MAKE THE VITAL CHANGE THAT WILL
LEVEL UP YOUR BUSINESS

FIX THIS NEXT

MIKE MICHALOWICZ
AUTHOR OF **PROFIT FIRST** AND **CLOCKWORK**

Excerpt

PORTFOLIO
PENGUIN

INTRODUCTION

"I OWE YOU A BEER!"

The subject line of Dave Rinn's email caught my attention. I read on.

"I was just sitting here buried. I recently lost one staff member to a lateral move and another is in Key West. Instead of three of us carrying the load, I was here alone, crushed under it. We used to just do everything that came our way, but with two people out, it was clear that our approach of putting equal importance on everything wasn't working. We need to do the right things, not everything. Yet I was feeling paralyzed by the multitude of choices. It was like trying to go down every path at once. I didn't know what to do next."

Sitting here buried. Feeling paralyzed. Don't know what to do next. Yup. That sounds about right. Some business owners feel this way from time to time. Most business owners feel this way all the time. That relentless weight of being buried by all of the problems that need to be fixed affects business owners of every level of experience

and success. Whether you just started out or your company is the industry leader, whether you've struggled to make payroll or are rolling in profit, that urgent need to fix everything, like now, can cause you to freeze up. Which problem should you tackle first?

Dave runs a successful coaching and cash-management firm. Most days, his solution to overwhelm was an instinctual response: get more people doing more things. Yet when he was down two staff members, he was blessed with the new awareness that not everything is of equal importance. Suddenly, he was dealing with all aspects of his business: intakes, bookkeeping, scheduling coaching calls, making the coaching calls, chasing down data from clients—everything. Down two employees, weak links that were always present were amplified and became crises.

So, why did Dave say he owed me a beer?

"I have always just gone with my gut in the past. I believed that every problem was a problem to be addressed. Every opportunity was an opportunity to be exploited," Dave explained in a follow-up phone call. "In moments like these, I would have just gone into 'fire-extinguisher' mode and put out the fires that were burning my ass. I would have responded to whoever screamed the loudest. And when the team returned, I would switch from 'fire-extinguisher' mode to 'emergency-dispatcher' mode. We had the same problems, except now I told my team which fires to put out. Beholden to the never-ending stream of urgent issues, we had no specific pathway to growth."

But now Dave had a secret weapon. A simple tool, not in his toolbox, but printed out and taped to his wall.

"This time, though, I looked over at my wall and saw the tool

you gave me last time we met. It reminded me to slow down, step outside instinct, and ask, 'Okay, instead of doing little bits of everything, what is the one thing I should fix next to move the business forward?'"

The tool taped to Dave's wall is something I call the Fix This Next (FTN) analysis, and I'd given it to Dave as part of a beta-testing group years back. Using it, Dave discovered that he had four issues related to his current problem—two related to sales and client commitments, and two related to overall efficiency, what I call order. In just minutes, he was able to figure out which problem he had to fix next in order to make progress that sticks, and how to approach it. He quickly identified solutions for handling the systems problem: adjust client commitments and adjust his company's workflow.

Dave told me, "Just thinking through it was a calming process. I was no longer spinning out of control. I thought, 'I can handle this. Now I have a pathway.' It pulled me out of my sense of drowning, and I was able to pause and consider what we were missing and what we could address to fix it.

"The fix I came up with wasn't just for the moment," Dave continued. "It was a realignment of the business so that I could straighten out and not have to go into that buried mode over and over again. The fix helped me now and it will help me next year. I am able to address my business's current issues in a way that will serve my company's future. Now, when I find myself questioning what to do, I pause momentarily, evaluate what to address with the FTN analysis, and then find myself back in control and my business moving forward."

When entrepreneurs reach out to me, it's typically to ask for help to make a big change or solve a big problem. Some have hit a sales plateau and no matter what they try, they can't level up. Or they can't dig themselves out of a financial hole. Maybe you have some of the same problems with your business. Maybe you're fully staffed and still dog-tired. Or you've lost your passion for the business because you're not seeing the impact you hoped to make. Or maybe you're looking for a way to leave your mark for generations to come, but don't know how to make it a reality. Whether you are in crisis mode, simply want to grow your business, or want to make a lasting impact on our planet, *Fix This Next* finds the critical issue you need to resolve—wait for it—next! When you are in "fire-extinguisher mode," FTN gives you the pause necessary to pinpoint the core issue. When things are moving along but just not moving forward, FTN points to your true north.

