



106 - Profit First, Part 2 Episode Transcription

“We have the ability to insert ourselves into our business in a joyful way, to do the work that we love to do.”

Mike Michalowicz: Sadly, most entrepreneurs never get to this point. They don't even realize they exist. Because what happens is when you're growing the business in the early stages, especially the very early stages if you're a solopreneur, you have to do everything. So at a certain point we start believing, "Oh, a successful business has me doing everything." We became entrenched in this habit. You know, there's that saying, "What got us here won't get us there." That's only in the early stage of business that you need to grind it out like that, but very quickly we need to put a structure in place where the business can start getting independence of us.

Mike Michalowicz: Sadly, most entrepreneurs never realize that because they're so entrenched in this initial phase that they think that's the only phase.

Intro/Outro: Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life. The knowledge that has been shared from stages at conferences, pages of national business magazines and clients living across America, our host, Paul Adams, now brings directly to you.

Paul Adams: All right, welcome to Sound Financial Bites. So glad all of you could be here. As I mentioned in the into, we have Mike Michalowicz. Michael Michalowicz here on our show. We're excited to have him. We just finished extracting all of the stories and incredible knowledge that is some of what's present inside Profit First and we've got him back this week to talk about clockwork. Clockwork is his latest book in how to design a business so that you don't have to be there throwing the switches on and it runs like clockwork. Mike, welcome to the show.

Mike Michalowicz: Oh thanks so much for having me back.

Paul Adams: So in our client conversations we talk a little bit about the different stages and how they move through their business, that they probably opened their business because they were mad or angry about something in the marketplace or how an employer treated them and they go open a business. And when they first do, they just own a job. Then they start to build a business and that's where they've started to work on the business a little bit, doing systems, structures, executive leadership, but they've still got to drop in and do things. Then they move up to what I would call just owning a business. That they actually own and run it. They only work on it. They don't work in it any more, they don't hold any key roles.

Paul Adams: And then there's when they move on to living and working almost like an investor in the business, where their job now is to make sure that their balance sheet grows and maybe that company and other portfolio companies are really just entries on their balance sheet as different investments, which I know for some of your businesses, some of yours you're still performing chunks of, like your public speaking.

Mike Michalowicz: Yep.

Paul Adams: And then other ones you are an investor-

Mike Michalowicz: Yep.

Paul Adams: And you offer advice, but not all the way in it, and this is meant



106 - Profit First, Part 2 Episode Transcription

“We need some sort of inbound revenue, otherwise the business will not continue on whatsoever. This is the oxygen for business.”

to get all of the readers of Clockwork all the way up to that investor working on your balance sheet level.

Mike Michalowicz: Exactly, exactly. Yeah. I'm experiencing multiple stages. Like, two of the businesses I'm fully out and just managing the balance sheet. One of the businesses I'm just strategy, so working on and one of the businesses, the authorship component, I'm at the early stage where I'm still writing and speaking.

Paul Adams: And that's the kind of business that you probably still have to write the books.

Mike Michalowicz: Still have to write the books, yeah. Yeah. And it's a choice. Now I'm at that level, I realize it's a choice. I don't have to write the books. There's another way of generating them, but it's also a passion and I think that's the freedom of achieving a certain level in your business. That we have the ability to insert ourselves within our business, like, in a joyful way. To do the work that we love to do.

Paul Adams: Yes. Yeah, so the idea of if you're in your unique ability then you tend not to get distracted as easily. So let's talk ... I think most entrepreneurs, business owners listening to this or even key executives in a much larger company can get lost in how do I get things to work like clockwork? And I would go as far as to say many people have folded and been like, "This can't be done for my business."

Mike Michalowicz: It can't be done. Gotta grind out, gotta hustle. Yeah. So I was doing some research and I discovered a kind of a hierarchy of needs for business. Now, there's a Malawian hierarchy of needs for humans and I found that there's a parallel going on in entrepreneurship. Maslow states that we need first food and water and oxygen to survive, then you level up. You need shelter and then belonging and then self-actualization, go up this chain. I believe in entrepreneurship there's a similar basis. If we don't have it, nothing else matters, and the very foundation for every business is sales.

