my ass off. I didn't know how to grow a business healthily except investing tons of money into it. I wanted the solutions, so I started to research, learn, create books and ironically today, as an author I love my career.

Mike Michalowicz: But I also have a small business. It's 14 employees, so it's a tiny business. But it's actually flourished a business and now it's my most successful business in all regards. So, that's been my journey and my hope, may last thing I wanna share is, I am on a mission to eradicate entrepreneurship poverty. What I realized is, when I used to turn my first businesses. I was a good 15 years of living in myth. There's a perception, based on your business, people who are not business owners, look at you and think, immediately you're a millionaire.

Dominic Rubino: Oh, yeah.

Mike Michalowicz: And they think you don't work at all. You just sit on the beach drinking Mai Tai's. The reality is, the vast majority of us struggle surviving check by check. It's a constant panic and my guys, "no way." We are tied to the business. That's all we do. There's this gap between perception and the reality yet many of us entrepreneurs, myself in particular, felt compelled to put on this image of success of what I was seeing when I was really struggling. My goal, my life's mission is to close that gap for entrepreneurs to really live what we're perceived to be. Because when we have that success, financial success, the lack of stress, time, happiness, then we can deliver that to our employees. They then have wealth and happiness. And they bring it to their families as we bring it to ours and then our communities, our countries, our world.

Mike Michalowicz: I think every change will start with entrepreneurs and that's why I'm so dead set on resolving them.

Dominic Rubino: I love it. My last business, I trained business coaches. I had a franchise of about 200 franchisees, coaches in the world. We said we are the pebble on the pond, which is almost exactly the visual you said there. When you drop in a business coach with a business owner, the first impact level is not the business, it's the owner. Then it's the business, then it's the people in the business, then it's the city, then the state or the province or the [shire 00:09:26] wherever you are in the world and then it's the country and then the world. This is a good Segway, because I went on Amazon, as I prepped for this and I wanted to see some of the reviews that people are giving you since you launched the book. Which I didn't realize it had just launched when I met you in 2017.

Mike Michalowicz: Yeah, yeah, it just came out.

Dominic Rubino: Yeah, that's cool. So, look at, this is the impact you've had and I want our listeners to hear this because they have a b.s. meter that's constantly running.
Mike Michalowicz: Yeah, totally, I get it.

Dominic Rubino: Yeah, as they should. But I speak in front of lots of these groups so they're skeptical. They've been at the business a long time. Here's what other guys in their industry have said. So, this is for your book called, "Profit First for Contractors." It's a "Profit First" book. Your book called "Profit First" is very popular and now you've got another add on, which is the "For Contractors" ...

Mike Michalowicz: That's right.

Dominic Rubino: Sub-title, if you will, so which has transformed your construction business from a cash meeting monster to a money making machine. So, you've already got our attention there. I just grabbed some of these from Amazon. "In a valuable resource for contractors, especially those of us that don't like the number side of running a business. Can't wait to finish implementing the PFC system and [inaudible 00:10:33] best here to date." I really like this one. I'll stop at this one. "What's the point of being able to build a house that can survive a 100 years if you can't build a company that can survive five?" "Read this book, live this book. I can't tell you how much I needed is inside. I can't tell you how much it's changed my life."

Mike Michalowicz: Yeah, so that's flattering to hear that. That book, I partnered with Shawn Van Dyke. Shawn Van Dyke's the author of "Profit First For Contractors." When I wrote "Profit First" is the base system, but I very quickly realized that there's uniquenesses of course in every industry. So, I partnered with the authorities. I can't speak highly enough of Shawn Van Dyke and what he wrote in that book and I think people that read that and experience what he's teaching, it's gonna be a game changer, so much.

Dominic Rubino: Love it. Well, let's launch into the actual topic of today. I want to give value to these contractors as architectural mill workers and cabinet makers that are listening. My question is, why? We start with why. Why do most entrepreneurs struggle to ever even make a profit?

Mike Michalowicz: Yeah. So, interestingly, it ain't our faults. It's a weird way to start something but I actually thought the lack of profitability in my own business and so many entrepreneurs that struggle, that was our fault. I thought it was my fault. If you think about it, we get a lot of things right. Like everyone listening is able to attract prospects, make them customers, deliver our services and our promises to them. Collect money, advertise, expand, get referrals. There's millions of pieces moving on our business and we get it all right. And I looked at myself, I said, "I get everything right except for profit?" I literally thought there was a chunk of my brain missing that was the profit chunk. I said, "What's wrong with me?" This went on for years in my businesses.
Mike Michalowicz: To the point where, the biggest insult is I remember meeting with my tax accountant one year and he circles a number at the bottom of my income statement and it says $15,000. He says, "I wanna congratulate you, you had a profit." I felt so good and I asked him, "Well, where's the money?" And he starts laughing. He's like, "You spent that already. That's an accounting profit." My face turned red. This is bullshit. I want money, like cash profit, not paper.

