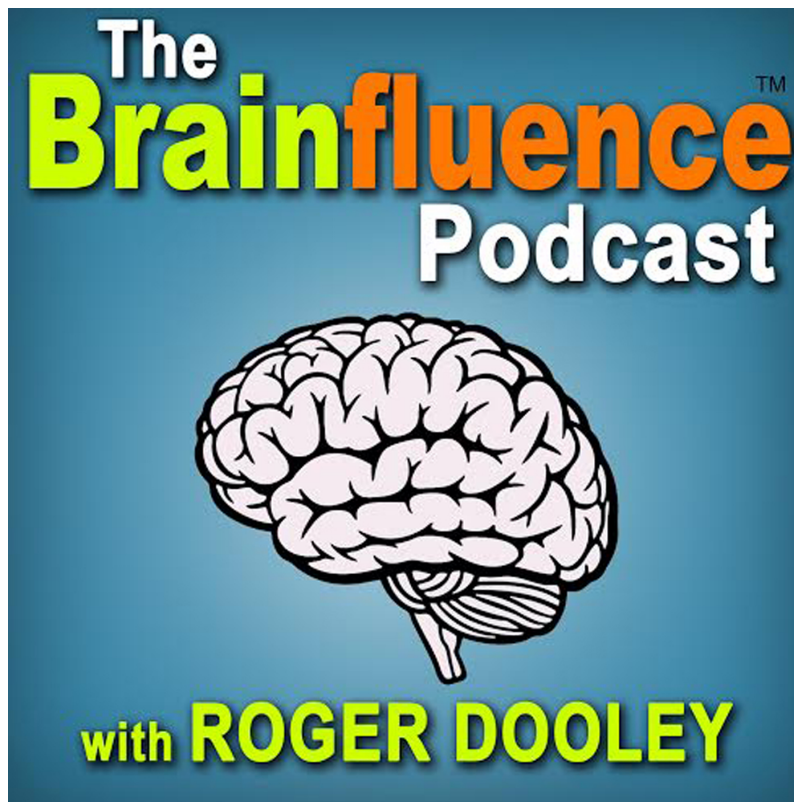


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**Roger Dooley**

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Welcome to Brainfluence, where author and international keynote speaker Roger Dooley has weekly conversations with thought leaders and world class experts. Every episode shows you how to improve your business with advice based on science or data.

Roger's new book, *Friction*, is published by McGraw Hill and is now available at Amazon, Barnes & Noble, and bookstores everywhere. Dr Robert Cialdini described the book as, "Blinding insight," and Nobel winner Dr. Richard Claimer said, "Reading Friction will arm any manager with a mental can of WD40."

To learn more, go to [RogerDooley.com/Friction](https://www.RogerDooley.com/Friction), or just visit the book seller of your choice.

Now, here's Roger.

Roger Dooley: Welcome to Brainfluence. I'm Roger Dooley. Today's guest is a return visitor and in contrast to most of the smart people we interview, one that I've met in person on multiple occasions. Mike Michalowicz was a key influence during the early stages of writing my book *Friction* and I presented his Prophet Con conference. He's the best resource for entrepreneurs I know and I've said multiple times that I could've avoided some awful business situations myself if his wisdom had been available to me.

Roger Dooley: Mike has founded and sold two companies, one to private equity and another to a Fortune 500 company. 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 makeover specialist on MSNBC. Mike is the author of Profit First, Clockwork Surge, The Pumpkin Plan, and his

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newest release, Fix This Next: Make the Vital Change That Will Level Up Your Business. Welcome back, Mike.

Mike Michalowicz: Roger, thank you for doing this yet again with me. I always appreciate being on your show.

Roger Dooley: Well, it's so great because you are such a fun guy to chat with, both on the air and off. So I'm really happy to have you back Mike, and as we're recording this, we are in the middle, at least I hope it is the middle, of a pandemic lockdown. Just about every business is being disrupted somehow. Customers aren't spending, employees can't come to work, million other problems and lots of entrepreneurial businesses that I've seen seem to operate in a way that a couple of bad months could put them out of business. What are you seeing out there?

Mike Michalowicz: Yeah, sadly quite a few businesses I've seen gone by the wayside already. And what it is, is I think two triggers. One is they weren't prepared financially. So, they were not profitable businesses in the first place. And I think it was Warren Buffet who said when the tide goes out you see who's swimming naked. Those businesses just collapse.