Mike Michalowicz: We need some source of inbound revenue, otherwise the business will not continue on whatsoever. I consider that the oxygen for business, that's the stage of breathing. The next level up is profitability. Profitability is the sustenance. That's the food and nourishment for a business. Sadly, many entrepreneurs get stuck at the first stage. All they're doing is gasping for air. They're selling, selling, selling. They're not profitable. Instead of seeking nourishment, sustainability, profitability, food, instead of seeking nourishment, they seek more oxygen. They actually gasp for air when they're starving to death and they don't understand why the business is still struggling.

Mike Michalowicz: So we have to have sales, but we have to have profit because that translates to sustainability, confidence, stress reduction. The next level up, then, is capturing time. Time is the only resource I can think of that's not replenishable. Use time, it's gone. So entrepreneurs who have consistent sales, consistent profits, I find want to recapture time. They want to maximize their utilization of time. They want to do what they want, when they want in their business and their life. So Clockwork is for this next stage up in the business, where if you want to recapture time, if you want your business to run itself, there are certain processes that you need to go through to remove you from the doing inside the business.

Paul Adams: And so this is really a take off of when people get a chance to



“I think we have this perverted belief that we should have pride in grinding it out, hustle, and sacrificing ourselves. I think that says we’re not willing to think at a higher level. I think we need to take pride in thinking strategically.”

engage profit first, they put that at work in their business. This is now that you've got profit handled, how do you really make ... It's something we talk to our clients about a lot. How do we make sure the business is serving the life you want to build and your life is no longer serving the business that you built.

Mike Michalowicz: That's right, that's right. And sadly most entrepreneurs never get to this point. They don't even realize it exists because what happens is when you're growing the business in the early stages, especially in the very early stages if you're a solopreneur, you have to do everything. So at a certain point we start believing, "Oh, a successful business has me doing everything." We became entrenched in this habit. You know, there's that saying, "What got us here won't get us there." That's only in the early stage of business that you need to grind it out like that, but very quickly we need to put a structure in place where the business can start getting independence of us.

Mike Michalowicz: Sadly, most entrepreneurs never realize that because they're so entrenched in this initial phase that they think that's the only phase.

Paul Adams: Yeah, and they're watching their peers struggling through it and I actually think there's a new gentleman we brought into our firm as an Advisor and so clients will start hearing from him a little bit on our podcast even. But a guy who, by his late 40's had actually accumulated enough wealth between he and his wife that they don't have to work anymore. She's still growing her career and killing it, but he couldn't find anything that was super exciting to him, so he actually decided to come work with us. So we've been getting these little chunks of sage advice. One of them was his grandfather told him, "I don't care what you make. Tell me what you save. That'll impress me."

Paul Adams: And I think of it the same way with the business is that part of what many business owners unintentionally take pride in and I think the same thing can affect executives, is how busy they are.

Mike Michalowicz: Yes.

Paul Adams: Like, they're addicted to it. Like if you ... I know business owners, I know you know business owners that would have quite a bit to confront personally if what they were able to tell people is, "Yeah, I just work on Fridays. I don't work any other days of the week." They would [crosstalk 00:08:25]

Mike Michalowicz: This goes back to our conversation last week about ego, right? It can be the bane of our existence. I was talking with a friend of mine, John Bates, a while back and there was a time that him and I would both have this conversation and he said, "You know what? I'm grinding it so hard, I barely got five hours of sleep last night." I'm like, "Five hours? I didn't get three." And I thought I was the winner. I felt like the winner. I mean, how pathetic is that?

Paul Adams: Yes.

Mike Michalowicz: But that was it. I now realize that pride is the guy who says, "Yeah. I work two hours on a Friday and my business is cruising."

Paul Adams: "And I'm done."

Mike Michalowicz: "And I'm done." I'm done. That's the winner. You know, a guy who can generate, I don't know, \$250,000 of annual income and works two hours a week versus the guy who makes 250,000 but he's working 80 hours a week? The two



106 - Profit First, Part 2 Episode Transcription

“The QBR, or the Queen Bee Role, is the one function that drives the survivability or thriveability of that hive.”

hour guy's winning. I was like, a guy makes 300 or \$400,000 a week but it takes 80 hours and a guy makes 250 on two? I still think that guy, the two hour guy, is still winning. [crosstalk 00:09:27] So I think we have this perverted belief that grinding it out, hustle, sacrificing ourselves, that we should have pride in that. I think that simply says that we're not willing to think at a higher level. I think we need to have pride in thinking strategically, not just grinding.