Mike Michalowicz: That's when I realized, around that period of time, that the fundamental flaw is not in us. It's the system we use. The foundational formula for profitability is sales, minus expenses equal profit. When you look at it logically, it makes sense. You must have sales in bad cash flow. You must incur expenses. Buy your cabinetry, buy your supplies and so forth. Pay your work staff. And then what's left over is profit. Very logical, but it's not behavioral. Because what we're told is profit comes last. And it's human nature when something comes last, that's the definition of being insignificant. It can wait. It's the [manandra 00:13:25] syndrome.

Mike Michalowicz: The example I use, if one of us, Dominic, got rushed to the hospital today, because of a cardiovascular event, a heart attack. You go there. The doctor looks at it and says, "You know what? Here's what you need to do. You need to stop drinking, stop smoking, start exercising immediately or you will die. Change your life, today." We don't come out of the hospital and say, "Starting today, I'm gonna put my health, last." Of course, not. We say, "Starting today I'm gonna put my health first." That's the key. Is human nature, when something comes first, it means it is the priority and must be done. When something is last, it can wait. So, the reason we never address profit, is we're told it can wait.

Mike Michalowicz: At the end of the quarter, the end of the year, when it doesn't happen, we kick the can down the road on profit and it gets kicked down the road over and over and over and we go years and years, sometimes decades, a lifetime without every being profitable.

Dominic Rubino: Crazy. And I see it all too often. I see it all too often. One of the very first things that I do, when I'm working with a client, is we start to put the metrics in place. The key numbers. I have to keep re-learning this myself. It starts with the numbers, because we have to understand what we're aiming for in the numbers 'cause that helps me manage. So, if you're a company that likes to manage interesting numbers, what's your profit for X? And for our guys, sometimes it's deficiencies for a $100,000 or efficiencies for $10,000.

Mike Michalowicz: Right.

Dominic Rubino: Measure that if you don't make it a priority. You're right.
Mike Michalowicz: What gets measured, gets done. But I want us to also understand, is that we have to be cognizant of our behavior. The key is this. Our behavior dictates our outcomes. And for us to change our behavior, is extremely hard or nearly impossible to change ourselves. Smoking's a good example. Everyone knows that smoking's bad for you. We don't even need to talk about it. It's talked about all the time. Yet, people continue to smoke, even though it's deadly. It's because it's established behavior. The same thing with profit. We've been told at nauseum, profit comes last. We even use the words, it's the year end. It's the bottom line. It's the final take. Everything says, it waits till the end.

Mike Michalowicz: But, we have to understand that we are now pushing it off over and over again. And many of us try to compensate. We say, "Well, you know what? Maybe if I simply grow faster. If I grow more. If I simply grow, grow, grow, the profit will magically appear. So, we have this orientation toward growth and we actually ignore profit even more. Then, we're surprised, I was, that our business had achieved a million. Or five. Actually one of my companies went to seven million dollars revenue with no profit. And I was actually shocked. The problem is, back to that formula, it tells us the old form, is a sales minus expenses, comes first. So, what do we do? We focus on sales, we focus on expenses. We don't have to call it expenses. We call it growth, investing and stuff like that.

Mike Michalowicz: But we stay in this loop and we keep on putting profit off till the end. Selling your way to hope expenses will happen, I mean profit will happen will never happen. We need to bake it into every transaction. Means we baked into our business.

Dominic Rubino: How do we break that behavioral pattern that I have? Or that all of us have? Where is my, or give me a tool to break the behavior.

Mike Michalowicz: I'll give you a tool and the interesting thing is it won't break your pattern, it'll actually leverages it. And that's the key. Again, changing your habits or breaking habits very hard, near impossible. But, we can change systems to channel our behavior so our behavior stays the same but we get new results. And that's the goal of "Profit First." What we do, the theorem behind this, is we flipped a formula. Instead of sales minus expenses equal profit, we flip it to say sales minus profit, equals expenses. And let me explain what that is, mathematically. It's called a variable swap.

Mike Michalowicz: There is no impact on the logic. It's actually the exact same number. But, behaviorally it's radically different. 'Cause now in execution, we're saying every time there's a sale, we immediately take a pre-determined percentage of that money as profit. We allocate it, hide it away from ourselves and then run our business off the remainder. By the way, is a form of reverse engineering. If you want to receive, say 10% profit and you take it first, your business then will tell
you, here are the expenses you must work within to achieve 10% profit. We don’t have to change anymore. We continue to do the same thing, but by flipping the formula, now our behavior of perhaps logging into the bank account. Seeing how much money we have. Spending what's available. Now, it works to our advantage because we've pulled off the profit component first.

Dominic Rubino: So, this begs the question, how do I hide it? We're talking about legit hiding, all within the profit ...

Mike Michalowicz: Yeah, yeah, yeah ... okay. This is a cash management tool and we don't break any laws. That's rule number one. Here's what we do. First is to realize that most businesses run what's called, "Bank Balance Accounting." I've now interviewed or surveyed, I'd say is probably a better choice of words, easily over a 100,000 businesses. I speak at events all the time. I actually have one coming up next Monday, that's gonna be a 1,000 people in the room. I'll ask people, how many people here, even though your accountant may say never look your bank account instead look at your income statement, balance sheet, cashless statement, tie those in together. Know your KPI’s, your metrics. All your different numbers. How many of us still revert to looking at our bank balance? And I said, "Be honest."

