



EPISODE 45

How to Identify the Next Best Step in Your Business

with Mike Michalowicz

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Gary Vee:	00:03	Hey guys, it's Gary Vaynerchuk and you're listening to the Front Row Entrepreneur Podcast with our girl, Jen.
Jen Lehner:	00:14	Our guest today is author of profit first clockwork surge, the pumpkin plan and his newest release. Fix this next. By his 35th birthday he had founded and sold two companies, one to private equity and another to a fortune 500. Today he's running his third multimillion dollar venture profit first professionals. He's a former small business columnist for the wall street journal and the former business make-over specialist at MSNBC. Over the years he has traveled the globe speaking with thousands of entrepreneurs and he's here today day to share the best of what he's learned. Welcome Mike Michalowicz.
Mike Michalowicz:	00:52	Jen, thank you so much for having me. I appreciate you.
Jen Lehner:	00:55	Oh, it's a real treat for me to have you here. Uh, as I mentioned in our little pre-show you, you've completely changed my life with the book a profit first side. I really

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became profitable very soon after implementing your system. So basically any book you put out, I want to get my hands on it.

- Mike Michalowicz: 01:13 That's an honor to hear that. And I'm so happy you did it. You know, it's so funny you said you went into the bank and the bank first was declining your request. And, uh, I think sadly that's where some of us give up and say, well, I guess they won't comply, so I won't, uh, I won't do it, but I'm happy you found another bank that was able to satisfy your, your simple and very reasonable request and congratulations on the results.
- Jen Lehner: 01:35 Well, thank you. All right. I think one of your greatest talents, as best as I can tell, is that you're able to simplify complex solutions for problems that we entrepreneurs face. What problem is your new book fix this next solving for us?
- Mike Michalowicz: 01:52 So is the problem of knowing our challenges. It came about in such a unexpected way. I a, it takes me about five years to write a book. So I, I don't write efficiently. It takes me a long time and plus I put a lot of research into it and testing. So I started fixed this next five years ago and I wrote it actually for crisis. But, uh, it's kind of ironic or experiencing right now. What I did was I emailed my list. I said, what is the biggest challenge you're facing? Which is a great question. I think we all should ask our client tell that regularly. So what's the biggest challenge you're facing? And uh, people responded with the variety of challenges. But what I noticed was some people either intentionally or unintentionally responded on the same day with a different business challenge. That is when it became very clear to me that the biggest challenge business owners have is knowing what their biggest challenge is.
- Mike Michalowicz: 02:42 And so that became the thesis of the book was to how do we pinpoint what we need to work on next? There's so many apparent issues all the time. You know, we can put



out fires constantly, but what's the right thing to do? What's the impactful choice? What is it? Well, so it depends on your business circumstances. We have to do is this process called the business hierarchy of needs. And what it is, is a way to evaluate the DNA of your business. And what I'd argue, Jen, is that all businesses at the essence of them are the same, just like humanity, like me and you from the outside. If you look at our skin, our gender, our voice, our, our, our skin color, you know, we will be deemed at different. But if you peel back the skin effectively, the biology of humankind is, is the same.

Mike Michalowicz: 03:34

And that's why if I was having like cardiac arrest or something and I go to the hospital, the doctor doesn't say, you know, where's your heart? Is it in your foot? You know, they're like, Oh, you always go to the chest. The triage is always the same process for everybody. And we look at business, we peel back the skin of business. The essence of business is the same as a common DNA. And I call it the business heart give needs. And it's a little bit of a long explanation, but it goes like this. Mazza, uh, was studying human needs and identified w what subsequently became called the Maslov's hierarchy of needs. And at the base he said, every human needs physiological needs to be satisfied. For example, breathing air, drinking water, eating food. Then he said above that are needs like shelter. We need protection or safety, protection from the elements, from physical harm.

Mike Michalowicz: 04:24

And you can keep going up the Maslow hierarchy of needs. There's five levels to South actualization. When you argue though is that if anytime a base level needs not being satisfied, we will revert to it. It's a biological response. So as an example, I'm in New Jersey. Uh, we can get some frigid winters this year. It was mild, but I can get pretty frigid if I'm outside in a tee shirt and all of a sudden freezing temperatures come in a subzero, I will seek shelter immediately because I will die of hypothermia. It's a biological response. But if there's a need even below that, which is physiological needs, if



some guy comes up behind me and he puts like a bag around my head, plastic bag around my head and wraps duct tape around it, now my most base physiological need of oxygen is deprived. I will rip and tear away that bag so I can breathe again before seeking safety.