I had taught the system to hundreds of entrepreneurs already and coached many through it. I knew it worked in the lab, but this was the first email I received about how FTN worked "in the wild"—without my prompting or advice. To hear that the tool I developed and tested on my own business over the years actually worked for another entrepreneur made my day. (I owe *you* a beer, Dave.) To learn from hundreds of others, as I would over the coming months, that the system worked for both short-term panic and long-term growth strategies made my whole year. And to hear that a single piece of paper could hang next to your desk, as it does mine, and give you total control of your business . . . that, my friend—*that*—may have made my whole life.

Whether it's staffing issues, or trying to make payroll, or capri-

ciously declaring a goal of more sales, or more efficiency, or more profit, or all of it at once, most entrepreneurs busy their days dealing with the apparent issues. We know we have core challenges that need addressing and problems that need fixing, but we aren't sure which one to focus on first, so we go for the low-hanging fruit. We look at the most obvious thing that seemingly needs to be handled immediately and tell ourselves that we will work on "all the other stuff" later. You know, when we have more time. (You can probably sense my sarcasm, even from outer space.)

Since I have written five books prior to this one, each one dealing with a different core business challenge, the question I am asked most often by entrepreneurs is "Mike, which book should I read first?" A good question, to which I used to give a poor response. I used to say, "You've got to read *Clockwork*." Or whichever book my notable bias thought apropos. My responses were not based on what served my reader nearly as much as what I was most hyped up on at the moment. You know—the apparent.

Now I answer that question with a question. When people ask "What book should I read now?" I respond by asking "What problem in your business do you need to fix next?" If you need to increase sales and grow your client base, then I believe you will find *The Pumpkin Plan*[*] provides a proven strategy to do just that. I am blessed that every day I hear of another business that has "pumpkin planned" healthy growth to great effect. If your sales are sustainable yet you're still struggling to put money in your pocket, then I

[*]Visit PumpkinPlanYourBiz.com to get free resources and access to certified Pumpkin Plan coaches.

humbly submit *Profit First*[*] should be your next read. I am proud, honored, and humbled all at once to say that hundreds of thousands of entrepreneurs have profitable businesses now because they followed the methods detailed in that book. And if you're still chained to your desk wondering when you'll ever get off the hamster wheel that is your business and finally get back to doing the work you love best, then *Clockwork*[†] is your best bet. Entrepreneurs all over the world—including me—are designing their business to run itself—and taking annual four-week vacations—because they are following the systems I shared in that book. If your struggle is with hiring, leadership, sales techniques, or one of dozens of other common challenges, the solution is out there in one of the many extraordinary books written by my contemporaries.

Still, the question remains. What is the next problem you must fix? The answer to that simple question is of critical importance, but few entrepreneurs know how to answer it. Of all the challenges we face, we aren't sure which one is the most important *right now*. It's a serious concern. How can you be sure which problem or opportunity you need to address first, when you have so many issues on your list? If you are focused on the apparent, you would choose the issue that seems make or break in the moment. Makes sense, right? You know what that issue is because your gut tells you so, or because you are emotionally connected to the outcome, or because it's the easiest issue for you to deal with.

Here's where you would expect me to tell you which challenge

[*]Go to ProfitFirstProfessionals.com to get free resources and to request the services of a certified Profit First expert.

[†]You guessed it! Free resources and expert help can be found at RunLikeClockwork.com.

to focus on first. (As I'll explain later, it isn't necessarily profit, even though my book *Profit First* may have you thinking otherwise.) Except that I don't know what it is. Honestly, I don't think you know what it is either.

That's why I developed a tool to find the biggest challenges and opportunities in any business quickly, and at any given moment. I'd been following the principles for years, and my books reflected that, but I hadn't yet figured out how to break it all down for other entrepreneurs.

The tool I created gets you out of guessing mode and into fast, impactful, deliberate action. It took me the better part of three years to perfect it, testing it out in my own business and with other entrepreneurs through multiple iterations. Now all you have to do is understand it and follow a 4-step process. Seriously, it's so easy, it can be done in less than fifteen minutes. (And yes, I have a story about that in this book.) The tool is so simple that by chapter 3 you will have mastered the basics and you'll be ready to use it daily. In fact, if you download the tool right now (at FixThisNext.com), you can pin it above your desk and refer to it whenever the need arises—just as Dave did. I hope it becomes your bestest friend, the consigliere who whispers in your ear before you make a critical decision.

Why is the Fix This Next tool so effective? It works because, rather than connect to your gut or emotions, it connects to your business needs—the foundational needs that all businesses have, regardless of size or industry—and provides an order in which to deal with them. When we address the apparent, we may be overlooking a vital need that needs fixing *first*. In solving that need, the

apparent issues and other not-so-apparent issues may automatically be resolved.