Mike Michalowicz: I would say 90% of the hands go up. Yeah, right? And your hand went up, too.

Dominic Rubino: Yeah, that's what I do, yeah.

Mike Michalowicz: Here's what I wanna say. That simply says you are human. That is a good thing. That is the standard normal behavior and we now need to channel that behavior. We've been told by traditional accounting to resist it. Never look at that 'cause it's not reflective of your business. Don't do it, yet we still do it. So, that means and my accounting's been around for 300 years, we need a system that works for our behavior. What we do is "Profit First," is now we set up multiple buckets at your existing bank. So that when money comes in, we pre allocate these purposes. We have a single bank account where you look and say, "Oh, I got all this money to spend," now money's allocated to profitability. To making sure the best employees are paid which inevitably, the owners are the best employees, so we make sure that money's reserved for a salary. We make sure taxes are addressed. We make sure that your supplies are purchased and your operating expenses to operate the business are all reserved.

Mike Michalowicz: Those are what I call different buckets. Now, you log the bank account, you know what money’s available for what purpose, but to your question, we’re gonna go one more step. As money gets allocated to these different buckets, we’re gonna take money out of that profit account and transfer it to another bank that is inconvenient, meaning inaccessible. You transfer it to a bank that
has no starter checks. You definitely do not want online banking and you’re not gonna get that shiny ATM card. Instead, I want you to find some local bank, that’s a good three-hour drive out of the way.

Mike Michalowicz: You’re gonna send in your deposits, maybe you’ll mail them in or however you make your deposits in there, but the only way to withdraw money is to go there and get a cashier check. That means every time you drive to get that money, you spend three hours thinking long and hard, are you taking profit out for the only reason it should be used for, which is a reward to the shareholder. Or are you trying to circumvent the system and are you paying expenses with it? If you are trying to pay expenses with it, that means you can’t afford your bills off your current expenses. And if you can’t afford your bills off your current expenses, that means your business has a fundamental flaw that we need to fix.

Mike Michalowicz: Stealing from our profit doesn’t fix things, it simply, it’s a quick drug. We need to fix our business, unnecessary costs, amplify our margins and whenever you take that three-hour drive, we call, "The drive of shame," if you’re taking expenses out, that’s a problem. But when you do get it out and it’s a profit distribution, that feels like gold. It’s the best day when money comes out to reward you for being a business owner.

Dominic Rubino: That is brilliant stuff. So, step one, automatically allocate that into a profit account, but then also, once it’s in that profit account, move it from the bank that you’re used to using to an inconvenient bank. We should have them on as a sponsor, inconvenient bank.

Mike Michalowicz: Yeah, we’re the most inconvenient bank in America. [crosstalk 00:21:25]

Dominic Rubino: ... shells and sesame seeds. But you make it so it’s out of harm’s way. Out of my own personal harm’s way.

Mike Michalowicz: Yeah, I actually. We were talking offline about accountability. I even have an accountability partner. And you can do this with any colleague, not colleague, any friend. I would suggest they’re not, they have no interest in your business. There’s a friend I work with, his name is Joe and he’s a dual signature on my profit account checker at that inconvenient bank. Which means, when I want to issue a check, I actually have to go to Joe and get his signature. Now, the beautiful thing, Joe has no interest in my business. He’s not related to my business in any regard. He simply has the ability to release a check back to me. So, when I wanna take a check out, I can meet Joe and explain that this is a profit distribution.

Mike Michalowicz: Now, my business is, I've been doing this for 10 years, now. So my business, I just had the 39th consecutive quarter of profit distributions. I meet Joe every time, even though the 39th business visit, now, I was taking money out and Joe
said, "What do you do with this money? Are you gonna pay expenses?" I said, "No, no. My business has to run off my opex."

Mike Michalowicz: "Are you going on vacation with this?" I said, "Exactly." He goes, "Show me the bookings for your vacation."

Dominic Rubino: Whoa. Joe's a good friend.

Mike Michalowicz: Yeah, he's a good. He's kind of it. He's kind of it.

Dominic Rubino: That's what I meant.

Mike Michalowicz: Which is the best friend. And the beautiful thing is I can't cheat myself. In the beginning, I did try to cheat myself. I'd be like, I need this money because I'm dying. That is always indicative of a fundamental business problem that you need to resolve through innovative thinking. Through efficiency. Through unique strategy. Never through [inaudible 00:22:57] clever. You gotta be clever.

Dominic Rubino: Clever, yeah.

Mike Michalowicz: Necessity's the mother of invention so restricting the flow of money into our business, will start becoming innovative. If you wanna leave your industry, you have to outthink your industry.

Dominic Rubino: Yeah. I think I'll make a note of that one. That's gonna be a power code from Mike Micalowicz. So, this whole profit thing is interesting because what we find is so many business owners don't know their financials till the end of the year. Three months past the end of the year, when their accountants [inaudible 00:23:26], right? Let me go back into that profit question and say, "Where do you find the most resistance from business owner?" On reducing their expenses or increasing their prices?