Mike Michalowicz: Conversely, I see people taking massive action but the wrong action, often labeled as desperation. And I see, like with these loans for example, similar to the toilet paper run, there is this panic to get loans without the consideration of why does that business need the loan in the first place? What's the disease? Because a loan that gets you by is a bandaid. But if we don't fix the core problem, we're in trouble. So, I think that is sadly wiping out small business.

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Mike Michalowicz: And it really does pain me because that's my people. I love small business and it's the backbone of our economy. So, I'm hoping that many small businesses can see their way through this and find out the root cause of the problem and fix that as opposed to quick fixes or inaction. That doesn't work either.

Roger Dooley: Yeah, Mike. The one book of yours that I did not mention in the intro was The Toilet Paper Entrepreneur.

Mike Michalowicz: Yeah.

Roger Dooley: I'm guessing probably in the last four weeks that's hit the New York Times list.

Mike Michalowicz: Well, there has been a little uptake in sales. So, that's kind of crazy. But I don't know if that's just happenstance or subconscious response. When the coronavirus first broke out, there was news stories that Corona the beer had a massive drop in sales and I found later on that that was actually just mythology. But Toilet Paper Entrepreneur has seen a little bit of an increase.

Roger Dooley: Well, I guess Google saw a lot of searches for beer virus for awhile. So, there was some belief that there was a relationship there. And then I also saw that Corona did shut down production. I don't know if they have resumed or not, and also I'm not sure if whether that was due to reduce demand or whether it was just one of these non essential business situations where they couldn't keep running and keep their employees healthy.

Mike Michalowicz: Yeah, it's interesting but there is these subconscious things that trigger off. Maybe it happened. But one thing I'm seeing also, which is sad, but real state

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of affairs, is book sales. I track them maniacally, sales of all business books because this is the field that I work in. And ever since the beginning of March, the business book sales have dropped. But there has been book sales that have increased. And this is what I consider the sad component, it's combative and weaponizing.

Mike Michalowicz: So, there's an increase in sales of how do you defend your house or take what you need and use weapons to do such a thing. So, I think the reality is the success of our globe is contingent upon business success, entrepreneurial success. So I'm just hoping that there's a rally for business books again.

Roger Dooley: Yeah, well I think it'll come back. But people, I think it's almost like a search for comfort food in these times. People are probably, many cases who were pretty healthy, suddenly, "I just need some mashed potatoes and beef. Maybe an apple pie for dessert."

Mike Michalowicz: And some Twinkies.

Roger Dooley: Yeah, cookies. I guess cookie sales have surged as have hamburgers. You know, the basics.

Mike Michalowicz: The basics. It's interesting, in crisis we revert to the basics. In businesses often we see a very common trend. So as we go through a recession, you see the vice demand increase. So alcohol, smoking, gambling, and you also see staples increase. So you know, the funniest thing about this environment is that this is the Petri dish for entrepreneurship. This is where it needs are shifting at such a fast rate that entrepreneurs that grab onto this actually are sitting a massive opportunity.

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Roger Dooley: Well, definitely. I think those businesses that had prepared for a strong digital presence and digital driven services like delivery and pickup and all these things, some companies were pretty far down that path already and they are maybe having difficulty keeping up with demand but at least they were ready where others just saw their services breakdown. They just weren't up to the task at all. And they alienate their customers too. We have a couple of major supermarket chains here in the Austin area, and one that I've written about a lot is HEB.

Roger Dooley: They do a super job in so many ways, but they were pretty far down this road and they've done a good job of using multiple digital services to keep up. But their main competitor had one entirely failed order, where we placed it a week earlier and then it was abruptly canceled while I was in the store parking lot to pick it up.

Roger Dooley: And that's not the customer experience you're looking for where you've been waiting a week for this stuff and then with just a few minutes to go it's, "Oops. Canceled. No explanation."

Mike Michalowicz: Oh my God.

Roger Dooley: And then of the blue, about a week later, they sent an email saying, "Oh Hey, we're sorry we canceled your order. We're ready to try again." And that ended up being a fiasco with a super long wait and some of the wrong stuff. And it was like, "Okay." They had two shots. Fool me once, fool me twice. But it's definitely going to be a third time.