Think of it like this: You build a house from the ground up. You first need a strong foundation, then a strong first floor, and then upon that a strong second floor, and so on. If you don't consider what supports what, in what sequence, the structure will collapse on itself. The same is true for your business. Focusing on the apparent is similar to replacing windows on the third floor while the basement is in danger of crumbling due to widening cracks in the foundation.

In every book I've ever written, my primary goal has been to simplify some aspect of entrepreneurship so that you can easily use the systems and strategies I present to meet your business goals. Countless entrepreneurs have shared with me the transformation their business experienced after applying one or more of the tools in my earlier books. But this book? This book has the mother of all tools, in my (clearly) not-so-humble opinion.

Now when people ask me which of my books to read first, I have the easiest answer yet. *This book*. Start with *Fix This Next*.

How much time have I spent putting out fires and randomly declaring objectives for my business? Before I started following the principles on which the Fix This Next tool is based, pretty much all of my time was spent on the apparent. Once I figured out how to pinpoint what to focus on next, my businesses grew faster and healthier. Since creating the tool, I've stopped relying on my instinct alone and have started using this system to listen and respond to my company's true needs. Most importantly, I'm committed to empowering you, my friend, so that you never miss another op-

portunity either. I hope this book is a resource you will refer to over and over again, because the tool never stops working. You can always return to it to pinpoint your biggest challenge, fix it next, and then pinpoint the next one after that as you build your beautiful business, floor by floor. And who knows, maybe one day I'll owe you a beer* too.

Business success is a journey, something you need to navigate for the perpetuity of your company. I am convinced the tool you are about to discover will be your ultimate guide. I also realize that leafing through a couple of hundred pages or listening to hours of audio to revisit the tool each time may not be the best use of your time. So I created a collection of resources for quick reference. You will find a one sheet explaining the tool, the most current (and regularly enhanced) online evaluation, access to certified coaches using *Fix This Next*, and more. It's all free and available now at FixThisNext.com.

You are much closer to your goals than you think you are. You just need to move in the right direction. Let this book be your compass.

*I am totally up for a tequila gimlet or an old-fashioned, if you prefer.

FIX THIS NEXT

Chapter 1

THE BUSINESS OWNER'S COMPASS

YOU ARRIVE AT YOUR DESK IN THE MORNING, PUT ON YOUR firefighter gear (your glasses, your email app, and a cup of coffee with a double shot of espresso), and get to work putting out fires. Calm the pissed-off customer. Send out the late proposal. Scramble to cover payroll—right after you deliver a speech to your employees about your company's "bright future." All the while tightly crossing your legs from that third cup of coffee, because who has time to go to the bathroom? #amIright?

Even when you do find time to hunker down with that big project you've been putting off, the question that begs to be answered is, "Does it really matter?" That one big thing you are finally about to tackle, will it really have a significant impact?

For well over a decade, it seemed the fires I put out most were related to a lack of cash. I had a maxed-out megaloan, crazy credit card debt, a house that was refinanced yet again to cover payroll, and a constant feeling of compression in my chest, as though I were having a continuous heart attack, hour after hour, day after day,

and month after month. I had to borrow from friends to pay the company's rent, while uncomfortably saying—and pseudo believing—it was an investment in our growth. I let my credit card statements sit on my desk unopened in fear of seeing how much I owed, opening them only when the collection calls came. My credit card debt had surpassed seventy-five thousand dollars . . . and that did not include personal or business loans.

In my hopeless state, I focused on the very apparent solution: sales. I did everything I could to sell more things to more customers. Admittedly, I tried to sell anything to anybody. While more revenue was an obvious solution, as the sales volume improved, profit did not. In fact, as my company made more money, I inexplicably accumulated even more debt, and officially maxed out all sources of loans, putting me at $365,000 in *personal* debt. Yeah, my business "made" more money, while I dug my financial grave. What the hell was going on? Why didn't the increase in sales fix my business? It made no sense to me whatsoever.

If you are familiar with my other books, you may already be familiar with my story and know I eventually realized that more sales alone does not help a business; it actually hurts it. The story I haven't told before is how I came to understand that I had to look for the solution at a different level.