Mike Michalowicz: Well, again, on both sides. It flip flops very quickly so that when we tell people about the system, they'll say, "Okay, I think I can cut 10% of expenses." And by the way, any business I think can cut 10% of expenses pretty quickly. This is the old muscle versus fact component. We can cut off, trim the fat, but we don't wanna cut the muscle, so sometimes we add the subscriptions that we never use and some software and stuff. Let's cut that stuff. Sometimes we have space that we rent and say, "Well, it's great A space. We wanna impress clients, but clients never come there." Maybe we don't need that. So, there's some obvious things.

Mike Michalowicz: Then, business owners will say, "I can't cut anymore and you're telling me I cut everything." And I'm like, "No. You don't need to cut everything. You need to remove the stuff that's not benefiting you that you're not extracting value from
the rest you have to keep." And whatever you're keeping, extract more value from it because this will take more in it. So, we cut a little bit. That's where people get confused, first. They think they need to cut everything and then they say, profit first doesn't work.

Mike Michalowicz: The second thing is, when I talk about increasing margin, they say, "I can't. You know how competitive this industry is?" Then, I argue, "Well, that means you see yourself as a commodity. That means you're positioning yourself to be the same as everyone else. What can we do to make ourselves radically different from our competition?" And one exercise I walk my clients through, I say, "Let's look at your [inaudible 00:24:56] prices." I charge ... I'll just pick a rent, now. I just charge for bathroom renovation on average $20,000. I'm thinking a round number. I say, let's do what's called a "double-double-half." Let's double it to $40,000 and then I say, write down all the reasons that doing he exact same work you've done, how you can justify the $40,000?

Mike Michalowicz: This starts to stretch the mind to say, "Oh, we actually guarantee our work. We never make a stink about it, but we guarantee our work for 10 years." If a customer complains, it was in 10 years, we'll fix it. We stand by our work. Let me say, "Now, we're gonna make it very, very vocal." We're gonna double the price, but we're gonna make vocal what you're already kind of doing. Then I tell 'em to double the price, again. Now we go from 20 to 40 to 80,000, which is ridiculous. It's such an amplification. I said, now, we have to justify that. What else can we do at no additional cost that supports that?

Mike Michalowicz: I work with actually a company, contractors that does bathroom renovations and they said, "You know what we notice, Mike? That the vast majority of our clients are actually women. They make the ultimate decision and when we come to their house, they're there usually with their young children. This is very uncomfortable. Here's big burly men, in general, coming in and here's a woman with her children, there. There's a security concern." We think we could be the most safe contractor out there. What we're gonna do is the day before we arrive on site, we send a profile of every contractor who's coming. So, they see their picture, their profile and we do a security check.

Mike Michalowicz: It gets better. Secondly, we realize it's very uncomfortable for a homeowner to have us walking around the house. We're here to do a project, but if I gotta use the bathroom, I gotta walk through the house. That's scary for them. We're gonna bring a porta-john with us. We will never leave the work area, except to leave the house on a runway that we put in there to go to our porta-john. Third, they said, we'll also install temporary cameras so they can see at work at all times. So, the husband who's at work or wherever he is, or if the woman's house is in a different room, she can look at her phone and at all times, knows where we are. We're amplifying security to a level no one else does.
Mike Michalowicz: That's $80,000 of value. Then you half the price. So we went, 20, 40, 80 and then we went back to $40,000 but we keep the value. Now, customers are blown away. They get all this value for only 40,000 bucks. We've doubled our price, so we're getting our margins, and now we've delivered something that's so remarkable we stand out. That's the way to do it.

Dominic Rubino: I'm gonna ask you to breathe for the count of 10 because ...

Mike Michalowicz: I'm going too fast.

Dominic Rubino: No, everybody's taking notes right now.

Mike Michalowicz: I'm all jacked. Have we got this people?

Dominic Rubino: Those are solid, real solid ideas that actually come from adding value at the customer, at the call base. The customer need. We probably all heard customer complaints on the phone. Hey, your contractor came and your installer came and he wore dirty boots in my house and come and clean my carpets. It would be so easy to change that just by wearing nurse's booties on ... it doesn't take anything.

Mike Michalowicz: A friend of mine, who's also a contractor, but electrician, plumber. What he said, he goes, "We have one simple rule for all of our technicians. Treat the house better than the homeowners themselves," That's the only rule. You have to observe how well the homeowners treat the house. You have to do better. So he says, "When we walk in we wear the booties. That's obvious. When we pull into the driveway. If the garbage cans are at the end of the driveway, it's our responsibility to bring the garbage can up. They won't say anything. We just do it because we have to treat the house as if we're the homeowner or better."

Mike Michalowicz: If we go in there and we bump a lamp. We reposition the lamp exactly where it was. We'll dust it off. Always treat it better than the homeowner. In fact, it's amazing. They bring in a red carpet, so they'll walk to the door, they'll knock on the door. They say, "Do we have permission to enter your house?" The homeowner says, "yes." They then put a carpet down, roll it in, take two steps into their carpet. Put on the booties in there and then they start navigating around the house. Treat it better than the homeowner. They built this reputation for excellence and they get a premium, accordingly.

