Profit First: How To Make Any Business Highly Profitable, By The Very Next Deposit

with panelists David Schnurman and Mike Michalowicz, and host Kathleen Boyle

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Kathleen: 00:00 Hello everyone, thank you for attending our Webinar this afternoon. This is part four of our expert-on-call webinar series and it will center around Profit First, how to make any business highly profitable by the very next deposit. Our panelists today are David Schnurman, CEO of Lawline and FurtherEd, and Mike Michalowicz, entrepreneur and author of Profit First, the Pumpkin Plan, and what BusinessWeek deemed the entrepreneur cult classic, the Toilet Paper Entrepreneur. The style of today's webinar is going to be interactive, so please, if you haven't already, take a moment to find the q&a function on your zoom panel and use this feature to ask questions throughout the webinar. We'd like you to consider this to be a round table discussion where you feel encouraged to ask follow-up questions, introduce new questions, and allow David and Mike to address some solutions for you. Also, if you just feel like chatting or making comments as we go, feel free to throw those in the chat function as well. Those are separate. So David, would you like to take it away?

David: 01:00 Thanks, Kathleen. So I would look at this as a cross between a live podcast where you can actually ask questions. You know, webinar is the term, but the reason we didn't want to do it as a strict webinar with one person talking, is we want to engage people with conversation. Just to give you three minutes of background on myself, I started Lawline in law school in 2006 and over the five years since I started it, we became one of the largest providers of online continuing legal education in the country. Over 120,000 attorneys have taken courses with Lawline to date. About five years ago, we ventured into continuing professional education and we started FurtherEd, and we've been doing that for the past five years. We've done four webinars to date, and the reason we do these webinars is we felt there was a need for learning beyond just a mandatory education.

David: 01:56 And we've done three so far, and they've all been in the legal sector. This is the first joint one with both FurtherEd and Lawline. So accountants and attorneys are both on here, so it's, you know, we're empowering professionals, and we're really excited to have Michael on today and he- Kathleen mentioned his, his books on, we have some street cred because Lawline was mentioned both in Toilet Paper Entrepreneur and his other book Surge, so it gave us some, some credibility in the marketplace. And I just wanted to introduce Michael, and just to let you know, I've known Michael since 2008. He used to be a serial entrepreneur. Now he's a serial author, and what we're going to talk about today is one of his most popular books, Profit First. He works a lot with accountants, but a lot with entrepreneurs and attorneys both helping them in their own business, as well as with their clients. So Michael, if you could maybe just introduce yourself for a minute or two and then we'll get right into this.

Mike: 03:01 That sounds great, David. Thank you for having me. Kathleen, thank you. And everyone out there. I decided to actually activate video because I have a- I don't like to use powerpoints, but I do like to use a little notepad, so if we have to go into some q and a, I can answer via notepad and draw out some, some formulas and some systems I think you can use. A little more background on myself, I'm Mike Michalowicz, I'm an author, I'm also an entrepreneur, I've had the good fortune of building and selling some businesses. One was actually in computer crime investigation, computer forensics, which interestingly, we work a lot with a forensic accountants, so that's where I learned about the accounting space and got intimate with some of the demands in the accounting space, and I've worked with countless law firms through litigation and other kinds of services. So it would help me, if you can on the, in the chat, just post the type of service that you provide. Are you an accountant, are you a lawyer or maybe you're in another profession and joined in.

Mike: 03:50 So that would be a kind of a nice survey. Catia, I see you already. Evelyn. OK. Lots of attorneys here. Good, wonderful. And I have in my career, today, as an author, around profit first and in working with businesses, consulting businesses, I have worked with many law firms in helping them achieve profitability. So definitely for all the counselors on the call, what we can help you out. Good! So that's who I am.

David: 04:28 I'll start off. So for me, delivering value right away is really important, and then we can share stories and other things like that. But what I want to do is provide a framework based on a conversation we've had. So what we're going to talk about today is, we're going to go over the old system that exists today for understanding profit and revenue.

David: 04:44 We're going to talk about the fix- the four to five steps to fix it, and the new model. We're going to talk about how to implement that. We're going to talk about the sequence of how to do things. That's number four. Number five, we're going to talk about removing the temptation. And number six, we're going to go through the rhythm. So let's get right into it, and let's get into what is the old system that all the lawyers and many accountants work with, both with themselves and with their clients.

Mike: 05:14 So we're going to use my first "slide". Hopefully you can see that on the screen there. This formula I suspect everyone on this call is familiar with, if you recognize this formula, please tell me. It's the formula for profit. In the technical terms is called gaap accounting, generally accepted accounting principles. But here, if you don't have your visual activated, let me explain what it says. Up top, sales.

Mike: 05:39 The next part of the formula is minus expenses, equals profit. If you recognize this formula please tell me, here's what that formula teaches us. If you want to grow a profitable business, you must have sales, obvious, you subtract the cost you incur, obvious. And what's left over is profit. And this formula has existed since the creation of modern accounting, which probably started about 300, almost 400 years ago. The formula mathematically is accurate. Of course, sales minus expenses equals profit, but behaviorally it's flawed. There was a study, David, conducted by the SBA, that's the small business administration. They studied US based businesses, it went on to be a global study, for anyone here based in the US watching today. There's 28,000,000 small businesses and the SBA defines a small business by a company that does $25,000,000 in annual revenue or less. That's absolutely my business.

Mike: 06:34 I suspect for many people watching, that's your business. Of us, 83 percent are surviving check by check. That's the hidden fallacy in this formula. While this formula is mathematically accurate, most businesses are not profitable. And what I mean by check by check survival, maybe some of you can relate to this is, if I don't get a new case in, if I don't bring in some funds this week or this month, I'm not going to have enough money to cover payroll or rent or other expenses, let alone pay myself. It's this constant paddling to survive. Eighty three percent of us. And what I struggled with it for the longest time,

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David, was, that's what I went through in my businesses. I had the good fortune of building and selling businesses. As I was building them, I wasn't profitable. I remember refinancing my house multiple times, borrowing money from friends just to survive, and I thought there was something wrong with me, but now I realize for 83 percent of the world population, we as business leaders, business owners are smart enough to generate sales, to attract prospects, to deliver services, to have customers pay us for the work we do.