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Roger Dooley: But anyway, Mike, in your book I love that you use, early in it, a famous tourist destination as a metaphor for how entrepreneurs build their business because I think it's so apt and I'm guessing at least a few of our listeners know about the Sarah Winchester house in San Jose, California. Probably quite a few others don't. I visited that place, Mike, and I'm a buff of both architecture in general and historic buildings in particular and so it was just a phenomenal experience. It's so bizarre. There's nothing on the planet like it. So I will let you explain a little bit more about it and why it's such a great metaphor for so many entrepreneurial ventures.

Mike Michalowicz: Yeah. So, Sarah Winchester was the heir to the Winchester fortune of the Winchester Repeating Arms Company. So her husband was making these weapons, these guns and so forth. And after he passed and she was willed all this money, I don't know what the modern dollars it was, but I want to say it was 50 to 100 million or more of current dollars, probably even more.

Mike Michalowicz: And she saw a seer, or a fortune teller, and this fortune teller said that, "You have to remunerate all of the people who've died at the hands of these weapons and the ongoing souls from the deaths that are occurring because of these guns. And to do this," the fortune teller explained, "You need to set up a home that can accommodate these spirits. And you need to continue to build into perpetuity so that as more people die from these guns, they have a place to live and they will haunt you if you don't."

Mike Michalowicz: And she took this to heart, she moved to the San Jose area of California, now almost in the downtown city,

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because the city has expanded so much, but bought this massive acreage with a four bedroom farmhouse, or maybe it was even a four room farmhouse, and started to build on it, starting that day immediately going forward.

Mike Michalowicz: But there was no grand vision, no architectural plan. It was her own drawings, sometimes on the back of napkins. And she had hired workers that she'd start off the day and say, "Here's what I need you to build and they would build 24/7 nonstop and the next morning when she'd awaken, she'd say, "Here's what we're building next." But without this plan, it became this bizarre confounded structure. At its height it had over 600 rooms but had staircases that literally led to nowhere. It had windows that would open into another window. It had windows on the ceiling and had windows on the floor in certain rooms, oddly shaped rooms, facades. A kitchen with all these cabinets that opened into walls. Actually had six or seven kitchens.

Mike Michalowicz: And what it does, what I thought was fascinating about this thing, at the end of it, it was one of the biggest houses of all time, 600 rooms, and when she passed away, construction immediately stopped and the house went up for sale and no one would buy it and I thought that was the sad truth of the story. It's so similar to the entrepreneurial dream that there is no clear direction that we're headed. We just feel this calling to keep building and keep building, but it's arbitrary and it builds this contorted structure that at the end we think is magnificent ourselves, look all it's done, but then no one puts any value in it. Ultimately, Sarah Winchester's house sold for pennies on the dollar to oddity seekers that made into the museum and then you and me are the oddity seeker guys

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that actually went and saw this place and it is beautiful and sad all wrapped up in one.

Roger Dooley: Right. And I think maybe the other entrepreneurial moral of that story is she started off as an incredibly wealthy person and was able to keep this thing going. Unless you are an entrepreneur who is also vastly wealthy as she was, at some point when you're building that crazy structured business, you're going to run out of cash and go out of business. So in that regard, I guess she was fortunate.

Roger Dooley: Hey Mike, I want to first, before we talk a little more about your new book, is for you to briefly explain again your profit first concept, because to me that is so fundamental to truly all of your work and anybody who's taken accounting 101 knows that profit is what's left when you subtract expenses from revenue. And I learned that and that was pretty much how I ran my early entrepreneurial businesses. But explain why that's wrong.

Mike Michalowicz: Yeah. So it's interesting, Roger. I found that you can very quickly determine if an established process works or not just by running and looking at the empirical data and the data that hit me upside the head was that of the 180 million small businesses globally, that's defined by the SBA as companies to do \$25 million in revenue or less, the statistic I heard, and I can't say this is specifically it, but they said 83% of businesses are not profitable, are struggling check by check.

Mike Michalowicz: I do know from the accountants and bookkeepers I work with that that number, it may even be higher. The vast majority of businesses aren't profitable. So, if most

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people are failing to do something following a system, that probably is a bad system. And what we're told is profit comes last. The foundational formula for business is sales minus expenses equals profit.