Dominic Rubino: I am so hoping that our listeners are taking notes. Not that the people listening are already doing things. Anybody who's listening to this podcast is already self-selected.

Mike Michalowicz: There's no question. There's no question.
Dominic Rubino: But now they're looking for that edge you're talking about because excellence is ground zero. It's the playing level field, more than excellent. We have to be clever. We have to be aware and smart and respectful and add value wherever we can.

Mike Michalowicz: It's shockingly cost effective to stand out. I think the shame is ... also people who are not listening to this podcast. What they're doing. They're like, everyone else does Facebook ads. We need to do Facebook ads. And they're throwing money at things. We need to do ... and they're cloning the competition. They're just trying to replicate. And it never works. Because that's what everyone runs to. So, they run in these big paths. The key is to differentiate yourself and I inevitably found the best ways to do it are usually the most economical. Buy a red carpet. What does that cost? $10 at Walmart? That will make you stand out in such a great way. More impactful things that no one else is doing are much greater than big things that everyone else is doing.

Dominic Rubino: In coaching, we call that "Low dollar value. High perceived value."

Mike Michalowicz: Yes. Yeah, yeah, yeah, yeah.

Dominic Rubino: It's the same in couponing. If I say 10% off your window install, that's okay. If I say, a $1,000 off your window install, I'm gonna get a phone call if somebody's interested in windows, obviously. So there's the perception of value and the reality of value. And how I look at it.

Mike Michalowicz: Yes.

Dominic Rubino: So, one of the challenges with this industry, in particular is to focus on lean manufacturing. Lean in our steps. How many steps we take. How many times we touch a piece of paper or a piece of wood or project. When I start to think about in cost production, how does that come into the profit first, investing in better systems. Do you know what I mean?

Mike Michalowicz: Yeah, I do. I've actually studied lean principles and theory of constraints, TOC they call it, and there's a lot of confusion around this, so a lot of people say, lean just means like "running lean." And other people think it's the original intent, which is a manufacturing process. So, when it comes to running lean from the perspective of just keeping things, the dollar amounts low. "Profit First" inherently drives that. Because when you have a constraint of operating expenses, you have to work within those parameters. So, you'll have to make hard decisions saying, "I have X number of dollars here. We can buy that piece of new computer equipment, or maybe we can reserve this to start saving up to hire an employee." So, it'll force you to make these decisions.
Mike Michalowicz: There's actually one interesting process I write about in the book. I call it the one more day principal. All entrepreneurs are drawn by this tiny object. Like, "Oh, that new piece of equipment. That's bad ass. I wanna have that." We all want that. What we do with the one more day is acknowledge, say, "You know it's okay to want that." So, it's not denial. What we simply ... can we just go one more day without it? Just one more day. Then, we go for 24 hours. The next day comes. We look at operating expenses. If you want that shiny object, you simply ask yourself that question, again. Can I go one more day?

Mike Michalowicz: Well, we saw this one business that went one more day for about two years. They were able to stretch out what they had for two years without any negative impact on the business. They had reserved so much money, they could buy that new shiny object hands down, but the new shiny object had become improved as new technology comes out. We bought a better shiny object at less price and they launched their business forward even farther. So, it will force you to start thinking at the more molecular level. The other point though, is if you're talking about the theory of constraints on lean side, which is the manufacturing principle.

Mike Michalowicz: Actually, "Profit First" plays into this, too. The theory of constraints works like this. The business efficiency of any organization is hinged on its weakest link at any moment. For example, any organization is hinged on its weakest link at any moment. For example, if we were to chain Dominic between me and you, we're both pulling as hard as we can, the chain will ultimately break and it always breaks at the same spot. The weakest link. Therefore, to strengthen the chain, you don't strengthen every chain link, you simply go to the weakest one, strengthen that and the entirety of the chain amplifies its strength to the next weakest link. That's how we see our business.

Mike Michalowicz: "Profit First" will start revealing that. As you start taking your profit first, you have less money to operate your business, you'll start revealing the weak link of your business. The weakest link. We wanna concentrate our efforts, there. Maybe we have actually a couple of guys that just aren't pulling their weight and now you're gonna start seeing it because we've constrained money coming in. You can make a hard decision there. Maybe redirect them in your business or make some changes, or give them some more training.

Mike Michalowicz: Or maybe it's time, [inaudible 00:33:39] in some cases, to relocate them to another company so they can flourish somewhere else. Maybe you'll find there are certain processes that are just holding things up. Maybe it's your quotation process that takes way too long.

Dominic Rubino: It does.
Mike Michalowicz: Right.

Dominic Rubino: It does.

Mike Michalowicz: Yeah, you fix that simple thing, the quotation process and holy cow, your business is flourishing. The shame is, before "Profit First," most business owners are trying to fix everything. Better technicians. Better quotation process. Better, better, better and we dilute our attention. So, using that lean theory of constraints technique, we narrow down cash flow, it forces us to have a more narrow focus and then we start targeting the biggest problem, to change quotations, you improve that entire business amplifies.