Mike Michalowicz: 05:14

Well in our business we have a hierarchy that I call the business hierarchy of needs. It's very similar to the Maslow hierarchy with one substantial and critical difference. The difference is this that we are not neurologically wired into our business, so why biologically if something happens to you or me, we will respond. Like if we're walking down a dark alley and we feel this discomfort that something's going to happen, we should turn around and get out of there cause something probably will happen. Our senses trigger that instinctual emotion, but with our business we don't have that biological wiring into our business. Many business owners revert to trusting their gut and their instinct in their business when, when it's actually the wrong move to make because we're not wired into our business. We need to it with empirical data. So just as a real quick primer, the business argued cube needs has five levels.

Mike Michalowicz: 06:01

The base level need is sales. That's the creation of cash, equivalent of breathing for the business, no oxygen. The business suffocates we need some source of inbound cash. Above that is profit. Profit is the safety equivalent. It is the runway for our business. I call it the creation of stability. There's some businesses that have tons of sales but no profit and that's a very unstable business. One mistake and that business goes under, so we need profitability. Above that is order orders. The creation of organizational efficiency, so order with the ultimate acid test is where the business owner is not needed, where the business can operate on its own, can it run itself? The level of that's impact impacts the creation of transformation. This is where a business is not in the business of transactions. It's the business of impacting lives. It shifts people's lives in some capacity, but some



way that does it permanently and then the highest level is legacy and legacy is the creation of permanence was so fascinating about this level as I researched it is that this is where business owners realize they were never business owners. They were actually business stewards, that they had brought life to a business that they have brought something about that's actually more significant than their involvement and that the business businesses purpose is to live on and to continue to be. Of service and that's the business argue of needs. And we go through a series of questions to pinpoint where we are in that hierarchy and when we identify that that's the thing we need to do.

Jen Lehner: 07:27 Okay. So what I love is that within each of these areas like so like there's a whole other level, like you've got this whole subset then under sales, profit order, impact and legacy, right? Like you've got, okay, so if we look into sales, there's like a whole checklist there that we need to, that we need to look at and assess. Would you say that like where we are right now, I mean are we all going to be in the sales section more or less during this meltdown of our economy?

Mike Michalowicz: 07:57 I would say no. But I would say that is the gut response or instinct of many businesses. So let me kind of stage the questions for you. When we, what we do is we always start to your point, we started the base. So everyone needs to look at your business right now and say how are we doing sales? And there's two simple questions to ask. The first question is, do we have any, and you do this for every levels. Do we have any sales? And when we moved to profit, we say, do we have any profit? But do we have any sales? And some businesses, I've gone cold Turkey, they've been shut down, they have zero sales coming in. That means your business is suffocating and we immediately must take action to resume inbound cashflow. So that is what you need to dress. But many businesses actually have had sales curtailed but they still have some sales.



- Mike Michalowicz: 08:41 So then we asked the second question, do we have adequate sales to support a degree of profitability? And if the answer is yes, we elevate to the next level and evaluate profit. And we simply now look at profit cause they're linked together and we say, do we have any profit? And if the answer's no, but you have adequate sales to support degree of profit and you have no profit, then you actually have a profit problem. So it's funny, but in this market, actually most businesses are having a profit problem. Their sales have been depleted but they still have some sales. They need to reposition themselves to drive that profit. So what you do, well, you cut costs cost that you can don't need it all. You Jessen costs but you also amplify margin. You, you look at the products or services you're offering that are selling well and determine how to increase the margin on those to make it more profitable.
- Mike Michalowicz: 09:27 That can be done through efficiency, can be done through price controls you increasing price or something. But we look at that and we continue up the the hierarchy, the same question. Once we have a degree of profit, we say now that we have profit, do we have enough profit to support a degree of order or efficiency and then we move up in evaluate that stage. The mistake I see business owners making in response to what's going on is our instincts as we got to sell our way out of it. There's actually even phrases like sells, sales crews, everything which is total BS. It does not. Sales actually translates his stress on an organization. So the more I sell, the more my company has an obligation to deliver on that promise, right? Because sales is a promise. It's a promise from both parties, the customer to pay you something in us to deliver a Proctor service.
- Mike Michalowicz: 10:13 Well, if we have, if we sell more, we've more obligation. And in in crisis like we're experiencing now, the business owner is more and more engaged in supporting the business. So many cases, more sales, more responsible in the organization, more responsibility on the owner's



shoulders. So I see people is they're trying to sell their way out of this and they are working where they were working ridiculous hours. Now it's overwhelming and they're there. They're crushing themselves under the weight. I see other businesses doing, trying to enhance sales. It ain't very, not for not profitable way. Like, yo, let's just cut our prices by one coming, cut our prices by 50%. Their margins were 10% they cut prices by 50%. It means they're losing 40% on every transaction. They've started the downward spiral or an accelerated path now. So we need to evaluate and what businesses can do.