Mike Michalowicz: And I looked at it and while I understand the logic behind it, it behaviorally is completely wrong. It is human nature to prioritize what comes first and to deprioritize what comes last. If I say, "Oh, that guy's last on my list." Is that someone you're catering to or going out of your way for? Of course not. It's someone you avoid. Well, with finances or profits specifically, we're told that profit comes last.

Mike Michalowicz: In fact it's in our nomenclature. We call it the bottom line. We call it the year end. All those terms say it's insignificant, it can wait. And so what I taught in Profit First was to flip the formula to be sales minus profit equals expenses. I mean in practice is every time we have revenue, every time there's a deposit, we immediately take a percentage of that money allocated toward an account called profit, hide it from our business, and run our business off the remainder.

Roger Dooley: And it's so simple Mike, but it is so profound and I think the logic that accountants would say is, "Well, all those expenses are necessary expenses because why would they be there if they weren't necessary? No smart manager would expend money unnecessarily." But of course we know that there are very few absolutely fixed expenses in most businesses.

Roger Dooley: There are all kinds of things that you're spending to grow the business to add employees to do things that are all for

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the good of the business and you're not spending money in a stupid way, but at the same time when you're spending everything that comes in, you don't have that buffer. Particularly for when things get bad and of course just to support your lifestyle.

Mike Michalowicz: Yeah. Yeah. So, there's a concept called Parkinson's Law. He's a behavioral theorist from the 1950s and he's studying human behavior and notices that as a resource expands its availability, we inherently consume more of it. So his studies were around time. The more time we're given to complete a task, the longer it takes. Me, I have a love for chocolate chip cookies. You put one cookie on the table, I will eat one. You put a dozen on the table, I'll eat more than one.

Mike Michalowicz: So, the supply dictates our consumption. And it's true with money too. The more money is made available, the more we use that money. And so for many business owners, it almost seems uncanny, but it's Parkinson's Law, that as the income of the firm increases, that the costs seem to increase uncannily at a near identical rate and they seem to just get by continually for years and years.

Mike Michalowicz: So, that's not some kind of magical trigger that causes it. It's not like some entities watching to say, "Oh, you made a dollar more this month. We got to make sure you incurred 99 more cents in expenses." It's Parkinson's Law. So just simply if we constrain the availability of a resource, we will use less of it. But I think what's even more fascinating is we'll become innovative in the use of the remaining resource. So, as we restrict the money flowing for expenses and take it for profit to have

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business that's sustainable, to live a lifestyle of comfort that we define, the remaining money for the operations of business will become really innovative in how we get by.

Mike Michalowicz: And you can see right now while we're in the middle of COVID and businesses have sales shutting down, it's amazing how they've been able to reduce expenses, but also the innovative ways people are marketing. They're going back to handmade signs as opposed to running Facebook ads and getting the same results.

Roger Dooley: Yeah, as a multiple time entrepreneur myself Mike, I was able to identify with a core issue in Fix This Next and that is that there are multiple fires burning in the house, the code inspectors coming by tomorrow, and there's a chance a tornado's the next day. It doesn't seem like there's ever enough time or money to deal with everything that has to be done and the immediate stuff, the future stuff, and so as entrepreneurs we charge ahead and we multitask as best we can and try and get those things done that seem the closest to blowing up in our face. But that ends up being a perpetual rat race of just dealing with those urgent priorities. And eventually then you run into a situation where maybe something does blow up. And I think we're seeing a lot of that now. But I'm guessing you see this as a pretty common situation.

Mike Michalowicz: Yes. You know, it's funny, sometimes I research in the most undisciplined and non methodical way ever. I am far from being a researcher, but my research found something fascinating. I send an email request out to my readership about five years ago. It takes me about five years to really master a book and write it and all that stuff.

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Mike Michalowicz: So, about five years ago I asked my readership, "What do you need now?" And how I positioned it, I said, "What is the biggest challenge you're facing in your business? Please tell me." Because if I know their biggest challenge is sales or something, then I'll work on a sales book. Well, I sent the email out twice in a row by accident and the data came back, same day, the data came back from certain entrepreneurs sharing their biggest challenge twice and they were different challenges. So in the same day, the biggest challenge for the business changed and that's where I concluded, and it became the thesis of this book, is that the biggest challenge business owners have is knowing what their biggest challenge is. So, that's how the book came about.