It was in the depths of my desperation that I met a moment of inspiration. One fateful morning, my printer jammed, and I just couldn't get it to work. I pulled out the tray and the toner, opened every flap, and then put everything back the way it was. Still jammed. Then I tried that "fix" again. Pull out the tray and toner, open every flap, then put it all back. Still nothing. I tried the same

sequence of steps yet again, just much harder. I yanked open the tray and slammed it back in. I tugged out the toner, shook it like a can of spray paint, and threw it back in. I swung open all those stupid flaps and slapped them back closed. I did this a fourth and fifth time, with growing force and frustration (and perhaps a curse word or two), until I realized that I was instinctually repeating the same fruitless steps over and over, and that I needed to try something different next. Instead of picking the printer up and throwing it out the window, which I was highly tempted to do, I paused and pondered. Since what I was doing wasn't working and, with the force I was using, probably making things worse—what else could it be?

I poked around the back and found a tiny piece of crumpled-up paper caught in the feed. I removed the blockage with a combination of scissors, a paper clip, and masterful hand yoga, and we were back in business. Cue the epiphany! I realized that if the approach I'm using to fix a problem doesn't work, despite repeated attempts and despite my gut instinct to do the same thing but harder, it's not the solution. Right then and there I asked myself, what if my company's problem didn't reside with the sales side of my business but was jammed up in another part? Rather than reverting to "sell more—sell harder," I paused and pondered where my business blockage really was.

I was able to figure out that the apparent sales issue I had was not a sales issue at all. I had a profit issue. All my work to bring in new sales wasn't going to get the job done because I had been working on the wrong problem. The steps I took next all came out of this realization, and wound up saving me and my business.

Applying the solution I came up with, my business became permanently profitable, practically overnight. As of this book's publication date, it has had forty-five (yes, forty-friggin'-five) consecutive quarters of profit distributions—*to me*, the business owner. That solution was the foundation of Profit First, which has helped hundreds of thousands of businesses become profitable.

The funny thing is, the solution of taking the profit first for my business is perhaps unique in its simplicity, but I'm sure I wasn't the first to think of it. I suspect you've probably thought of similar ideas. It's not about coming up with the solution; you already have it in your mind, or someone has written a book on it. The trick is in the timing. Applying the right fix at the wrong time yields a little bit of benefit and a lot a bit of frustration. The key is to apply the right fix at the right time in your company's evolution. The key is to know what to do next.

Over the last twelve years, I've devoted myself to the study of business and entrepreneurship, and I lived it for almost three decades. I've come to understand that all business owners struggle, at every level. Very few achieve their big plans for revenue or for changing the world, let alone turning a profit. And the few that do still seem to end up losing their way at some point. This is not due to a lack of experience or resources, or even money—the three most commonly reported reasons why businesses fail. The biggest problem business owners have is that they don't know what their biggest problem is. Let me say that one more time for the folks in the back:

The biggest problem business owners have is that they don't know what their biggest problem is.

We sure as hell don't, because every problem seems like the big

problem—a fire that needs to be put out before it becomes a blazing inferno. I suspect you may feel this way about your business right now. Or you may think you know the exact thing that you need to fix, that thing that, if you could only solve it, would finally make everything work. Shoot, you may have a list neatly tracking *all* the things you need to address to finally achieve the goals you have set. You may even believe that the solution is just to keep grinding it out. (It isn't.) Yet even when you do manage to successfully tackle a problem, or even all those problems, it doesn't seem to move your business forward in a big way.

In the past, I repeatedly fell into the trap of fixing whatever problem was in front of me. Whether I was saving the day, or just trying to get my company to the next level, I rushed to the apparent problems. You know, the obvious stuff and the squeaky wheels. Because—and I know you get this—at any given time there is always a boatload of problems that need your attention. So, trusting my gut instincts, I would just pick the one that felt like the most urgent and focus on that. In this process of addressing the apparent issues, I was disregarding the most impactful one. What resulted was a continuous run of problem solving, and yet my business remained stuck.

Sometimes—rarely, but sometimes—you solve a problem and your business *does* take a leap forward. Phew. The relief. You see positive movement. In that moment, the future looks so bright you gotta wear shades (made of gold). Everything is perfect, until it's not.

Before you know it, your business careens back into the struggle. That's why this outcome is worse—tasting success only to get

stuck again is not just frustrating, it's costly and demoralizing. I call this the Survival Trap. Sadly, I have found it to be the most common situation in which entrepreneurs find themselves. They take the necessary (and often panicked) actions to keep the business alive today, and then repeat the pattern tomorrow, and the tomorrow after that, and so on. The goal for each day is simply to survive the day.