Dominic Rubino: Yeah, the challenge with quotations, especially for the commercial mill work side. Usually these are the companies that are bidding on the big casino. On the hospital, et cetera. Is that it takes a lot of time to bid properly and bid profitably and then they're all scrambling. It always happens. You get a call from the project manager. There's three of you at the final gate. You're hired. And they don't say that as if cannabis is legal, they say you're the high price. It's so easy for them to say that and they push it back to the contractor so then say, "Okay, well, let me look. See if I can sharpen my pencil."

Mike Michalowicz: Sharpen the pencil, right.

Dominic Rubino: There's gotta be a number when you say, "No."

Mike Michalowicz: No. And then there's [scope creep 00:35:01], right? You start doing it and "Oh, we also expected this and that."

Dominic Rubino: You're doing upholstery, now.

Mike Michalowicz: So, I have a friend. I will not say his name. He is doing, I think it's about a 200 million dollar project that's a major building in a major city where I live. He's getting his ass handed to him because of [scope creep 00:35:20] because other vendors aren't delivering on their promises causing delay. He's the contractor, delays in the deliverable. It is a nightmare project. And he came to me exasperated. We had a couple of beers together, a few nights ago and he says, "You know what. I made more money on one million dollar projects than I have on 200 million dollar projects." He's like, "I'd rather do two, 200, one million dollar projects."

Mike Michalowicz: We also have to realize this, that sometimes we can get projects so big, they become an albatross. They can kill our business and yet our ego is like, "I wanna say that I'm landing these big business projects." Don't let that take charge. And if you start focusing on your profitability through "Profit First," it'll force you to
reconsider it. I think there's a lot more pride to be had in smaller projects that are profitable, then big projects that kill you.

Dominic Rubino: Well, that's why revenue is a b.s. number and profit is the only number that matters, right?

Mike Michalowicz: I call revenue stress. And what I mean by this, if you think about, every time you attract, you're bringing more revenue, you're bringing in more responsibility. It is an obligation. The more revenue you generate you are obligated to deliver your services behind the two customers. So, more revenue. More obligation. What's obligation? Stress. The quotient or I should say, distress, that stress is profit. So, we need to balance that out. More revenue is not necessarily a good thing.

Dominic Rubino: You can see I'm taking notes, here. I'm taking notes at places I have to go back in the transcript to pull out cool things you've said and turn them into quotes, so ...

Mike Michalowicz: Fire them over to me, I'll highlight 'em myself.

Dominic Rubino: Yeah, show 'em your family. [crosstalk 00:36:53]

Mike Michalowicz: Your book.

Dominic Rubino: Look what daddy said today. So, just because we're approaching the end of this, but I wanna ask you if I go get "Profit First." If I go read it. What am I gonna get? So, if people listening, clearly you've been engaged by your conversation, but what am I gonna get from your book?

Mike Michalowicz: Yeah, it's interesting. I've been blessed. We have hundreds of thousands of readers now and I'll tell you what the most common thing is. There's "Profit First," the core book and then there's derivatives. So, I would encourage people, check out "Profit First" and check out "Profit First For Contractors." It's a one-two punch. In my opinion. The first thing people get is "Holy crap. I'm not alone." I don't know why I'm getting all emotional about that, but it's sad that so many entrepreneurs feel that they're this lone island." It further perpetuates entrepreneurial poverty. I think that's why I get a little emotional about it. So first of all it's a relation, I'm not alone. Secondly, there's this "aha" ... it's not a book about numbers. You won't be overwhelmed by numbers. In fact, it's a behavioral psychology book that just talks about our behavioral patterns. So, it's not like, "I have to be really good at numbers." So, there's this relief.

Mike Michalowicz: First there's "Aha, I'm not alone." Then, there's this relief, "Oh my gosh. I got this." It's so easy. It's not about being a master of numbers. Then, and this is my favorite part, is people will email me and I get 'em all the time and in fact, while you're talking, two more just came in. I get about 50, 60 emails a day, now. I ask
people, simply put a subject line called "Line in the sand," so I can tell they're right up there. And people will email me and say, "I love that tax season." Which sounds ass backwards to ever say that, but for the first time in their lives, the business has prepared for the taxes on their behalf. So they don't have to worry about personally. The business cares for them.

Mike Michalowicz: Regardless of the structure. As corps ... So, there's this surprising excitement. And then my favorite part is the profit distributions. Once you get the rhythm going people start taking profit distributions and they're like, "Oh my gosh. For the first time ever, my business is paying for a vacation." Or, maybe you're starting out and maybe it's a dinner out and it's the best dinner out ever, cause the business is giving to you is reward. Then, the last thing is, people realize when they read the book, is that I can start slow. The entire system's outlined in the book. Every single step you can take.

Mike Michalowicz: But, the good thing is you don't need to take it all. It's just like, the danger is, if you wanna run a marathon and you've never practiced before, the very first practice you don’t run a marathon. You learn to stretch. You learn proper form. You build to it. "Profit First" is designed that way. You don't start by doing the entire system and maybe too abrupt of a shift, it teaches you a very simple way to step into it. Literally within the first 30 minutes or 60 minutes of reading the book, you will have the system in place, and start building permanent profitability. So, it's really an easy start and ramps you up over time. Full implementation you can do over six months. Some people will do it over a couple of years. You take your time, but you'll be permanently profitable within 60 minutes if you take the first step in the book.