Roger Dooley: Well, it's so true because ... I guess I've been in large corporations too and often even though they can get pretty hectic at times, things are a little bit more controlled and disciplined. If it's a well established company in a profitable market, you don't have this sense that everything is coming unglued at once the way you do in a startup or in a smaller entrepreneurial firm.

Roger Dooley: So, determining what is most important to work on is absolutely ... It's almost like advice for time management where you've got these things that are urgent but not important and then you should be working on the stuff that's important and urgent and even the important and non-urgent before you deal with anything else. But whether you're looking at the macro entrepreneurial level or the personal time management level, it's hard to do.

Mike Michalowicz: So, there's an exercise I have in Fix This Next that just epitomizes the struggle. I call it the survival trap. And

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you can do a piece of paper or you can do in your head and it's three simple steps .on a large piece of paper, and if you don't have paper in front of you, just imagine it. But in the center you write the letter A and you put a circle around it. And what that represents is where your business is right now in this moment. The crisis or challenges, the fires we need to put out. Then step two is you draw an arrow out in any direction of your choice from A away from A for a short distance.

Mike Michalowicz: And what the arrow represents is the exit strategy. The action I can take right now that will get me out of A. But I also want you to draw, in your mind or on paper, multiple arrows out from A in different directions. And what those arrows represent are all opportunities for you to escape A. So any action you take in any direction that gets you out of A gets you out of crisis.

Mike Michalowicz: But now as the third and final step, in the bottom left corner of that paper, put the letter B and put that in a circle. And I suspect if you were following along on paper that very few, perhaps none, of the arrows point to B. B represents to the vital needs your business has. What's the thing that will move the business forward permanently? And the sad thing is we don't consider B, we simply say, "We're in A, get out, get out." And we move to a new A, which is our new crisis and then we yet again pick an escape path and it points us in a new direction. And that's just an illustration of why so many businesses move in this circuitous pattern as opposed to a very specific direction that's of impact to the business and moves it toward the vision that you have.

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Roger Dooley: And one of the things you do, Mike, is repurpose Maslow's hierarchy of needs. Now in today's psychology, Maslow doesn't have quite as much traction, but I think his hierarchy has really provided an endless source of inspiration for business theories. We've had a Maslow hierarchy of customer experience and some other stuff. It's good because you've got the fundamental idea is that at the most basic level, the base of a triangle, you've got these very basic needs and then they move on upwards. Briefly, how do you structure that for the hierarchy of business needs?

Mike Michalowicz: Right. So yeah, the business hierarchy of needs and it is a direct translation from Maslow with one fundamental and critical difference. So, just as a quick primer, you know Maslow says our foundational needs for the human system is we need physiological needs satisfied first. Breathing air, drinking water. Then above that is safety needs, protection from harm, and it keeps going up to self actualization.

Mike Michalowicz: And what Maslow argues is that anytime a base level need's not satisfied, we will revert to that. Meaning we can be having the greatest conversation in the world, but if someone runs up behind me and puts a plastic bag over my head and duck tapes it, our conversations is off for now because I'm going to revert to that base need of getting oxygen.

Roger Dooley: Yeah, sorry I did that Mike, by the way.

Mike Michalowicz: Yeah, I know, I know. Well, we were in New Jersey at the time and it's appropriate for where I live.

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Mike Michalowicz: The business hierarchy of needs is similar that there is certain, if you will, physiological needs for a business and it works our way up. But there's one fundamental difference. And the fundamental difference is this. We are not biologically or neurologically wired into our business, but we are ourselves. So our senses trigger that instinct or that feeling, "I can't breathe here. Take action." So, if you and I are walking down a dark alley together and we get frightened, some harm's going to come upon us, we better turn around and walk out. That's our sense is triggering there's an issue.

Mike Michalowicz: But in our business we trust that instinct or gut and say, "You know what? I need to get loans right now. I need to cut the prices so we can get more sales into here. I need to fire people." Or whatever it is. And we say, "Because my gut tells me so." But we need to back it with empirical data. Simple data, but empirical data nonetheless.