The Survival Trap manifests in many different ways. If you've read my previous books, you might be familiar with it. When it comes to our business's (lack of) cash flow, we often throw our few remaining dollars at the immediate problems and opportunities, hoping that profit will magically materialize as a result. When it comes to our time, we burn out ourselves and our people by working even longer hours, constantly putting out fires and chasing arbitrary quarterly targets instead of building sustainable systems. And when it comes to fixing the business, we find ourselves patching up the obvious problems, only to wonder why they keep reoccurring over and over again.

If this cycle seems a little too real and you're wondering if it's even possible to break out of it, take heart. Entrepreneurs are natural problem solvers. You are a natural problem solver. You can't get a business off the ground without being one. So it's not as if your business is being held back because you're up against an unsolvable problem. You can fix whatever it is that's holding you back . . . if only you can figure out what you need to fix, and in what order.

You *can* move your business forward in big strides, and in short order. Your vision for your business *can* become a reality. And it

will, once you figure out what your biggest problem is right now, and then devote yourself to fixing that next.

You Can't Get out of the Woods on Instinct Alone

Amanda Eller intended to take a brief hike in the Hawaiian woods but ended up lost for seventeen days, clinging to life. Eller's plan was to go on a three-mile hike. At one point, she sat down on a log to meditate. When she finished, she wanted to return to her car, but she was disoriented and unsure which way to go.

"I have a strong sense of internal guidance, whatever you want to call that—a voice, spirit, everybody has a different name for it," she told reporters after the rescue team found her. Except, it turned out, her "internal guide" seemed to be on the fritz that day. And continued to fail her for sixteen more consecutive days. She tried one path, and then another. She even ended up on a path that was not for humans—it was a boar path. Yup. You read that right. Her internal guide sent her on a boar path. You know, those half feral pig, half minirhino beasts that try to impale you if you look at them the wrong way. That boar path.

When rescuers found Eller, she was severely injured (not from a boar, which was a small mercy), could barely move, and had given up all hope of being found. She was only a few miles from her car.

So what might have helped Eller find a path out of the woods? She admitted later that she was irresponsible and should have brought her cell phone and some water. She also didn't have a compass in case her cell phone battery died or she couldn't find

service to use the map app on her phone. The magic of a compass is that when you have one, there's no need for batteries or phone chargers or GPS, it can work in any weather condition, and it is ready to go twenty-four seven—whenever you need it. If Amanda had had a basic compass, just a simple, fit-in-your-pocket, no-bells-and-whistles compass (and knew how to use it), she would have made it home safe and sound in time for dinner.

I've always been a big believer in working *with* my human nature to accomplish a goal, rather than trying to *change* my wiring to achieve it. Why go the long way around the block? Or take a seventeen-day, life-threatening detour through the woods? That's why I designed the Profit First system to work with our natural tendency to manage our business by our bank accounts. In the past, I would spend all I had, based on how much cash was sitting in my bank that day, even though I knew that I had to set aside some of it for taxes or for a big equipment purchase. I would always try *not* to spend down my bank balance, but it was a game of wills. And I almost always lost that game.

By simply allocating my revenue into profit and other accounts, such as a reserve for taxes, I ensured that when I spent my operating expense account down, I still had enough money for everything else—especially profit.

So what we really need are systems that work *with* our natural tendencies. You can still use your gut to navigate the terrain, but a compass will ensure your instincts are in fact consistently moving you in the right direction. In much the same way, Fix This Next is a simple system that works like a compass for your business. When I use this system, it always points me in the direction I need to go,

and I use my instincts to address the immediate terrain. And you will too.

Getting your business bearings begins with what you see as a barrier to your company's path forward, and then, in four simple steps, home in on the direction you need to take (that is, the problem you need to solve).

The Business Hierarchy of Needs

Chances are you've heard the common belief that the actions you need to take to drive growth should be determined by the stage of revenue your business is at. For example, "they" say when you achieve $250,000 in annual revenue, you will likely need a full-time employee. When you get to $1 million, you will probably need to master niche specialization. At $5 million, you'll need to build a cache of cash. When you hit $10 million, systems are everything. I understand this thinking, and although these are occasionally applicable guidelines, they don't hold much water in our times.

On its own, revenue is not a reliable marker for healthy business growth. A business doing $250,000 in annual revenue could be more successful than a business doing $250 million.* In fact, a small business can bring more joy to the owners, have a higher profit percentage, be more efficient, have a greater impact on their industry and community, and create a remarkable legacy that far surpasses a company that has one hundred times the sales.

*Sadly, as I was writing this section, a very good friend of mine who was running the $250 million company he founded filed for Chapter 11. They were crushed by an inability to deliver their services as quickly as they needed to sustain a healthy cash flow.