Dominic Rubino: Wow. Well, that is a reason to read the book. So, what's [inaudible 00:39:53]. You can't get anymore clearer than that.

Mike Michalowicz: I hope so. I need the system for myself. It's saved myself. I've been living for 10 years and the one thing I felt when I started this for myself, this is too easy to work. I was actually highly skeptical. It sounds like a shell game. I didn't believe it. I had to start doing for myself and I was like, "Oh my gosh." Even though we are simply moving numbers around at the bank, it gives you such a perspective change and doesn’t require me to change. My behavior's the same. I log into the bank account, but my perspective shifted so much, that's brought around profitability and success in my business, that I could have never dreamed.

Dominic Rubino: Well, that's what people are listening to the podcast and other podcasts like this 'cause they wanna learn from people like yourself on how to do it.

Mike Michalowicz: Yeah.
Dominic Rubino: I appreciate, with respect, your story that you did it and you did it wrong and you got smacked.

Mike Michalowicz: I have stuff like majorly. And I wouldn't wish that period upon anyone. I actually had to go to my family, face my nine year old daughter and tell her we can't send her to horseback riding, so I can't afford it. At that time, my wife, we were losing the house and my oldest one wanted to go to college. "You can't go to college." The devastation was unbelievable. I was sobbing in front of my children. My daughter, I wrote this in the book. My daughter ran out of the room to grab her piggy bank and came back to me and said, "Daddy. I'll start supporting our family." And I felt like such a scumbag. I don't wish that moment upon anyone, but that's the fear I have for entrepreneurial poverty. That's why I'm so visceral about fixing this. 'Cause I know someone listening right now, actually is facing that same situation and I won't stand for that. "Profit First" worked for me and I'm trying to deliver to others as easily as possible to avoid that from ever happening.

Dominic Rubino: Well, thank you, Mike.

Mike Michalowicz: Thank you, brother.

Dominic Rubino: It's why we're here. We are not angst, we're here to deliver great product, do great work for the people. We should get paid for it.

Mike Michalowicz: Amen.

Dominic Rubino: Hey, if people wanna get in touch with you, obviously they can buy the book. They can get the book, but is there another thing they should check out? What's a resource? How do I get in touch with you? How do I find out more?

Mike Michalowicz: Thank you. The book itself, if you're intrigued, it's Amazon, Barnes and Nobles bookstores. If you wanna get a hold of me, I've written many books on all different aspects of what I call poverty. Financial poverty which we talked about. But time poverty. Distraction, all these different things. The mecca of the starting point is my website. Now, I'm gonna give you two ways to get there. The hard way, is by going to MikeMicalowicz.com. The reason it's hard, is no one can actually spell that name. It's long. It's Polish. I get it. It's horrible. But, it's my name.

Mike Michalowicz: The short cut, the easy way is to go to Mike Motor Bike. My nickname is high school was Mike Motor Bike. The irony, Dominic, is 'cause I'd never driven a motorcycle in my life, but if you go to MikeMotorBike.com, it brings you to my sight. I think why you'll enjoy it is, all my books, there's free chapter downloads, so you can start exploring within minutes, if you wish.
Mike Michalowicz: I used to write for the "Wall Street Journal." Those articles are free about small business techniques. I'm a podcaster, also. I'm a blogger. All that contents up there for free.

Dominic Rubino: Let me add something else for you, Mike, 'cause I've seen you speak, live in front of an audience. You were speaking in Germany, hitting ...

Mike Michalowicz: Yeah.

Dominic Rubino: You have to do it in English.

Mike Michalowicz: Yeah.

Dominic Rubino: You're not Superman, but for those of you listening, who are on the board of directors of your AWI chapters, your [ARMACK 00:43:30] chapters, your NKBA, your KCCA, any organization there that's responsible bringing educational content to your members. Go check out MikeMotorBike to get in touch with Mike, because he's an excellent speaker, well worth it and listening to the podcast, it's easy to tell, Mike, you're very approachable.

Mike Michalowicz: Oh, thanks. Listen, you guys are being defined by other people. But, I'm nothing special, here. I'm just a guy who's really on a path to fix my own erroneous ways and learn about entrepreneurship. I thought I knew everything and that was my trap. Now, I realize how much there is to learn. I thirst to earn more and like to share. And I love exploring stories, too. I love hearing what other people are doing, so I can learn from that, so. [crosstalk 00:44:14] But, that's cool. I appreciate you saying that.

Dominic Rubino: Yeah, absolutely. And I believe it. I came away from that presentation just shaking my head and here we are today. I feel very lucky to have you on the podcast. So, thank you for joining me, and the audience. I really appreciate it.

Mike Michalowicz: Thank you.

Dominic Rubino: It is the weekend, so you have a great weekend. Super Bowl's coming up.

Mike Michalowicz: Amen to that, man.

Dominic Rubino: I'm not gonna ask you who your picks are because this won't go live before ...