Mike Michalowicz: 11:04

Uh, if you have a profit issue or a sales issue, which many likely do. But again, I argue is probably for more businesses profit than anything is to repackage our offerings. So, you know, here's an example, there's a restaurant down the street, restaurant shut down, they can't do anything. The knee jerk reactions were out of business. The obvious solution or changes we can do carry out or take out. But that's what restaurants have always done. One restaurant got very innovative. They said we need to increase our margins. What do we do? And what they did is they um, determined their 10 most popular menu items. They went out to their patrons, they email them and say, we're going to start a cooking class so you can cook our 10 most popular menu items at home were do one a week for 10 weeks and you can get your family together as a two hour cooking session.

Mike Michalowicz: 11:52

Our shaft will be at our kitchen by herself with the, you know, camera on her and uh, talking with you threes meals. And they are now offering this as a subscription and they have a 20 or 30 families going through it as a group. It's reconnecting the community in a new fresh way. People are enjoying the meals again, and the restaurant actually has a greater profit margin on that than anything they've ever done in the past. So that's how we have to look at it. Don't just revert to sell, uh, sell anything to cure to everything because it won't happen. Let's look at sales, but sales in relation to profit. Let's look at profit in



relation to efficiency and build our way up. And one of the thing that I want to share is other businesses are making the mistake of jumping levels are saying, you know what?

Mike Michalowicz: 12:32

We've got to just be all about impact. We gotta do everything to care for the community. Don't worry about sales, don't worry about profit or efficiency. Let's do everything about serving the community. And these businesses are serving toward Hertz, which means they are helping, but only to a period where their business becomes so crippled. They go out of business. And that's the ultimate shame that they care for a community for a short period. But they exhaust themselves in weeks or a few months and they're done. They could have been around forever. And so what we have to do is we do it the server customers often in a new way now, but we also got to make sure that we're sustainable. So we have to be fair to the customers just as much. We need to be fair to ourselves. Oh man. Yeah, that's fantastic. And that restaurant story is amazing because I was actually gonna use that as an example and say, yeah, but Hey Mike, what about restaurants?

Mike Michalowicz: 13:21

I mean, all they can do is really apply for a disaster loan and like pray to God that [inaudible] right. Exactly. Be careful. Be careful as loans. I see businesses going for these loans and going in without understanding what the consequences are. I'm not saying a loan is not appropriate or for many businesses it may not be because if we need to borrow money, that means there's a root cause behind that. Like what? Why do we need to borrow money? Because we're not making it well, why are we not making, we've got to pinpoint the disease and be careful of just putting a bandaid over it and just want to remind people to a loan is, is an obligation. You will likely have to pay it back. And I know there's some loans are potentially forgivable, but there's a lot of questions around that. The government has not sorted that out.



- Mike Michalowicz: 14:05 So just be careful. The other thing I want to share is that I'm reaching out Jen to all these different businesses that are presumably done like restaurants or one, but I spoke with DJs last night. I spoke to real estate agents the day before wedding planners talked with about a week ago. And uh, what I'm trying to do is to find the success stories there. And I'm consistently finding they exist. What they require us to do is imagine if thinking, and I found there's two simple ways to trigger this automatically. One is do a what's called the one step back process. You look at your final deliverable, a restaurant delivers food to the table and we start asking, well, what happens one step back from that in, you know, historically and will I carry the food to the table? So that means you carried food table, you could do carry out or take out.
- Mike Michalowicz: 14:53 I'm actually, there's another restaurant example of a restaurant that teamed up with a food truck, which is really great. Collaborations with the food truck is doing runs into neighborhoods delivering dinnertime meals and the restaurants become a cooking center now. But then we ask what happens when step prior to that? Well, it's the preparation of food and what we were talked about, a sample of that is you can now videotape or do live broadcasts of preparation, do cooking class. And once that, prior to that, as the procurement of the materials are the raw inventory, meats, potatoes, vegetables, you can sell that become a blue apron for your town by as you, I started the DJs and DJs, you know, you host parties, parties are done. And um, we're talking about, I said, well, what happens right before party? Well, we, you know, we performed the pre music.
- Mike Michalowicz: 15:35 Um, we get the, the energy going for the before the big event. So when idea there was wine, I have a DJ team up with a town, go to the, you know, the mayor and say, listen, I'll go to a col-de-sac and we'll get some music cranking, get people out of their houses and partying. I'm not social distancing but party. Oh, I love that. You know, there was um, Santa Claus, a U goes around, uh, you