The old model of business stages tied to revenue is too narrow a perspective for modern businesses. It's also rooted, in part, by ego. Why do we want to build a multimillion-dollar business? Is it because that number will fuel predetermined personal and professional goals? Or is it because we want to be able to *say* we built a multimillion-dollar business? We need to be honest with ourselves and admit that our revenue goals are often arbitrary, and sometimes, just sometimes, based on a need to hear our friends say, "Dang, dawg! That's impressive, yo!" (Or however your weirdo bowling buddies would say it.)

I believe there is a better model to help illuminate the right business strategies, and you may already be familiar with it. In 1943, Abraham Maslow identified what has now become known as Maslow's hierarchy of needs. Originally presented in a journal article titled "A Theory of Human Motivation," Maslow's theory states that there are five categories of human need. From the most basic and essential needs for survival to the highest needs for happiness and fulfillment, they are:

1. ***Physiological:*** These are the most critical needs for human survival, and include necessities such as air, food, water, shelter, sex, and sleep.
2. ***Safety:*** At this second stage, humans are focused on a secure and safe environment, health, and financial security.
3. ***Belongingness:*** Moving up to the third stage, we seek love, friendship, community, family, and intimacy.
4. ***Esteem:*** In the fourth stage, humans focus on confidence, self-esteem, self-worth, achievement, and respect.

5. *Self-Actualization:* At the fifth stage, the highest level, humans thirst for morality, creativity, and self-expression, and to help others achieve self-actualization. Maslow argued it is at this level that we realize our full potential.

You're a smart cookie, so even if you've never heard of Maslow's hierarchy of needs, you can probably figure out that in order for us to attend to something higher on the list, we first need to make sure that our needs are met in the categories below it. So, for example, before you can focus on meeting your needs for love and belonging, you first need the basics: air to breathe, adequate hydration and nutrition, and a safe place to sleep. It's pretty tough to deal with your self-actualization when you're tired *and* hangry.

Even when we humans *do* have all of our basic needs met in our everyday lives, we sometimes find ourselves back at the bottom of

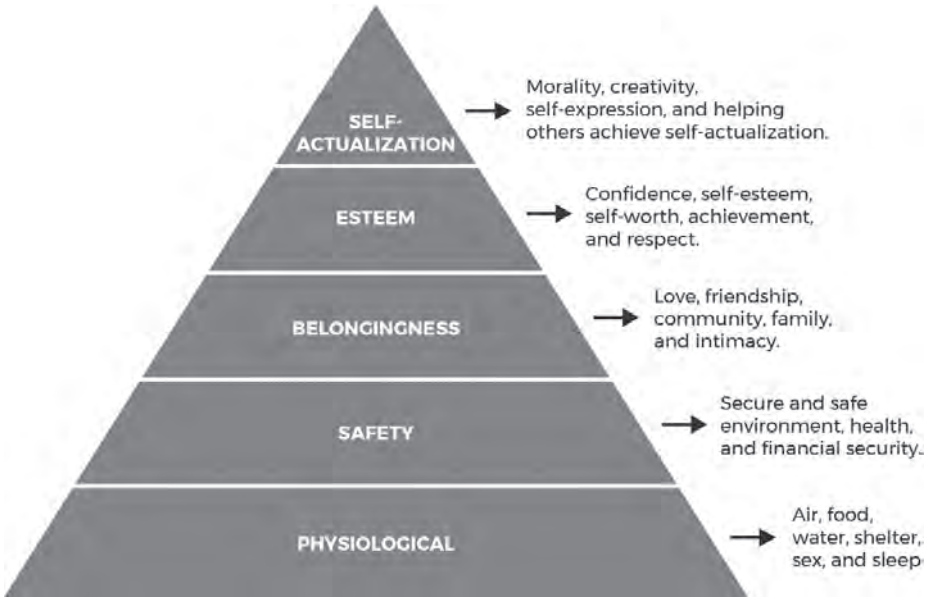

Figure 1. Maslow's Hierarchy of Needs

the pyramid. You could be self-actualizing with the best of them while munching down a double bacon cheeseburger, and none of that matters the second a piece of Angus lodges in your windpipe. Suddenly, you are forced to deal with one of the most basic needs: air. It isn't about intellectual contemplation anymore. Now it is all about, and only about, getting that hunk of meat out of your throat.

What does any of this have to do with running a business? Looking at Maslow's hierarchy of needs, I realized that it has a direct correlation to entrepreneurial progress: what drives your business, what keeps your company trapped, and how you fix the roadblocks along the way to achieve the highest levels of success as you, the entrepreneur, define it. It's all there in Maslow's hierarchy, just with some tweaks and changes to fit the dynamics of business.