Mike: 07:52 Some, most of them are very happy about the outcome. I mean, we do thousands of things. You manage your HR, you run the building, you fix it. You get issues fixed when there's a problem with the space, you navigate all the challenges that present themselves and we get all that right. But how come we don't get profit, right? How come most of us don't get profit right? What's wrong with us? And that's when I discovered there's nothing wrong with us. There is a flaw to this system. When we're told something comes last, it means it's not a priority. Think about this. If you went to the hospital today, and I wish that upon no one of course, but say you had to go to the hospital, say for an emergency. Doctor examines you, she looks at you and says, you've got to change your diet.

Mike: 08:36 You've got to stop smoking. You know, no drinking. Your life is at risk. You must immediately fix this. When you come out of the hospital, you don't start saying, you know what? Starting today, I'm going to finally put my health last. Of course not. You say starting today, finally I'm going to put my health first. It is human nature, and this is the core lesson I want you to learn today is, human nature. When something comes first, it is automatically prioritized and focused on. When something comes last, it means it's insignificant. It can wait and delay. It's the perpetual Mañana Syndrome. That's what this formula teaches us. If you look at this formula, we're told, here's what comes first. You must sell and you must incur expenses. Most businesses, eighty three percent or more focus on, I need to get more cases in. I need to grow faster. I need to support that with more staff and we're supporting more sales, or growing more to support more expenses, more expenses are used to incur more sales and we're stuck at the top of the formula and there's no profit left because profit comes last.

Mike: 09:37 It can wait. Some people, year end just happened a month ago. Some of us said, you know, ah, wasn't profitable again. Maybe next year. Profit gets put off perpetually. So what I want us to learn today is, we can use a new formula, don't take profit last, take profit first. And that little fundamental behavioral shift can have a prolific impact on your business. It can ensure profitability and change everything for you in a very positive way.

David: 10:07 So, you're flipping it and maybe draw it, just to see would be nice. And you know, I've heard you say this for years and I've read your book, and I've watched it on the videos. OK, great. So all you're saying is OK, decide you want, let's say 20 percent of your profits first. Take that, put it in a separate bank account, however you suggest we do it. End of story. Why can't you just just say that to me and have me say, OK, thank you so much. I'm on my way. Is it more complicated?

Mike: 10:45 Yeah, so this is- hope you like the "slide" presentation. This is the new "slide" I just created. It says sales minus profit equals expenses. So here's the old version. Let me just kind of put this paper up here. Sales minus expenses equals profit. What I'm doing is putting profit first. Sales minus profit equals expenses. If you are familiar with basic math principles, that's called a variable swap. I just moved two variables. So mathematically, there's zero impact. It's literally the exact same formula because of how we swapped the variables. So mathematically, nothing changes. The key here, David, and to answer your question is, it's an extraordinary behavioral change. You see, now that we've put profit first, it becomes the priority, it becomes the focus of our business and we build our business around profitability.

Mike: 11:26 When you take your profit first, you must now automatically reverse engineer the remainder of your business to support that profit. Now, I can just say, Hey, take your profit first or focus on profit, and that won't have an impact because there is no channeling of your behavior. Most businesses, and this is a fundamental lesson, most businesses, and I'm going to ask people to respond in the chat box because I want you to be honest with me. Most businesses are run out of bank accounts, and I'm telling you that's a good thing. So here's the two questions I have for you. First of all, for everyone watching right now, do you have what's called a primary checking account? I do, and let me tell you what that means, that for your business you have a primary checking account, a singular checking account where all of your deposits go in, and you pay your bills out of it. It's where you manage cash.

Mike: 12:23 If you have- thanks, Sabrina already responded yes. Parveen, yes, yes, yes. Whoever is saying yes, it's awesome, because that is the standard response. Kenneth, yes. Melissa, yes. Most businesses, now, I've been studying this for four years, since the inception of this book. I've had the privilege, the absolute privilege. I just returned from more international travel, was speaking around the globe. I can't tell you how many tens of thousands of entrepreneurs I've surveyed with this, and your responses. All the yeses I see are the true response, or the same response I see with almost everyone I meet. Most businesses have a primary checking account. But here's the second question I'm going to ask you. I asked you to be truthful. Even if your accountant says, my accountant says, Mike, don't look at your bank account. Instead, read your income statement. Tie that to your balance sheet.

Mike: 13:09 Know your cashflow statement. Know your KPI's. Half these terms, I don't even know what they are. What I do is, I log into my bank account and see what my bank balance is, and have a real basic, simple system. If I have money, I know I can spend it and if I don't, you know, panic ensues. How many people watching, tell me in the chat, do you check your bank account balance at least monthly? If you check your bank account at least monthly, just say check monthly or whatever, or yes, that's fine. Connie, thank you for your integrity. She says daily. And Melissa. All right. Any other daily's? Four times a week. Any, any hourlies? Anyone checking right now as we're doing this live webinar? OK. If you check daily, if you check weekly, if you check more than daily, you are normal. You are called a human being.

Mike: 13:51 I want to tell you that that behavior I believe is, in fact, our best behavior. Now, here's the key to the system that we're going to explain today. The goal here is not to change your behavior, not to say, you know what? Don't look at your bank accounts anymore. Let's only manage your business out of your, you know, quickbooks or whatever your accounting system is. That is what traditional accounting teaches us. And I'm not saying it's wrong from a logical standpoint. It doesn't match the natural behavior.

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And just through those great responses you gave me, everyone's told me your national behavior. You're looking at your bank account. Here's my phone. I actually did this this morning. I logged in on my iphone, checked out what my bank balances are. The goal here is to channel that. So we're going to set up a system that allows you to run your entire business out of your bank accounts and will allow you to take your profit first.

Mike: 14:43 So you're going to take your profit first. You're going to ensure profitability for your business by taking that percentage first. Then we're going to reverse engineer the rest of your business to run healthily off of what's left over. And we're going to do that for your bank accounts. So the lesson at this point I want you to learn is, don't try to change who you are. For all human beings, I think myself in particular, it's impossible. I developed profit first for myself because I did not know how to run my business financially. I thought I did, and I could not do it off my accounting, and I reverted to my bank balance, and I had one bank account, I'd see how much money was in there, and I'd spend based upon that. We're going to make a few minor tweaks to your bank accounts and you can continue that natural behavior that achieves results you want.