know, Christmas week for many neighborhoods on that fire truck. You're ringing the fire bell bells and people come running out to get the candy and wave to Santa Claus. Well, we can reinvent that capacity, but you can make revenue doing this to the DJs could team up with maybe the restaurants that are re innovating themselves like that one that's delivering food or doing cooking classes and you do a little culdesac party for for 30 minutes or so and say, Hey, I want everyone to know this was due to our great friends at such and such restaurant that sponsored this and are allowing us to do this. Make sure you buy your next meal from them and then are off to next col-de-sac so none of us are done, but we do need to reinvent ourselves. And the last element I want to share is the core competency of what we deliver. Remains the same. DJs entertain and they build excitement and they bring energy. You know, restaurants deliver a food experience around food. So how do you maintain that core competency just in a new packaging?

Jen Lehner: 16:57

Yeah, I love it. I mean when we'd get done with this podcast, I have like a couple of people I need to call right away, like our local DJ. In fact, like he, this is, this would be great for him. Okay. So one thing I want to go back to, to the pyramid. Yeah. The business hierarchy of needs. And when I look at it, I think at first glance I'm like, yeah, I need all of these. It's like, I mean, without order, how do I have sale?

Mike Michalowicz: 17:28

Great point. So you do need all of them. It's a sequencing where we concentrate our efforts. So to your point, the only way you can say a cell is if you have some kind of process and you don't even need a documented system, but you do need a process in your mind. Pick up the phone, call the person, go through their challenges, you know, or whatever your process is. So we do need that. It's just at these levels where it becomes a point of emphasis. So as you elevate up to the order level, you will already have some systems for sales, some efficient systems for your profitability. And at the order level, now it



becomes the fulltime concentration. The main goal there is to extract the business owner from the business. In fact, there's five elements. And actually at every level there's five elements. I call this a DNA of business.

Mike Michalowicz: 18:12

And when we look at the, uh, the order level as an example, one elements removing the owner, there's another component called linchpin redundancy. Now I set this system up. I use my own businesses as a Guinea pig. So, uh, I've, I've had the great joy of owning businesses my entire adult life and the business that I, one of the businesses I own right now is the ultimate Guinea pig. And this concept of linchpin redundancy was once we extracted myself out of the business where I had the freedom to re insert myself in the business, but in the capacity I wanted to before this, the business, you know, I had to do things to keep the business moving along. Once I removed myself and empowered a team and processes to run the business, now I can go do what I love to do, which is basically be the spokesperson for the business, do what we're doing.

Mike Michalowicz: 19:00

And uh, we put this woman, Kelsey airs as our president and she runs the organization. But if he came quickly apparent now we became dependent on Kelsey. If, cause we're a small company, we have 12 us cumin. And if, if you know, if Kelsey's out, everything comes to a halt again. So that's when we realized we need to have linchpin redundancy. How do we at Kelsey out of the business so we're not dependent on her. And uh, that's what you actually do. You physically remove the person. So we said, cows, you're, you're leaving for four weeks. You're on vacation, no contact. And to do this though, you have to help us cover every role that you have. And last summer she went away. Now for four weeks, by eight weeks she went on sabbatical. And uh, leading up to that, all the processes, how to be in place. When she came back, uh, we had a business running without the necessity for her to run the business, which interestingly elevated her to higher level of strategic planning. And



now we're doing this across the board that all of our employees, um, we're mandating that they're pulled out of the business for four consecutive weeks because at this wonderful for them, but more importantly for the business or selfishly for the business, we start building these redundancies so that no one person controls one operation.