Exactly as Maslow argued, we must first meet our base-level needs before we can focus on advanced levels such as love, belonging, and self-actualization. Similarly, a healthy company must first attend to the base needs of sales, profit, and order before the leadership (you) can focus on more advanced pursuits, such as impact and legacy. The key to climbing the hierarchy is simple: fully satisfy your business's *current* level of needs, not by rushing to the apparent daily demands, not by addressing advanced needs before basic needs, and certainly not by trying to fix everything at once. To do this, we will use what I call the Business Hierarchy of Needs (BHN).

The model looks like this, starting with the most essential:

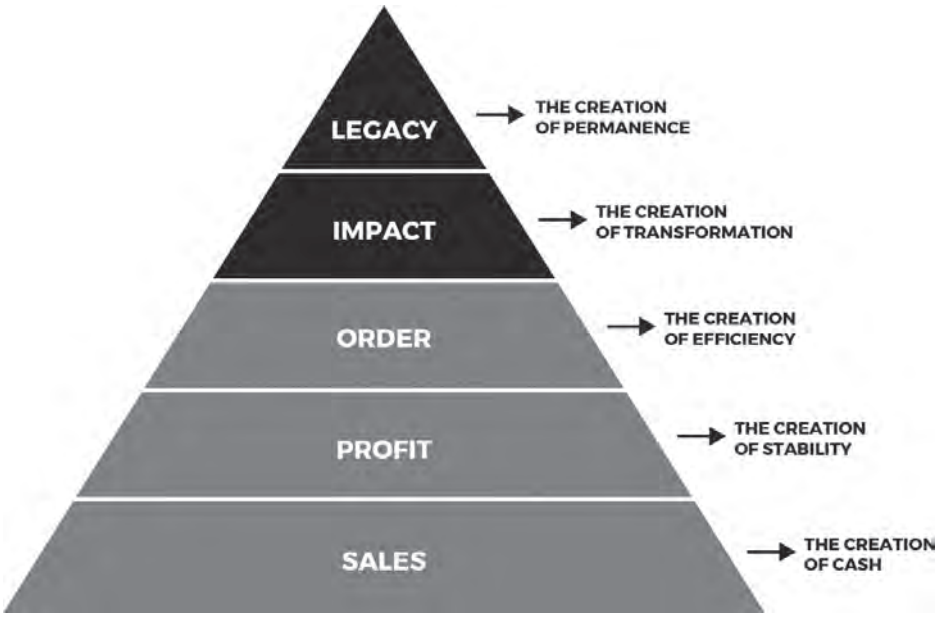

Figure 2. The Business Hierarchy of Needs

Within each level, there are "needs" that must be adequately met before you can focus on a higher level. So just as we humans need to ensure we have food and water before we can start to address our self-esteem, your business must first focus on its basic needs. After three years of research and redos (and banging my head against the wall a few times), I have identified five Core Needs within each of the five levels of the BHN. They are listed below, and we'll get into each one in greater detail in chapters 3 through 8.

Sales

At this foundational level, the business must focus on the creation of cash. Just as humans can't survive without oxygen, food, and water, if you don't have sales, your company will not be able to survive for

long. Heck, without sales, you won't have a business at all. Addressing the five needs in the SALES level will ensure that your foundation is working solidly and can support the next level, PROFIT.

Here are the five Core Needs and corresponding questions for the SALES level:

1. *Lifestyle Congruence:* Do you know what the company's sales performance must be to support your personal comfort?
2. *Prospect Attraction:* Do you attract enough quality prospects to support your needed sales?
3. *Client Conversion:* Do you convert enough of the right prospects into clients to support your needed sales?
4. *Delivering on Commitments:* Do you fully deliver on your commitments to your clients?
5. *Collecting on Commitments:* Do your clients fully deliver on their commitments to you?

Profit

At the PROFIT level, the company's focus shifts to the creation of stability. Here, our business's needs line up pretty closely with our human needs for health, financial stability, and a secure and safe environment. Massive revenue doesn't mean much when you have no profit, no cash reserves, and are drowning in debt. When all five needs in the PROFIT level are satisfied, you are positioned to scale your business without financial collapse.

Here are the five Core Needs and corresponding questions for the PROFIT level:

1. *Debt Eradication:* Do you consistently remove debt rather than accumulate it?
2. *Margin Health:* Do you have healthy profit margins within each of your offerings and do you continually seek ways to improve them?
3. *Transaction Frequency:* Do your clients repeatedly buy from you over alternatives?
4. *Profitable Leverage:* When debt is used, is it used to generate predictable, increased profitability?
5. *Cash Reserves:* Does the business have enough cash reserves to cover all expenses for three months or longer?