David: 15:29 Oh, that was a pause for questions. I was bought into it, like, OK, let's do this.

Mike: 15:35 Oh, do you want me to go right into it?

David: 15:38 So first of all, let me take a pause and ask if anybody has a question, to do in the q and a right now, just as a check in before we move onto exactly how to do this, and what the process is, and I'll talk for a minute to give anybody a thought of a specific question they might have to put in the q and a because that's really important. Yup. One of the things that you just said, and you've mentioned before, is that it can't change from your daily routines. And I know you've shared a story in the past about the way you eat and fitness gurus. I think that'd be a good analogy to share now. Just kind of emotionally connect about why this can't be too complicated, or overly different as we move into the next phase of this webinar.

Mike: 16:27 Thank you for suggesting that. There was a study conducted by a behavioral theorist called Northcote, that was his first name, Parkinson, Northcote Parkinson. He's from, the 1950's is when he wrote this study called the Parkinson's law, by the way, nothing to do with Parkinson's disease, different, different expert. Parkinson's law stated, and it may sound a little complex at first, but I'll make it simple, stated that the amount of availability of a resource, or the availability of the resource dictates our consumption of it. The greater the availability of that resource, the more we consume, and the less of it, the less we consume. Here's the example with food. About three hundred years ago, 1718, right?

Mike: 17:11 So that's 300 years ago, in the 1700's, the size of a dinner plate in the US was about this size. If you can see on the screen, if you're just listening to audio, I'm drawning kind of the, the size of a plate with my hands, equivalent to maybe a coffee saucer. That was considered a dining plate. So that's what people ate entrees off of. Well, the behavior back in the 1700's was identical to what it is today. Back then, George Washington and his buddies would fill up a plate of food, and as George Washington's mother and everyone's mother told them, clean off your plate, George. He, and all of us would eat off what was on our plate. Today, plates have literally doubled in size. The normal serving plate is literally double the circumference of what it was 300 years ago.

Mike: 17:55 Yet our behavior hasn't changed. We fill up the plate, we eat everything that's on the plate. And as you know, it's all over the news constantly, our servings have doubled in size. So has our caloric intake. So have our waistlines. The fascinating result is, if you want to lose weight, the easiest way or the most effective way to do it is not to change your behavior. I'm not bad mouthing P90x or any of those things, but those programs require extreme personal change. If you don't work out, you know, four hours a day or whatever it requires, to start doing that, it's very hard. So most of you actually fail. The easiest way that channels our behavior is actually to reduce the size of the plates in our house. Get smaller plates at your house, and now you continue the behavior, fill up your plate like you do, and clean off your plate.

Mike: 18:46 It's automatic enforced portion control. The interesting thing in Parkinson's study though, also really appreciated the fact that when there was less of a resource available, we become highly innovative. We use less. We get more value out of it by doing innovative things. One more example that I'll do real quickly is with toothpaste. If you have a brand new tube of toothpaste, you know, watch your behavior tonight when you brush your teeth. You have a brand new tube. You put a long bead of tooth paste on there and you start brushing away. Some falls in the sink. When you turn on your faucet on and it knocks the toothpaste in the sink and the sink has bacteria and stuff and it's gross, use your new tube and you put it on there. When that tube of toothpaste perhaps tonight is almost empty, we treat it- it's unbelievable. It's a shriveled up prune, David, but we start twisting and turning, the strength we can channel.

Mike: 19:37 It's unbelievable. We start using a very small amount and say "that's all I needed to brush my teeth on". Some people, highly innovative, will cut off the backside of a tube of toothpaste to squeeze it out the other end, and if the toothpaste falls in the sink, you know we scoop in after it like, "bacteria, that's good for my immune system". The whole story changes.

David: 19:59 It's almost like if you have three sheets of toilet paper left.

Mike: 20:08 Right. What this teaches us is that when a resource is scant, when a resource is in low supply, our behavior becomes an automatic adjustment. You don't think about, oh I'm going to use less toothpaste today. You just react accordingly. The identical experience with food, with toothpaste, is with money, and when we log into that one bank account, everyone told me, you have one primary checking account. That's normal. When you told me you check in daily or multiple times a day, that's normal. What you're doing is seeing how much toothpaste is in your toothpaste tube and you're responding to how much you see. Problem is when we have a lot of money there, we're like, oh, things are good. I can finally do this. I can pay those stack of bills and so forth, and we're going to make some modifications in just a second so that you don't have these kinds of peaks and valleys. What we're going to do is immediately, intentionally constrain and reduce the amount of supply of cash to your business to give you not an

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empty tube of toothpaste, but one with a lot less toothpaste so that you start becoming more innovative and more frugal. And we're gonna start allocating money towards where it needs to go. Into your pocket.

David: 21:13 So when I first hear you say that, it gives me an apprehension because you said 83 percent of businesses are living paycheck to paycheck, and we all have fixed expenses. We all have set expenses that we need. So how does an attorney or an accountant, either for themselves or advising clients, how do you move that process forward and get started? I assume the normal objection you get is like, sorry I'm tapped out. You want me to take x amount and put it into my profit account, I can't do it, and I can't do it for years.

Mike: 21:49 Yeah. So a couple of things. First of all, is that acceptable to you? I mean, I think there's a first real hard check. Is it acceptable to be tapped out, and if it is, how long have you been accepting that? You know, most businesses, I don't know how established a business is on this call, but the average business has been established for five years when I do webinars. So I suspect most people who are here are, you know, three, four years into business. Some people maybe seven or eight or 10 years.

David: 21:49 Connie is already volunteering.

Mike: 22:14 Yeah, seven years. How many years have you been in business? Put it in the chat. Tell us how many years you've been in business. The question is, did you reflect on it? How long- there's 12 years. How long, you don't have to answer this, this is more of a private question, but how long have you been tapped out if you're tapped out after being in business for nine or 16 or 12 years, and the numbers we're seeing on the screen here, for how long you've been tapped out, is that acceptable to you? And if it's not, then we have to draw the line in the sand. But there's also a realization that if something hasn't been working for 20 or 35 years, and I'm not saying it hasn't, but if it hasn't been working for that long, to believe that it's going to start working by doing the same thing next year is definitely a fallacy.