Paul Adams: And I want to take a pause here for a moment. When we come back, I want to talk with you about what is talked about in Clockwork that helps business owners and entrepreneurs make a shift away from taking pride in the very things that are destroying them just because everybody else is. How do we get them out of that current, climb up on the shore and see what everybody else is falling victim to. So we'll be right back.

Paul Adams: Hey everyone. I want to let you know I'm interrupting this podcast for a good reason. If you're someone who's enjoying this podcast, if our philosophy is helping you better think about money, then this offer is for you. We've opened up a financial inquiry call for our listeners of Sound Financial Bites. Our financial inquiry call is 15 minutes where one of our team will ask you some key questions, understand your concerns and if appropriate schedule you for a philosophy conversation with myself or Sound Financial Group's President, Cory Shepherd. If you email us at info@sfgwa.com with 'inquiry' in the subject, we will reply back to you with a link to our team calendar so you can schedule a call at a time that's least invasive for you. Even if we're not a fit, the team member having the call with you will point you in the direction of resources we have that can help you in whatever the next step for you in your financial journey is. Now back to your podcast already in progress.

Paul Adams: Mike, right before we took that break you promised to talk about how do we help entrepreneurs escape the addiction to busyness-

Mike Michalowicz: Right.

Paul Adams: The pride of ... I would say almost like the pride of overhead, like when I walk around entrepreneur events and people say, "Well what do you do and how many locations do you have and how many employees do you have and what's the revenue?" And it's all that stuff, so like I would almost categorize the whole thing as pride in overhead and complexity and [crosstalk 00:11:37] it shocks people when I tell them, they say, "Well you know, what's your objectives in the business?" And I'm like, I give them my total income goal and that we want to live off 20%, save or give away 80% and this year we'll spend a month in southern California just because that's where we want to work from in the Winter this year with our RV. And they're like, "What?"

Mike Michalowicz: There's so much ego in size, right? "Oh like I've got 30 employees." "I've got 40." I know, when someone says how big their business is, I go, "Oh, I'm sorry to hear that." And they're like, "It's shocking, I've raised five million dollars in revenue." I'm like, "Oh, I'm sorry." And he's like, "What?" And I'm like, "Well that's a lot of stress from your business." Or they go like, "I've got 15 employees." And I go, like, "Gosh. Sorry." You know. But before that I was always like, "Oh my God. I need that. I need that."

Paul Adams: Yes, and you know, before we went on break you had talked



“The Queen Bee Role is the heart of the organization, but we do need to remove pieces so the person or persons serving the QBR limit their work more and more to that one function.”

about that you thought you'd won because you had less sleep than your friend. And the crazy thing is, he thought you won, too.

Mike Michalowicz: Yes, he did. He did.

Paul Adams: So how do our listeners escape that busyness trap? The addition to the business being, I would say dysfunctional?

Mike Michalowicz: Yes.

Paul Adams: To change their lives?

Mike Michalowicz: There is a shockingly simple way, and we have to find this thing in our business called the QBR. It stands for the Queen Bee Role. I'll give you a little background and then I'll tell you how to find it. I was studying what drove organizational efficiency. What organizations use the least energy to scale the strongest, the fastest, the easiest. And I couldn't find the organization. I found a lot of businesses that were scaling and flowing, but there was no common thread until I found beehives. Just by happenstance I started studying beehives and found that beehives can scale very quickly.

Mike Michalowicz: I bet you many listeners have experienced these. You see one bee flying around your house and the next day there's this massive hive there. How do they pull that off so quickly? They follow a simple two rule process. The first rule for every single bee in the hive is to know what the QBR is and protect it. The QBR, or the Queen Bee Role, is the one function that drives the survivability or [inaudible] of that hive. And for beehives, it happens to be laying eggs. But bees don't live for long. They live for six to eight weeks, so there's a big turnover, if you will, in beehives.