Mike Michalowicz: The business hierarchy or needs are structured as follows. The first level is called sales and sales is the creation of oxygen for a business, metaphorically. Sales is the creation of cash. No cash, no business. The next level up is profit. Profit is the creation of stability for an organization. And these work in concert, you need sales that are adequate to support profit, but you don't need endless sales so you can get to profit. You need enough. So, the first question to navigating this, the empirical data is real simple.

Mike Michalowicz: With sales, we say, "Do we have any sales?" If the answer is yes, then we say, "Do we have enough sales to create a portion of profit, a degree of profit?" If yes, then

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we look at the profit level and say, "Do we have any profit?" If no, we got to start serving the private level. If yes, do we have adequate profit to support the next level above it?

Mike Michalowicz: So, you keep on asking do you have any and if you have any, then the question is do you have enough? The level of profit is order, order is the creation of organizational efficiency, above order is impact, that's the creation of transformation. It's where you are not providing a transaction, a commodity. It's where you're offering now shifts people's lives in some way. And in the highest level is legacy, which as I do my research I think was the most fascinating level. Legacy is the creation of permanence. And what I found is this is the day business owners no longer considered themselves business owners. They realized they've been business stewards, that the significance of the entity outstrips the significance of themselves and their participation in it. It's all about the business being of service into perpetuity even or especially in their absence.

Roger Dooley: Yeah, legacy is an interesting concept. We had a Jean Bliss on just a few weeks ago, at least as we're speaking, and that's her new emphasis. Still focused on customer experience, but on what it takes inside an organization to create that. And as a leader, whether you are really creating a legacy that you'll leave behind or not. But those fundamental two levels, I think, are where most small and startup businesses get hung up. They never get to worry about the legacy piece. They're way too worried about getting the next day.

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Roger Dooley: And I think the Maslow analogy is apt. If you look at profit in the same way that you would look at, say, food. If you are going hand to mouth every day for food, you're a hunter gatherer and you can never store any food, it's only what you can find or kill that day and then you've got to start over the next day, you're never really going to thrive as an individual or as a community. And if you were running a business without profit, you're getting by day to day, but you are never going to be able to accomplish much beyond that and so I like that analogy, Mike.

Mike Michalowicz: Yeah, and it's like building a structure too. The foundation must be adequate to support the level above it, but a massive foundation with a small structure above it also does not work. Imagine, some businesses do this, they just want to focus on impact, they want to change the world, and they start building the fourth floor, no structure below. Of course, it will collapse in that thin air and crash to the ground.

Mike Michalowicz: I also saw the reverse, where a business builds this massive degree of sales, a massive foundation, but then they put a little tool shed of profit above it and it sucks it up. That business is so precarious. Sadly, I have a friend at a \$250 million revenue business, this is before the COVID, crisis. They made one fundamental decision that was wrong, a bad decision, and it put the business under. Something that a business could have totally recovered from if it's simply have a little runway of profit, but they didn't have any. So the business imploded immediately and rapidly. So it works in relation with each other. You want Goldilocks. You want enough sales but not too much, without enough profit but not too much without

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building efficiency, and they keep working in correspondence with each other.

Roger Dooley: And a key point too Mike you make is that more sales is often not the best answer to getting more profit because I think it's just an intuitive thing that most entrepreneurs would sense that, "Okay, well I'm operating at level X in sales and I'm barely eking out a profit. So, if I get more sales then that will drop way more to the bottom line and all will be good."

Roger Dooley: But that isn't always the case. Often what you have to do to get those sales is going to cost you just as much and you'll still be in that minimal profit situation or no profit. And it could be too that some of the sales that you have right now are not really contributing that much to your profits and there's a different mix of sales that could generate much more profitability.

Mike Michalowicz: What I tell people is on a piece of paper, just write the word sales and then put an equal sign next to it and then put stress after it, because sales translates to stress. And what I mean by this is that sales is responsibility. Every time I sell something for my company, I am now responsible to deliver a product or service for that sale.