David: 22:56 I like what Parveen said because I think that's something most people feel. "Not tapped out, but not far enough along".

Mike: 23:04 Parveen, I love that response because that is the typical thing. I wish I was much further along. So the realization is, what got us here won't get us there. So we need to make a change and we'd have to get very real with ourselves. But let's get into it. All right. OK, so I'll tell you how. First step, step one is that we're going to set up multiple accounts. There is "slide" number three. I have zoomed in on the screen. I'm going to read it off. I believe every business, and you can see me write this down, should have five minimally, what I call the five foundational bank accounts. These are going to act like different plates if you will, for different responsibilities for your business. So let me explain. Each one is, and I know my handwriting's not the best, so I'll read it off.

Mike: 23:42 First Line says, income. Income is simply going to be a serving tray of money for your business as money comes into your business. It's going to sit in this bank account. We're never going to spend a penny from this. Just like, I'm thinking about Thanksgiving dinner when we hosted at our house,

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we have friends and family over, about 20 people come over. My wife and I, we host traditionally. I pull the turkey out and everyone, you know, it takes pictures like, oh, I gotta put this on Instagram, but I don't say, hey everyone, just grab your knife and fork and dive into the turkey on that serving tray. Everyone for themselves. No, I carve the turkey. We apportion it. Everyone gets a serving on their plate, and then we eat together. The income account is going to be a serving tray for your business.

Mike: 24:27 Money is going to come in and sit there, so we see what's available for the entirety of your business. These remaining four accounts are the primary functions for your business. First of all, we've already talked about profit account. Yes, we're going to have an account where we allocate profit. What is profit? Profit is a reward for doing what you've done. For people who have been, on this call, 20, 16, 30, five years ago, seven years ago, you started a business. You took on extraordinary risk and you sustained it. That's called being a risk taker or a shareholder. Just like if you invested in a public company, I own stock in Ford. It's not necessarily a stock tip, by the way, but I own stock in Ford. My intention is the value will go up so that I can appreciate the value. Get a reward for it.

Mike: 25:12 Also Ford sends, if you own Ford stock, they send out a quarterly profit distribution. Last quarter I got my check, I own a hundred shares. It was like 13 bucks, but I got my check. I didn't look at and say, oh my gosh, Ford really deserves this, I'm going to give it to them as an expense and send it back to them. I said, no, I took a risk here. This is for me. I'm gonna go, you know, have a good time at starbucks on my 13 bucks. The lesson is this, you have started a business and you own maybe a hundred percent of the stock. You own a good portion of the stock. This is a reward for starting and building a business, doing something extraordinary. Next account is called owner's pay. The best employee at your business is inevitably the owner of the business. No one works as hard as you.

Mike: 25:55 No one is as compelling to your clientele as you, no one knows the business as effectively as you. No one has made the sacrifices you have. You probably have- instead of going on vacations, you probably do work-cations where you're just working and pushing your business forward, always thinking about it. That's the definition of the world's greatest employee and for many of us, I bet you've done it for very little pay at times, maybe no pay at times. You've definitely done it for a salary lower than than you would pay in equivalent to hire someone just like you. You are the best employee and we need to pay you that way, so we're going to reserve money in your business to pay you.

Mike: 26:31 Taxes. We started our business for financial freedom. We're going to reserve money to pay your tax bill, so when tax time comes, if you own an LLC, it's quarterly, S corporate stuff you have to do them actually as you do payroll. Either way, the business ultimately is going to take care of that for you. We've started our business in part hopefully because it's what we get joy from doing. It's our passion, but also for financial freedom, so that money is reserved for taxes. It's going to go to paying your business owners tax bill.

Mike: 27:01 And the last account, is called operating expenses. This is to pay for the operations of your business. It's all percentages, but we're going to pre allocate money from the serving tray income into these different accounts. So we know what money is available for what intended purpose before

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we spend the money. All of this, by the way, David, is percentage based. So we're going to figure out percentages. I am going to tell you before we get started because that was a question you asked earlier, but we want to target percentages and allocate these things out.

Mike: 27:27 One last thing is, you may already be familiar with a system like this. This is also called the envelope system. So what I'm teaching you is something, not that I just invented. This is something has been around in personal finance forever. There's actually books dedicated to this. The Richest Man in Babylon. Think and Grow Rich. There's many books dedicated in the personal finance space. Dave Ramsey's total money makeover dedicated to the envelope system. I'm just the guy who says this applies more than just to our personal finances. This applies to our businesses. We and our businesses and our lives are just like this. We need to implement this in our business. The action item is you set these accounts up at your bank, money flows into income, and then based on percentages, we're going to allocate money out to these different accounts and then use that money only for that pre intended purpose. That's how this simple system works.

David: 28:16 Just a quick question before you dive into how to actually set that up is, what is the size businesses, firms and accountants and potentially their clients, that this is the ideal for, and where do you probably- are you maxed out? Because when I think of our business, you know, that doesn't necessarily apply to us at this stage, but what stage do you, is it a revenue number? Is it years in business? Is it total employees? Is it a type of business, are lawyers more right for this than a business that employs 25 people and has systems and processes that is not about the law at all.

Mike: 28:59 Yeah, so let me just qualify my response before I give a response. We now have over 75,000 companies globally doing this. We have 2000 documented, more than 2000 undocumented case studies of it. And what we found is, first of all, it's industry agnostic. That being said, some of the percentages change. So I can give you some suggested percentages. These are just suggestions. Different industries have different percentages for these accounts. The second thing is, we have a public company doing it, which I can't disclose their name, that we've actually coached through it. I suspect more sizable than many people in here. And we have down to some brand new startups using it. So any size, the thing is, as your business grows in size, usually the financial sophistication changes. If you have a $10,000,000 company, we have many companies running it that way, but this is rolled out in a, more of a project based or budgetary method. Smaller businesses are much more real time, doing it directly with their bank accounts. So I'd argue that it applies to almost any size business and we've got a massive company doing this.