Mike Michalowicz: I'll simply say it's not New England. Can I say that? Yeah, I'm just not a fan. I'm actually more of a college fan than pros, but the woeful Jets are my team, so anything in the northeast, I can't stand them. Go green, even though we're never gonna win and I'd rather go back to college football. I can't wait till college football starts up again.
Dominic Rubino: Starts up again, yeah. Well, you are in New Jersey.

Mike Michalowicz: Yeah, I am in New Jersey, exactly. Right outside New York City, so I get over to a game every so often. But, I'm a Virginia Tech fan. To see much of a fan I am, there's a collection of Virginia Tech helmets right there.

Dominic Rubino: Wow.

Mike Michalowicz: I am addicted to football, so I will be getting to four or five games this year down at Blacksburg, Virginia.

Dominic Rubino: Excellent. Well, thank you so much for joining us here, today. I really do appreciate it. I think you continue to change the world, Mike, you do.

Mike Michalowicz: Thanks man. Thanks for saying ... thanks for having me.

Dominic Rubino: I'm so excited to see where you go and what the next book is gonna be. Let us know when that comes out.

Mike Michalowicz: It's in the works. I won't share it yet, but I am extremely excited about this concept. I think it's never ... this concept's never been addressed this way before. So I'm super excited to do it.

Dominic Rubino: That was a stab in the dark and you bit, so that's interesting.

Mike Michalowicz: I can't tell you what it is, yet. My publisher won't let me release the information, yet, but it's coming.

Dominic Rubino: Hey, thanks Mike. You have a great day and I appreciate your time.


Dominic Rubino: Bye.

Dominic Rubino: Well, I'm blown away. I was blown away by Mike. That was fantastic. I took a ton of notes. I just got off ... after these podcast interviews we say "goodbye, goodbye," and then we stay on the line or a few more minutes and keep talking. And just pleasantries and stuff and thank my guests for being on. And Mike, I should have recorded it. It was more good stuff, but he's off camera and so it's not fair to do.

Dominic Rubino: Wow, I've been doing, first, I'm a business owner like you, I'm an entrepreneur. None of this show is fluff. It's all real stuff that works and I keep trying really hard. I keep working and bringing you stuff that works. Not fluff. Not people that use "consultant speak" and "double speak" and whatever. Mike nailed it.
Great interview. Really loved it. I was taking notes like mad. And for those who watch the YouTube video will see my desk shaking as I was taking notes and I finally stopped taking notes. And I just wrote down time marks, where I knew I had to go back to the transcript and pull out some of his quotable quotes and I say that 'cause I hope you got as much value as I did from that podcast. I've been doing strategic planning and business coaching and running companies like you have or like you are, for a long time.

Dominic Rubino: And I continue to learn. And I continue to love it. In my role as a business coach and a trainer and a speaker, I've always gotta look for the latest information. The most applicable ... is that the word, applicable stuff. And make it understandable and usable. Because the people I'm speaking to, who always business owners, they're busy. They're doing things. They don't have time for complicated stuff. I like that Mike said that some of the things ... this, one of the first ones that I grabbed from his topic today was have multiple buckets at the bank. One of them is profitability.

Dominic Rubino: So, move your profits into one of the buckets right away and then after that remove that money into another bank, that's difficult to deal with. A pretty sweet way to look at things. I was very impressed with that. I see what he's trying to do there. Change our behaviors. Change the way we act and react and interact with money and right down to he's telling us how to change the formula. The profit formula in Mike's mind and I think we should all be well advised to do this as part of our strategic plan is look at it as sales minus profits equals expenses. So, for those of you who will be sitting with me to do your quarterly strategic plan, feel free to remind me or shoot me an email after you hear this and remind me that we're going to be revisiting that part of our strategic plan.

Dominic Rubino: For those of you who don't work with me. It's no surprise, now. We do quarterly strategic planning to keep ourselves on line and on track with what the client wants to achieve in our company. We're gonna start adding that into the strategic planning that we do. I think we're gonna find some very interesting further results that the owners can get that really come down to the dollars and cents of making these things happen. Anyway, I'm gonna stop gushing, 'cause that was a great interview. Not me, Mike was good stuff.

Dominic Rubino: Go ahead, grab that book. It's called "Profit First For Contractors." Sorry. "Profit First For Contractors." There is his book, "Profit First." Still get a ton of value out of that. Grab either one of the two and you'll be well suited to understand the rest of his system. This podcast only touches the surface of what's inside the book. Go ahead and get that book. It's only 15, 20 bucks or something like that. Well worth it.
Dominic Rubino: If you have any questions, get back to me. Happy to help you with those. If you wanna get through to Mike Micalowicz, the contact information will be on the show notes and will be on the website so it's easy to track through and get to him. And I look forward to talking with you as well. Please remember to go back to iTunes and leave some feedback. If it's fine with me if it's a one. It's fine with me if it's a five. I just love hearing from you and hearing your constructive feedback on how we can make this show better. If you have suggestions for topics, or themes or ideas that you want me to get speakers or information on, please let me know that as well through the website or through any of the other means.

Dominic Rubino: Make sure that you follow me on LinkedIn and Facebook. Appreciate you taking the time to listen to this. You all have a great day and we'll talk to you soon. Bye-bye.

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