- Jen Lehner: 20:12 Okay. I love this so much because it's actionable. I mean, because you could say that theoretically, like we should all have systems and everybody should be redundant. But the fact that you're saying you buy by four weeks, have fun, have a nice vacation. I mean, and you really are doing it. That's incredible.
- Mike Michalowicz: 20:30 Yeah. And you swallow hard when you do it. That was interesting. In the first four, weaker was me. I went away and I can't believe the problem we ran into. And it wasn't the systems or my team, it was me in me and my big fat ego. I left and after a week I'm like, Hey, no one's calling me. No one needs me. And, uh, the one single tear came down and I actually tried to re insert myself in the business and Hey guys, what's going on? When I returned after that four weeks, we sat down with a team and I said, how badly do you need me back here? And, uh, uh, one, uh, you don't need me, uh, at all at 10. Mike get to work now we don't even have time to talk. And the answer was like a 1.1. They said, Mike, we really don't need you in this capacity.
- Mike Michalowicz: 21:17 And we said, I said, so. So what was the problem? Uh, that we expressing problems? They said it was really, you try and re insert yourself. There was a sense of empowerment that, that people felt now they actually have control. This isn't about like or dislike, I hope. And I feel they liked me very much as much as I like them. But it was, it was the freedom for our colleagues to step into their talents and their abilities. Many business owners, myself in particular, I don't realize how much I squash the capabilities of the people around me by asserting control



because I, I want to do quote unquote the right way, which is my way, which is not necessarily the right way. And um, w then I asked, I said, well, what should I be doing here? And I said, well, Mike, you know, your talent is, you're our spokesperson, so be the face, be the front man of the band and sing your songs.

Mike Michalowicz: 22:04

But we got the drums and the guitar and the bass and the backup singers. We got everything else. Don't do that stuff. Um, it's, it was really eye opening for me and it's been a wonderful experience. I, I moved from, I used to call myself a superhero, not out loud of course, but in my mind I'm like, Oh, I can skip it and say beverage. I changed from superhero to super visionary, meaning where do I want to take this business? Clearly, how can I design this that it supports my plans, but also all my colleagues plans, how do I make it that everyone comes out winning? That's what a of super visionary does. And uh, by giving myself and my big fat ego, a new bigger title than superhero, I'm more compelled to behave that way.

Jen Lehner: 22:45

So for your, for your overall company, like, I dunno what your big LLC is, okay. Um, superhero productions, LLC, inc, whatever it is, your company, where would you say you are right now on the business hierarchy of needs on any given day where

Mike Michalowicz: 23:08

it's sales? So this was fascinating. So I would say six, seven weeks ago we were focusing on the impact level of making these transformational things. Then, uh, when, when COBIT hit, uh, we and everyone should do is we emailed my readers, you know, client base and somebody said, how can we serve you now? What's the new way we can serve you? Cause things have clearly changed. And uh, historically whenever we ask what's the challenge you're facing or how can we serve you, the feedback is business tips. For the first time ever people said in general, I, my confidence has been shaken. How I get my confidence back, give me confidence. So we did an about face and started to investigate that, um, at



lightning speed. It was something we'd never experienced before and are producing products that help people achieve confidence. Now these are products, meaning we're not giving it away because if we give it away, we will diminish.

Mike Michalowicz: 24:05

Our presence will be wiped off the face of this planet. So we have to do what's fair to our customers and serve them in this new need but also do it. That's fair to us for sustainability. So I'm, I'm back at the sales level and that's what's interesting about the business. Heart give needs. This is not a ladder. You don't climb to top Nick. You waved your friends from the top and say how you doing? You climb and you descend wherever the need is. And uh, you know, we have the profit component still surely set up at the foundation. Oxygen has been compromised for our business. So we need to take deeper breaths here. So we're improving sales. Once sales is going, we're going to quickly assess again is profit sustaining as of right now we monitor it is his order and efficiency still here it seems to be. So we may be put back into the impact level or even focusing on legacy a few months from now or a few weeks from now. But all it matters right now is getting that foundation shored up again in sales. So that is where we're focusing.

Jen Lehner: 25:01

That's comforting and um, encouraging. And how, how do our listeners who are listening today, how do they get started with the fix this next?

Mike Michalowicz: 25:14

Yeah, I'll give them two steps. One is very simple and you can be done in five minutes or less and you can see results. It's go to fixthisnext.com and on that page you'll see a free evaluation. So you simply click on free evaluation. When you do that, there's 25 questions they'll ask you about your business that are very simple, are all yes, no. And at the end of it, it'll give you an assessment of exactly what you need to fix next. So it's a great starting point. And then the second step, if you want to go beyond that, is to get the book. It's at Amazon and Barnes



and Nobles. But I really believe this book is the best work I've done in my life. It's the most important work I've done particularly now. So my commitment is I, I think is the most affordable and impactful thing I can offer to anybody. So if you're interested in making a small investment for a big return, I think fixed us next will be a free service. Wonderful.

Jen Lehner:

26:09

Thank you so much for joining me today, Mike and you guys, definitely pick this book up, fixthisnext.com and um, take care. Thanks Jen.