Mike: 30:00 The implementation is different. What I'm going to teach is doing this simply at your bank. Typically, this is ideally suited for companies that do $5,000,000 in annual revenue or less down to brand new startups doing $0 in revenue. We can do this purely in the bank. If you have a financial team, a controller, a CFO, if you have sophisticated budgets you write, if you have project leads, then Profit First has a more sophisticated implementation. We typically don't do this at the banks alone, yet we still set up bank accounts. So, yeah, hopefully I answered your question.

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David: 30:32 Great. And is it typically geared towards- if companies are very profitable from the beginning, it's probably less of a need to set up something like this versus somebody who should have been profitable by now, but is not.

Mike: 30:43 Yeah. So, you know, it's funny, I said 83 percent of businesses aren't profitable. I feel that eighty three percent of businesses can be served by this. But what about the other 17 percent? You know, if it ain't broke, don't fix it. So if you're achieving consistent profits, just to give you a sense of what we do here with this system set up, the majority of companies, if they follow our system to the book, actually all of them do a quarterly profit distribution. They're taking out quarterly profits, just like mega corporations do. Some of these companies are achieving substantial profits. They are usually doing two to three times the industry average in profit and some of them far more than that. So if you're already doing numbers like that, don't change to something because you aren't broke, you're defining the industry. If you're not profitable, if you're not taking the income or the pay that you believe you should be taking, then that's where the system I think is potentially something you want to experiment with.

David: 31:37 We have a great question from Scott, and this definitely applies to many attorneys who are in litigation. How does your system work for businesses that have wide swings and cashflow, and we're often devoting sustained resources to critical expenses to survive. I assume maybe she's got some litigation or some area like that where you have to spend a lot of money for trials and things upfront and you have to wait a long time to see the rewards.

Mike: 32:01 Oh, totally. So we have multiple law firms like that. We have a lot of contingency space, contingency based law firms. I actually just did an event down in Miami for law firms exclusively. And we tackled all these issues. Now this is the more sophisticated profit first. So I haven't taught you the entire system, so we're going to kind of leap forward to some advanced stuff. But I hope you don't get confused with some of the basic stuff that we haven't addressed yet, so let me just tell you, these are the foundational five accounts, what I said is foundational.

Mike: 32:31 We can add more. The typical business, as you implement it, and I don't suggest starting this way, but you can have eight or even 10 accounts. You basically have another account, and the account that we add in a contingency based law firm we call a drip. Maybe you prefer the word retainer or a pre-payment in other industries, but in law firms we often call a drip and this is what it is. That payment comes in. It's substantial. Maybe you land two major contingency cases a year, so you have a massive spike of income and what happens is there's usually a massive spike of expenses. That's Parkinson's law kicking in and then the income dwindles. Then we start panicking. What we do instead is we put the money, instead of putting it in the income account we put into the drip account, so say just for easy numbers, say 100,000 dollars comes in.

Mike: 33:16 We put that in the drip. That goes to us, but say we win five cases like that a year on average. So it just kind of spikes, and maybe they come in at different periods. What you do is you put the money in here. So I put the hundred thousand dollars in here and then I cut it into installments, say 12 installments, like once a month. So 100,000 goes in here. I divide that by 12. So roughly, I don't know, what is that, $8,000 we'll say, I think $8,000 every month and drip it into the income account. So now my business starts feeling like it's making $8,000 a month, which in actuality it is. Instead of getting this big spike, we're now evening it out across the year and we can run our business accordingly. We start dripping the money from income, it gets divided up into these different accounts, operating expenses and taxes and so forth. We now start taking a pay that's representative of our income, so our lifestyle doesn't skyrocket up. And then we say, oh my God, I can't afford this stuff. We actually start seeing what we can afford because it's dripping in, that's why we call it the drip account. So hopefully that helps.

David: 34:18 Thank you. That's really helpful and it was helpful for me as well. So I appreciate that and even though we went ahead, it definitely applies to many people on phone. And I feel it's important when somebody has an objection or a thought process to voice it, because other people are, and it gets right to the heart of what we're talking about here. We have 25 minutes left and I think, and obviously for me, any of these things- we're going to talk about resource. This is not a Webinar to upsell you to buy more things like you know, other areas, but there are going to be opportunities if you want to dive deeper because, for me, I've never been able to take a book that fundamentally changed my business and do it by myself without working with a coach or some sort of expert. But you can. So let's get into the basics of implementation, if that makes sense to you, Michael. Right now, just so I can understand. OK, I get this, I read your book cause I really want to dive in, I get some information, I'm pumped and ready to go with my law firm. My accounting firm. Tell me, take me through the first month or so.

Mike: 35:21 Yeah, so I'll take you through. Yeah, exactly. So what I want you to do is, step one is you set up these accounts. Now at the end, maybe I can give you the action item because my fear is overwhelmed, but you set up these accounts. Step two is we need to determine the percentages. Now I will just put percentages. I want to tell you what I'm about to show you- it's not my suggested percentages for you. My company did a study of about a thousand businesses and we studied about a thousand businesses, what we call the fiscally elite. This included law firms. This is, what I'm going to show you is the numbers for businesses that do between a million and say $5,000,000 in revenue, so you may be smaller or bigger, and this is the fiscally elite. So I'm not saying this is right for you, but let me just give you a sense.

Mike: 36:10 I'm going to get rid of the drip for now. Businesses that are doing say $2,000,000 in revenue are allocating 10 percent of their money toward profit. So $2,000,000 in annual revenue. That's $200,000 in profit. The owner, that's you, is getting paid $200,000 additionally. $300,000 of taxes. And the difference which, quick math, 1.3 million for the operations of the business. Here's the deal, as I show these numbers, I know, I think I know what the response is going to be like. Holy Crap, I'm not even close to that. I don't take home 200,000. I don't get a $200,000 bonus at the end of the year. I'm surviving check by check. And my fear is it becomes unrealistic, because I believe it is unrealistic to start there. That is simply what I call the taps, the target allocation percentage. But we also have this concept called caps. The current allocation percentages and what we do and the implementation of this is once we get these accounts set up, is we look at historically what have you done?