Mike Michalowicz: So laying of eggs is absolutely critical and every bee knows that. There happens, in a beehive, to be one bee that serves that role. She's a queen bee who's laying eggs. If she's failing to deliver on that, the bees ramp things up to make sure she gets back on track or they expunge her. They ditch her and they bring on a new, or they spawn a new queen bee. The second rule is once a production is ... they're confident it's happening, they then go on to do their primary job function to support the [inaudible] of the entirety of the hive.

Mike Michalowicz: So first the heartbeat, the pulse, laying eggs and then the protection of the community itself. Well businesses all have a QBR. I don't want to confuse a QBR with a person, that would be a queen bee. I'm talking about the queen bee role-

Paul Adams: Okay.

Mike Michalowicz: The function of laying eggs. Every business has it, but most businesses don't know where it is, and therefore most businesses struggle because they don't know what's at the heart of the organization they need to protect. Here's how you find it. Identify what is your brand promise? What are you known for? A recent example I'm using is FedEx. Just randomly picking a big name that everyone recognizes. They're known to deliver packages on time, every time. That's their big promise. The queen bee role is the one function, the most important function behind that promise, that actually makes the promise a reality. And for FedEx, it's the logistics. It's movement of packages. So the queen bee role at FedEx is the movement of packages.

Mike Michalowicz: Their customer service, like I don't care if FedEx makes a



106 - Profit First, Part 2 *Episode Transcription*

declaration, "We have the nicest customer service anywhere. People are just going to be Lord of Pond when they call us. They're going to love our people." That's not going to move the needle. If FedEx says, "You know what? Let's not worry about the logistics any more. It's kind of expensive to move packages anyway, efficiently. We'll do something else." That would crush the organization. So everyone knows inherently but they're also trained, that the queen bee role, the heart of the organization is logistics. Every employee knows that if we're having a failure in logistics, your job is to make sure the people that serve that are protected so they can do a better job at it. And they then go do their primary function if logistics are okay.

Mike Michalowicz: Taking this down to a smaller organization because many of our businesses can't relate to the size and magnitude of FedEx, think about a doctor's office with just a few employees. The queen bee role for many doctor's offices could be delivery of an examination. They want to be known for their thoroughness and healthcare. If that's their brand promise, then examinations and prescriptions are very important. The doctor or doctors are serving that role. Here's the thing. You won't walk into your doctor's office, a good one, and the doctor's waiting for you and will say, "Hey, welcome to the office. Sit down in the waiting room. Let me grab you a cup of coffee and the newspaper. I'll be with you in about 30 minutes." No. There's a receptionist doing that. The doctor is not pulling files and leafing through them and saying which patient is which. There's an administrator doing that.

Mike Michalowicz: The doctor shouldn't even be doing insurance claims. There's an administrator for that. The doctor does the one key function, examinations and prescriptions. And if they're not doing it, every employee knows, like if you see the doctor walking around trying to escort patients around, we've got a freaking issue. We've got to get them back to do their primary function. A doctor's office will perform as effectively as a doctor themselves.

Mike Michalowicz: So the question for all of us is, what's our brand promise? Once we know how we're differentiating ourselves in the market, what is the one function that we're hinging our success on? That is making that brand promise a reality? That's the QBR. Now, to bring efficiency to your business, you concentrate your efforts there. You start removing stuff that doesn't support that, and you make sure that the people that are serving that, exclusively serve that. Because their performance will dictate the performance of the entire organization. Everyone else is really in a protection mode and doing blocking and tackling of the organization as that primary function is happening. That's actually bringing extraordinary efficiency to an organization.

Paul Adams: And what I'm hearing in that is that we ... Once you have a lot of clarity about the queen bee role and let's say the owner is the one doing that, you then have the ability to systematize that role enough that someone else could do it.

Mike Michalowicz: Bingo.

Paul Adams: Which is different than, like, I mean I go back to my roots in 20 years ago, studying the eMyth stuff. That was, like, systematize and get really clear on the lowest role possible first. This seems to be a complete stand that on its head.