Mike Michalowicz: Well, the more sales I have, the more I have to deliver upon. And in a small business, the more I have to deliver upon, the more responsibility it puts on the business owner. So, more stress. So the more sales a small business has, the more stress it experiences. Now the potion that solves this is profitability. So, if I have more sales, I have more profit now I have resources to satisfy those sales. And if I have a problem that happens,

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I have a runway in front of me and if I have profit, I can also focus on removing myself from the business and I can implement the next level of the business hierarchy of needs in Fix This Next's order. I can introduce organizational efficiency.

Mike Michalowicz: So these all work in concert, but if we amplify any one element on its own, it can become dangerous, including profit. Some businesses focus on just, "Let's eke out every dollar we can out of this and let's make it as profit as possible." Well, what happens then is first of all you start building deep pockets, which is nice until less scrupulous people find out that you have deep pockets and then they start coming after you and they try to sue you or something like that. That can happen.

Mike Michalowicz: But the other thing is the competition steps it out and now they're like, "Wow, there's an opportunity here." And then competition sets in very quickly and you may be caught off guard and not have built the efficiencies necessary to stave off the competition, to push them away as they bring in at a new price point. So, a lot of profit can bring about a lot of ignorance. So, there's always a risk of going too heavy on any one element within the business hierarchy of needs.

Roger Dooley: Right. And I think that companies often chase profits or they just create problems for themselves that ends up affecting their customer experience in some way, that ends up being a negative in the long run. So, you've got to have that balance. But your point I think, in not just this book, but in your other books, is that you've got to guarantee some level of profit that creates a level of safety for you individually as an entrepreneur and for the

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business to maintain continuity, even if there's a hiccup or two along the way, or even a pandemic.

Mike Michalowicz: Yeah, theoretically. That's exactly right. That's exactly right.

Roger Dooley: Yeah. One thing I didn't realize Mike, was that we were actually in almost the same business at probably roughly the same time. We both apparently had computer networking businesses in the early days of voice over IP and I was doing that then at a startup and it was really a fascinating concept to me because up to that point, phone switches were these ungodly expensive pieces of hardware.

Roger Dooley: In my previous business I had a mail order business, was just a small call center. We probably had two or three dozen lines coming in and maybe a dozen or a few more seats in our call center, but our hardware for that was incredibly expensive. It was from Northern Telecom. It was this thing the size of a refrigerator and just the thing that gave us our record announcement, like your home answering machine announcement that says thank you for calling, that gizmo alone costs \$5,000.

Roger Dooley: It was just insanely expensive hardware and to get it serviced, of course, that was equally expensive. You had a service contract and an hourly expense and about that time they began to develop this hardware were suddenly that phone switch looked a lot more like a computer server with just some little special software and some phone ports on it. So, it was a great innovation. But you had a great story from ... I'll let you tell them. This is a one of your early surprises.

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Mike Michalowicz: A what-not-to-do story?

Roger Dooley: Yeah.

Mike Michalowicz: Yeah. So, we were moving into voice over IP because I saw that as clearly the future of technology. And we bought these ... 3Com had come out with a system, which they no longer sell phone systems. So, that's a harbinger of things to come.

Roger Dooley: But at the time they were one of the biggest names in networking.

Mike Michalowicz: Oh my God. Yeah, yeah. We had 3Com switches, 3Com ... Back before switches they called them MAUs, if you remember that, the multi-access units. So we're like, "Oh, we're going to sell 3Com phone systems." And I spoke with them there and I said, "Yep, we're ready to go. We've got a nice VoIP system." And I land a customer that was 50 or even 75 phone node, or you know, phones.

Roger Dooley: Yeah. Which is a big number but it's not enormous.

Mike Michalowicz: Not enormous.

Roger Dooley: Not like IBM headquarters or something.

Mike Michalowicz: No, it's doable. Other phones systems could easily support it and the potential cost savings was massive for the client. So, I call 3Com, I say, "I got great news, I sold a 50 phone system." And they said ... This should've been a red flag. They go, "How big?" I said, "50 phones." Like, "Wow." And then you hear a pause and then you hear, "Shit." On the other end of the line.

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Mike Michalowicz: And I'm like, "What?" It was there engineer. It was their technical sales guy, one of the engineers. He goes, "We've never tested a system that big" is how it came out to be. Well, it was a disaster. Their system was not designed to do it effectively and the client, notably so, was livid, threatened to sue me, and I had to unwind the whole deal, returning all the equipment to 3Com, getting the money back, reinstalling the old system, the costs I incurred was almost insurmountable and the time was devastating too, how much time it took.