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Mike: 37:04 Have you been profitable for- maybe you've taken zero bonuses ever. That means your historical profit has been zero. Maybe your pay has only been five percent of your income on average. That's your starting point. Maybe your business has never paid your taxes, they came out of your pocket. That's a zero. Maybe your operation expense has been 95 percent. So we figure out where you have been, where we're targeting ultimately to get to, and then we start with where you've been. And every quarter we start building and improving that profit. We start with one percent, then two percent, we start increasing your owner's pay. And what happens is Parkinson's law starts kicking in. We start giving ourselves a little bit more money. It starts compressing how much money to run our business and we have to reevaluate it. You know, is our office space, is it really, are clients really impressed by this?

Mike: 37:47 Does it really matter that we're spending this much money? Maybe we should renegotiate or ultimately move space. Is that software we're providing, that we're buying, is that necessary? The number of licenses we have. Can we get a shared suite with maybe another law practice that could also benefit? We start becoming much more critical of our expenses.

David: 38:09 There's a question that was just asked in the chat that speaks to what you're talking about right now. If profits are falling because of a slow down, when do you fire staffers to maintain profitability, and at a small law firm employees become somewhat like family. You know, any advice to handle that issue when you're trying to keep honest to the one percent profit or two percent profit in the account?

Mike: 38:30 In any small business, I hope your employees are like family. That's how it is here at my company. First of all, if a business is struggling with profit, that's something that's not appropriate to share with their employees and say, for us to stay in, you have to be profitable. By the way, if you're not profitable, there's only a certain point that you can borrow money from others, you know, not profitable means that you are spending more than you're making. Where's that money coming from? It's either from your pocket or you're borrowing from external parties. At a certain point, those resources become exhausted. And what you're trying to do is you're trying to sustain everyone with the potential of collapsing, which means you compromise everyone. You've got to close your business down, everyone loses their job. So first of all, we at my company are very candid about the importance of profitability. And if we're not profitable, I tell our team, hey guys, we are not profitable right now.

Mike: 39:20 We have a runway, but it's only a certain distance. We need to collect together as a team and figure things out here. How do we reduce our costs? More important, how do we increase margins? How do we engage clients at a higher level? Conversation.

David: 39:34 Transparency is one way you handle it.

Mike: 39:36 Transparency is massive. The second thing is sometimes you have to make hard decisions. I've let people go, and we were talking about me crying before, when we were off air. I don't cry too often, but when I do, I do. And I had to let go of employees, not because of their mistakes, because of my mistakes. And I told them I'm making the hardest decision of my life. I have to let you go because I can't afford to keep you. And if I do try to afford to keep you, everyone's going to lose their job.

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Mike: 40:04 There's nothing you did wrong, there's something I did wrong. And now I have to make a decision that I regret not addressing sooner, but I have to make a decision to let you go and listen, it's not a fun experience, but it's necessary. Our businesses have to be sustainably profitable and we have to be candid about it.

David: 40:25 Thank you, and quick time check. We've got 20 minutes left. And I want to just make sure we get to where you were with, OK, it's month one, you set up the bank accounts and your first response was, OK, well you don't have to start at 20 percent profit. Start at one percent and maybe it takes you years to get the 20 percent. So just take us back to that moment. And now what?

Mike: 40:48 Yeah. So start off slow. And that's kind of my closing argument for anyone that's doing this. I suspect as we go through this, you may be skeptical it works for you. And I'm such an advocate for it. I've been doing this for myself for, for 10 years. I needed assistance. I developed it for myself, and I told you we have 75,000 businesses doing it and now hundreds of thousands of people have read the book. So it's probably more businesses doing it. But I don't expect that to convince you, all I'm challenging you is to try it out. But if you try to do the full throttle systems I'm teaching you, it's like, if you've never run a marathon before and you decided you wanted to run a marathon, your first practice should not be running a marathon. Let's start off slow. So even if you just have one account today, that's my goal, set up a profit account. Leave everything else alone, allocate one percent of your money toward profit and don't worry about anything else.

Mike: 41:37 The goal here is to convince yourself it works or convince yourself it doesn't work, but to give yourself a fair shot at changing your business and getting you to where you want to go.

David: 41:47 How often are you taking money out of the profit account?

Mike: 41:47 Quarterly.

David: 41:51 If you keep it in there too long, you might end up using it for expenses.

Mike: 41:55 I'm going to teach another technique so you don't. Yeah, if you use the money in the profit account for expenses, by the way, it was never a profit. You gave it the nice label of profit and then you put it back in your business as an expense. It's an expense, it's simply a shell game. Don't call it profit, it's an expense. Remember the purpose of profit. Share it with a public company. They reward the shareholder. I went out to starbucks with my money because I own a few shares of Ford. With my company, I've been doing this so long now. It sent me to Ireland. I just returned yesterday from Ireland on a nine day vacation, staying in castles because of my company's profit distribution and it felt so good. The very first time I did it, I went out and bought myself a nice dinner, myself and my wife went out for a nice dinner, and it was the best dinner in my life, not cause the food was the best, but because my company for the first time had paid for everything. It was awesome. So we want to get in that reward mechanism. I actually started to fall back in love with my business. I didn't feel that my business was a soul sucking cash eating monster of me. It was now serving me, but we've got to remove that temptation of stealing our profit to pay expenses. This is the next step. Set up another account at another bank that doesn't have online banking.

Mike: 43:04 You can disable it. Who doesn't have an ATM card. You don't have to get it. That doesn't give you the starter checks. We'll call it a depository account. All you do is you transfer your money from your primary bank. You work with that profit, that percentage allocated to that bank and store it there so it's out of sight, out of mind. Now, everyone told me your behavior, you log into your bank account multiple times a day. I'm telling you, that's beautiful because if the profit is peeled away and hidden the second bank, when you log in, look at your primary bank. You'll see how much money there is to run your business. You won't even think about the profit. It's now piling up behind the scenes. Then every 90 days on a quarterly basis, we're going to take that profit out as a celebration, a reward to you.

Mike: 43:43 It doesn't go back in the business. Remember, the business is reverse engineering off the profit. Once you take that profit out, celebrate with it and you define celebration. You know, maybe it's a vacation or a dinner or just some nice treat for yourself. Maybe it's paying off personal loans and debt. Maybe it's saving for your future. You define it, but it is for you. You, not the business. Then at that point too, we start increasing the percentage. Go from one percent profit to maybe two or three, start ratching it up and over time, that's going to put pressure on your operating expenses and force you to look at your business in a new way to reconsider costs. Some costs you can cut, and the bigger opportunity is increasing margins. Are there add on services you can do? Can you dictate a bigger premium? What else can you do to increase the money flowing into your business?