Mike Michalowicz: Yeah, it is to some degree. I mean, you do the step to it. It's not an overnight shift and I was telling you off air, I had dinner with Michael Gerber



106 - Profit First, Part 2 Episode Transcription

coincidentally in Mexico, Monterrey, not [Kabah 00:18:41]. But we're having dinner together. We were both keynoting an event, and I said, "Michael, I'm just a massive fan of the eMyth. I just have one challenge I think readers face. They think it's a switch. They think that one day you're working in the business and the next day you're working on the business. Like you're throwing the business into second gear. And the reality is, it's not a switch. If people try to do that, it's too abrupt of a change. It's a throttle."

Paul Adams: Yes.

Mike Michalowicz: Michael Gerber, he's a neat guy, so I'm not going to share the words he shared, but-

Paul Adams: I've heard.

Mike Michalowicz: Yeah. He's an odd guy at times and it kind of caught me off guard, but it was funny and we both laughed about it. And then we dug into what I believe is a throttle process. The queen bee role is the heart of the organization, but we do need to remove pieces so that the person or persons serving the QBR limit their work more and more for that one function. Once they get there, so the first key is slough off the other work. Then once you're there, you do exactly what you said. Is we now remove ourselves by systematizing that, and now we're independent of the business and we can be managing the balance sheet as opposed to working in the business at all.

Paul Adams: That's so good. Well I know we have limited time today. I am so thankful you could be on two weeks in a row, sharing both of our Profit First and Clockwork. I don't want to forget to share with all of you, if you didn't get a chance to hear the last episode, I want to encourage you to go back to check it out. But the gift that we've been given, you can get a sfgwa.com/, so it's Sierra, Frank, Golf, Whiskey, Alpha slash Clockwork. And that's going to take you to a page, it'll forward you right over to Michael's dashboard, where you're going to be able to access all of the videos and pdf support documents to help you implement Clockwork in your company.

Paul Adams: Michael, I gotta tell ya. I am super thankful for your friendship and for the influence you've been on both us and our clients. It's been incredible and thank you for being here today.

Mike Michalowicz: Thank you brother. It's been a joy being with you, and I can't wait to see you face to face again real soon.

Paul Adams: Yeah, it's good to see you in September, and for all of you listening, I just want to tell you that I hope that whether you're an executive in a company, and this is going to allow you to move differently to maybe allow you to identify that QBR role. Maybe it's part of what you do or what your organization does, and if you're a business owner, giving you the chance to really benefit from the business the way that you should, and allow the business to build structures around you so that you do what you love most and do best, so that this podcast could be a contribution to you being able to design and build a good life.

Intro/Outro: I want to acknowledge you for taking the time to tune in to Sound Financial Bites. You stopped long enough in your busy day to reflect on your finances and your future, to help you design and build a good life. Please take a moment to subscribe to this podcast and follow us on social media. You can find us on Facebook and LinkedIn.



106 - Profit First, Part 2 Episode Transcription

Intro/Outro: If you have a topic you would like to hear us discuss, please send us a note on Facebook, LinkedIn, Soundfinancialbites.com or email us at info@sfgwa.com. Be sure to check out the show notes for links to any resources that were covered in each episode. For our full disclosure, please check the description of this episode, the description of this podcast series, or you can visit our website. Make it a great day.

This Material is Intended for General Public Use. By providing this material, we are not undertaking to provide investment advice for any specific individual or situation, or to otherwise act in a fiduciary capacity. Please contact one of our financial professionals for guidance and information specific to your individual situation.

Sound Financial Inc. dba Sound Financial Group is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Past performance is not indicative of future performance. Insurance products and services are offered and sold through Sound Financial Inc. dba Sound Financial Group and individually licensed and appointed agents in all appropriate jurisdictions.

This podcast is meant for general informational purposes and is not to be construed as tax, legal, or investment advice. You should consult a financial professional regarding your individual situation. Guest speakers are not affiliated with Sound Financial Inc. dba Sound Financial Group unless otherwise stated, and their opinions are their own. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions and are subject to change without notice. Past performance is not a guarantee of future results.

Each week, the Sound Financial Bites podcast helps you Design and Build a Good Life™. No one has a Good Life by default, only by design. Visit us here for more details: sfgwa.com