Mike Michalowicz: And that was my intro to this. And the lesson is when it comes to selling, ideas are great, but it's the execution that matters. Because sales is not just convincing someone else to buy something, it's then delivering on the promise behind that. That's the end of the transaction is they deliver on their promise paying you and you deliver on your promise, delivering the product, services, or goods to the expectation of the customer you agreed upon. And we failed to do that. So, that was a great lesson in sales.

Roger Dooley: Great. Well, one last question, Mike. If we have some folks out there who want to try and diagnose their own Fix This Next problem, obviously what they should do is buy the book. In just a minute or two, how would you advise they start looking right now? If they wanted to get going today, what are a couple of things I could look at first as a way of figuring out where their key problem might be?

Mike Michalowicz: Yeah, so a couple of simple things. I would draw out that little hierarchy we talked about and in the book there is actually, I call it the DNA of business. There's 25 elements, five at each level that are of critical importance

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to every business that you have to ask. But just follow the process by drawing out this chart, you can put on your table or on your desk, and then ask yourself, starting always at the base, sales, "Do we have any sales?" If yes, then you can ask the next question. If no, you've got a sales problem.

Mike Michalowicz: So, if you have any sales, the answer is yes. Then the next question is, "Do I have adequate sales to support a degree of profit?" And if the answer is yes, then look at profit and evaluate that. I'll tell you, a business can generate just a few dollars in revenue and still package profit into that. So, we just looked at it in correlation.

Mike Michalowicz: The other thing is it's always a good idea to get an outside vantage point because we are so entrenched in our business, we have so much bias. I see people running their business right now who are not willing to fire employees because they invest in these people, these people trust them and so they'd rather take a loan and they're bearing the entire business while trying to save one or two people. And that's normal, that's a normal human response. But bringing out an outside advisor, someone that can give you direction without the emotional bias, is a big deal. So, that's the two things I would do.

Mike Michalowicz: The last thing is we did set up a resource, if you have the book or not, at [fixthisnext.com](http://fixthisnext.com), and it's a free evaluation, you don't need to download even, you can just take the evaluation online. So, you go to [fixthisnext.com](http://fixthisnext.com), click on the take the free evaluation, and we'll walk you through 25 questions. It's live now. 25 questions to evaluate your business and pinpoint specifically within

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your business DNA what you need to fix next. So, that's a resource too, and it takes about five minutes or less to complete the evaluation.

Roger Dooley: Great. So even if you're busy out fires, you can take those five minutes and go there.

Mike Michalowicz: Yeah, exactly.

Roger Dooley: So, let me remind everybody that we are speaking with Mike Michalowicz, author of Profit First and the new book, Fix This Next. Mike, other than fix this next.com, how can people find you and your ideas?

Mike Michalowicz: Yeah, so all my books, everything I do, is at my website, which is my name, but no one can spell my name, Mike Michalowicz. So, I have a shortcut to get there. It's Mike Motorbike, as in the motorcycle. That was my nickname, roger, back in the high school days, even though I've never driven a motorcycle. But it rhymed. So, I bought the domain. Thank God. So you can go to mikemotorbike.com and all my books are up there. Free chapter downloads. I used to write for the Wall Street Journal, you can get those articles too, and I have my own podcast Entrepreneurship Elevated available, there's links at mikemotorbike.com.

Roger Dooley: Great. Well, we will link to those places so you won't have to spell Mike Michalowicz, and to any other resources we spoke about on the show notes page at rogerdooley.com/podcast and we'll have a transcript there too. Mike, it's been awesome having you on again,

Mike Michalowicz: Roger, always a joy. Thanks for having me.

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Thank you for tuning into this episode of Brainfluence. To find more episodes like this one, and to access all of Roger's online writing and resources, the best starting point is RogerDooley.com.

And remember, Roger's new book, *Friction*, is now available at Amazon, Barnes and Noble, and book sellers everywhere. Bestselling author Dan Pink calls it, "An important read," and Wharton Professor Dr. Joana Berger said, "You'll understand Friction's power and how to harness it."

For more information or for links to Amazon and other sellers, go to [RogerDooley.com/Friction](http://RogerDooley.com/Friction).

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