David: 44:30 Great. So we have now 15 minutes left. It's true. And I always like to end early, surprise people with early endings. And so what I want to do at this point, I want to give again one more opportunity. If somebody had a question that they were thinking about and we can answer very quickly at this stage, to think about that as I ask Mike this next question, and the question I have for you is, I know you've built an entire model and business on top of your book, profit first, generally working with accountants and other, I think professionals. Can you explain a little bit about what that is and why you've done that and how that works because you mentioned, and I'll start with, you mentioned there are 75,000 businesses doing it. How many of them are doing it just from reading the book and how many of them are doing that by working with experts to help them implement this?

Mike: 45:28 Yeah, so the majority are doing it on their own, and I suggest that's where most people actually start. So the reason is, I think you can experiment enough with it on your own that you can get momentum and see if it's a fit for you. Think about a gym membership, you know, the first step to getting physically fit is join the gym and get your butt there. The second step then is to hire a trainer if you're committed to it. So we have an organization called profit first professionals that spun out of it. When I released the manuscript, the pre-read of this book, I got a phone call literally within the first day or two of someone who had read the pre-released manuscript and said, hey, who's the accountant that supports this? And I said, oh my gosh, I never even thought about that.

Mike: 46:11 Who's the trainer? You know, a minority, but the people that are most committed to it, bring on someone who does it. And then the beautiful thing is everyone needs an accountant. I assume every business in here has an accountant you work with, perhaps a bookkeeper. Those people are necessary for the services they provide. My company has trained now hundreds of those people. They're called profit first professionals. They become certified in it. That specifically implement profit first in your accounting system, implement profit first in the bookkeeping, and enforce the system. It's like hiring a trainer, so the short of it is, I'd love for people to do, after this webinar, just set up that account and try things out. Maybe you can explore the book itself. Then once you get going, a profit first professional trainer may help you get to the next level.

Mike: 46:58 I have one that works for my own business and it's the ultimate accountability mechanism. It's like a trainer at a gym. Yeah. I may know the exercises I want to do. They make sure I do ones that are appropriate for my goals. I won't injure myself, and are the ones that are pushing me. I show up every day because I have a trainer. That's what our profit first professionals do. I think they're amazing folks, and just, not trying to plug it, but if you're interested, just type in profit first professionals. Actually, thanks, David just put in the link, thanks man. Just go there and click on 'find one' and we'll make an introduction to a profit first professional. And they can even answer some specific questions you have in implementing this in a law practice.

David: 47:34 And I see there is one question, as you were talking, about what percentages do you recommend starting out with, you know, besides, is it one percent literally what you're suggesting to start off with?

Mike: 47:48 I suggest, look at your historical profit. So the last three years, how profit- this is not owners pay, whatever compensation you took on a regular basis. I'm saying what percentage of bonuses did you take from your business at year end? What was the big bonus check you took out? Or maybe you did it quarterly. If it was zero, that means you have zero percent profit. Let's add one percent to it, but maybe you took out a bonus. Maybe you took out two or three percent in relation to your top line. Then let's add one percent to that. So if it was three percent, now make it four percent. We want to grow based upon your historical profit percentage and start adding one percent, one percent and start building out. As we move along we go faster and bigger.

David: 48:24 So Liz asked, do you have a profit account at two bank accounts? And then Fortuna asked, what if it's a new business?

Mike: 48:32 Great questions. OK, so do you have private accounts at two banks? You do, which sounds kind of redundant. Why not transfer just from my income account at bank one, all the way to that profit account at bank two. Why have this interim step of transferring to the profit account at bank one and then over to bank two. The explanation is long. So I'm going to try to give you a very short one, but it may not be fulfilling enough so the profit first professional can help you with that. The rule is, this is all behaviorally based. So the rule around temptation basically is, when there's some money available to us for a purpose, we try to use willpower. We know the money's not intended for expenses, it's for profit, but over time we're like "Oh, I need it just this one time" and we steal from ourselves. That's why we need to move to the other bank account, but transfers from a primary bank to a secondary bank can take up to five days with holidays and so forth, so there's a delay.

Mike: 49:24 That might be tempting. If we allocate to a profit account at your first bank now, while it's still your primary bank and just as accessible, since it's in that envelope, you'll see it as profit. It actually reduces the temptation. It's a behavioral response. We're like, Oh, I know it's profit. I really shouldn't do this. We can't play a mental game saying, oh, it's in the income account. I can use this one time, it actually reduces that internal game play. That's the short, concise, hopefully concise response and hopefully that's adequate as an answer, but it's a behavioral based system. Another thing I want to share with you is, profit first is a cash management system. Some people go, oh, is this the accounting system? No, this sits on top of your accounting system. The beautiful thing is you don't need a new accounting system. You don't have to ditch your quickbooks. This works with anything and everything.

Mike: 50:03 This is a bank based accounting system, or a bank based cash management system, so you can manage your cash appropriately, ensuring profitability.

David: 50:11 If you're starting a new business?

Mike: 50:13 Starting new business, absolutely start immediately, get good habits in place immediately in terms of the percentage. Even if your business makes one dollar today, one percent of one dollar is a penny. I know it's only a penny's profit, but it's profit. So we start off with any sized business, and the sooner you start, the better.

David: 50:28 How do you determine a percentage for a new business?

Mike: 50:31 I would encourage you to read the book in that case, because I have, based on all different sized businesses, the percentages to use. A new business actually can usually start with the healthiest percentages, because you don't know better, which is ironic. But when you don't know better, you'll be shocked at how well you perform.

David: 50:46 That was impressive, that pointing to your book and you've got exactly the right spot. There's another question in the chat that says, is it not better to move money every week or every month? Quarterly seems too long. Also, how do I deal with the issue of tax debt from the year past that also needs to be paid off?

Mike: 51:09 Yeah, so actually this, you get into a, we call it the 10, 25 rhythm. We don't have time to explain that, but weekly or biweekly is actually usually best for the allocations, the quarterly reference I made is simply to profit distributions. So yes, do this on a weekly rhythm or biweekly rhythm, and then on a quarterly basis that money is piled up in profit. That's when it comes out. So I wanted to answer that. If you have tax debt, realize that is an expense. That's an expense for your business. That means you incurred that, that you couldn't afford- you weren't profitable enough actually to pay your taxes. You now have the biggest creditor in the world, the IRS, saying you owe us, you owe us, and you've got to pay that off, and they will start to penalize you and charge you interest.

Mike: 51:53 That is actually an operating expense. The other use of profit is to pay off debt. We want to become debt free. And the only way, people say, well Mike, I can't worry about profit until I've paid off my debt. You know, the only way to pay off debt is by being profitable. You must incur more income than expenses, Aka profit. So when we start allocating our profit first, using this system, if you have past debt, like the IRS debt, when that quarterly installment comes out for your profit distribution, that's the one time that we're not going to use it to celebrate, we're to use it to eradicate debt. Actually, a small percentage still goes to you because we need a reward mechanism. I explained that in the book, we need a reward mechanism, but the vast majority goes off to pay off that debt. We want to eradicate and crush all your debt first. Never incur new debt. We always want to be cashflow positive, increase profit, but we gotta get rid of that debt fast.

David: 52:45 And I'm going to, in two minutes, just give my two cents about Lawline. And then what I would love at the end- you, know, buy the book obviously, and then share how to get profit first professionals, and then at the last minute, just one last takeaway of value. Maybe it's the rhythm they can start, or whatever that is just to think about right now. And before I get to that I just wanted to thank you, Mike, for taking the time to give them this webinar today. Mike did this as a favor to me, since I've known him for so long. He generally gets paid, you know, obviously, to be in person, but upwards of $10,000 to do this type of seminar. It's usually longer, it's more in depth, but he travels all around the world and to do this today, he did it because we're friends and he wanted to give value to the lawyers and accountants on this, so, as you can tell, there's a lot more behind this, but I just wanted to thank you as a friend and for the value. We've also, by the way, we've been talking about this for four years, so we're going to be doing more stuff for both FurtherEd and for Lawline with Michael because we both, I believe in what he's messaging, and he has a new book coming out which I'm really excited about.

Mike: 54:02 The proof just came in, it's beautiful. Clockwork. The proof. This is the proof. So this is not the one- you can see it says proof up here, but this just came in this morning so I got to go through it, but this is the new book.

David: 54:10 That's fantastic. So thank you very much. I just wanted to share with everybody, some of you may already be Lawline customers, some of you are maybe FurtherEd customers, but if you're not, I just wanted to give you a sense. This type of content- lifelong learning is our purpose. Personal Freedom for attorneys and accountants is what we do. Continuing Education, our courses may not be as high level as this, but each course that we do is to give you value that you can take away to help you in your practice, to help you in your day to day, or to help you transition to new upper area where you want to be. One of the things that we are so passionate about is group subscriptions, we work with 120,000 attorneys. For many of them, we work with entire firms, because it just makes sense.

David: 54:58 You know, once we work with the firm, we have an app, we have an online course center. We have all these different things that we've built because I love building great products, especially for professionals. I'm an attorney. I've been an attorney since law school and everything is designed to make this as seamless as possible. So it's not what you think when you think about continuing education. So that is my two cents just to share if you've never used us before. I will also connect with anybody on linkedin. I have a rule. If you're a lawyer or an accountant and you invite me to connect with you on Linkedin, I will connect with you. So while Mike talks, I'll share with you my linkedin profile, and Mike, thank you again. Again, his link to profit first professionals, and Mike Michalowicz. What value can you leave people with in the last minute, and then we'll throw it to Kathleen to wrap it up.

Mike: 55:46 Yeah. So I'll just give you a couple things about myself. Profit first professionals. Thanks for sharing that. https://www.profitfirstprofessionals.com/welcome/. This is my link again. That's my personal link. If you want to get started, I do have free resources for you, so if you go to http://www.mikemichalowicz.com/. You can get profit first, I think it's a chapter download for free so you know, try before you buy, and just start reading and see if it resonates with you all. My other books, I used to write for the Wall Street Journal for many years too, so if you subscribe you'll get all my Wall Street Journal articles. They are available. If you're a subscriber to the Wall Street Journal just go through their archives. You can get them there. You can get them for free through my site. The last thing I want to share, first of all, thank you for service you do. I realize attorneys get sometimes a tough rap, because of the litigiousness of society today.

Mike: 56:33 But I also want you to know that the most valued members of my organization are my in house counsel, Gale Cookson, my attorney, and also my accountant, Keith Barings, those two people are the infrastructure for growing a successful business. So thank you for the service that you do for businesses, for your clients, for society. And I truly mean that. I also believe that you have a responsibility for being profitable, because the only way to continue to deliver the great services that are needed from you are by being profitable. My final thought is this- is, if you aren't achieving the levels of profit that you desire, just be candid with yourself. Continue to do what you've done. Will that bring the results? Look at your history, how long have you been in this pattern? If you've been in it for a sustained period of time and not getting the results you want, it's time to try something new.

Mike: 57:26 But I expect skepticism. I've told you, I can't guarantee it will work for you. I think it will. I'm almost convinced it well, but you need to prove it to yourself. So my challenge for you is something I heard stated earlier on but I want to repeat it, is why don't you set up that one account? You can do it within the next day or two. Set up one account and start allocating profit to it. And it can be at your current bank, but just so you can see money drip into that profit account just to start seeing if it works for you. And if it does, then I hope you decide to explore the book, or watch this video again, or do other things like that to start getting further and further into it. And I'd love to see the next six months or a year from now the improvements it has made for your profitability.

David: 57:26 Great. Thanks. Kathleen?

Kathleen: 58:09 Absolutely. Thank you, David. Thank you again, Mike, for participating today. I really appreciate it as well. And thank you to everyone who attended. If you'd like to leave a few comments about the value that you got out of today's webinar, feel free to write them down in the chat function, and

I'll also provide my email address there in case you'd like to reach out to me directly to let me know what you thought. I'm also going to be sending out a recording and a written transcript of today's webinar. So keep an eye out for an email from me inviting you all to future webinars in our series, and keep an eye out for those materials. And enjoy the rest of your afternoon everybody.

Mike: 58:42 Thank you.