Order

At this level, the focus is on the creation of efficiency, and the needs are related to ensuring that everything runs like clockwork. With all of its organizational efficiency needs met, your business can run—and yes, even grow—no matter who is on your team. It can even grow without *you*, the business owner.

Here are the five Core Needs and corresponding questions for the ORDER level:

1. *Minimized Wasted Effort:* Do you have an ongoing and working model to reduce bottlenecks, slowdowns, and inefficiencies?
2. *Role Alignment:* Are people's roles and responsibilities matched to their talents?
3. *Outcome Delegation:* Are the people closest to the problem empowered to resolve it?

4. *Linchpin Redundancy:* Is your business designed to operate unabated when key employees are not available?
5. *Mastery Reputation:* Are you known for being the best in your industry at what you do?

Impact

The focus now is on the creation of transformation. Many businesses never properly address the needs at this level, because they either don't know this level exists, or misunderstand what it's all about. When we think of impact, we think of how our business impacts the world. However, the needs that must be addressed at this level are related to client transformation, and how your company aligns with your staff, vendors, and your community, not to the wider world.

Here are the five Core Needs and corresponding questions for the IMPACT level:

1. *Transformation Orientation:* Does your business benefit clients through a transformation, beyond the transaction?
2. *Mission Motivation:* Are all employees (including leadership) motivated more by delivering on the mission than by their individual roles?
3. *Dream Alignment:* Are people's individual dreams aligned with the path of the business's grand vision?
4. *Feedback Integrity:* Are your people, clients, and community empowered to give both critical and complimentary feedback?

5. *Complementary Network:* Does your business seek to collaborate with vendors (including competitors) who serve the same customer base in order to improve the customer experience?

Legacy

At this highest level, the focus is on the creation of permanence. Ensuring that your business and the impact it delivers will live on after you move on requires that specific needs are met. If you want your business to continue to thrive for generations to come, you'll have to consider the big questions, such as what your long-term vision for your company is, and how your business will adapt to changes in your industry, in consumer demand, and in the world.

Here are the five Core Needs and corresponding questions for the LEGACY level:

1. *Community Continuance:* Do your clients fervently defend, support, and help the business?
2. *Intentional Leadership Turn:* Is there a plan for leadership to transition and stay fresh?
3. *Heart-based Promoters:* Is the organization promoted by individuals inside and outside the organization, without need of direction?
4. *Quarterly Dynamics:* Does your business have a clear vision for its future and dynamically adjust quarterly to make that vision become true?

5. *Ongoing Adaptation:* Is the business designed to constantly adapt and improve, including finding ways to better and best itself?

To be clear, the BHN levels do *not* represent stages in business growth. They are levels of needs. Your business will not climb the hierarchy in a linear fashion, but move up and down levels as it progresses. Like building and renovating structures, you don't just go up. You go back down to the foundation, shore it up, so you can build higher. So, for example, while you may be dealing with a need in the SALES level, that does not mean your company is still in the SALES stage. You are simply strengthening the foundation.

I'm pretty sure I know what you're thinking: *This list may work for your business, but my business is different.* Your business may very well have additional needs. While this list is not comprehensive, each of the five Core Needs at each of the five levels are required for every business to be healthy and thriving. If you have a need that is *not* listed on the BHN, jot it down and save it for later. I ask that you trust the process and, for this first go-round, focus on the five essentials of each level on the BHN.

Most business owners try to master all things at once. It was my modus operandi for years. I intended to *simultaneously* have impact, make lots of money, work whenever I wanted to, create a legacy, and have clients flocking to my company. The thing is, prioritizing everything at the same time means that *nothing* is a priority. Just like Maslow's hierarchy, all these elements are in play at all times. However, you can only concentrate your energy on solving one

Figure 3. The BHN with the Five Core Needs of Each Level

issue within one level at a time. The golden rule is always to satisfy the most essential need (the one closest to the base), before addressing a need above it.

Let's say you have a consistent stream of sales, and it supports the goals you have clearly outlined. If that is true, then your business has achieved the equivalent of breathing in air. The next level is PROFIT, which translates to safety and security. If someone is trying to rob you by holding a knife to your chest, you don't worry about air (SALES); you worry about getting out of danger. But if

suddenly you and the guy with the knife are trapped in a room with no oxygen (SALES), you would *both* be focused on the more urgent need—finding the air you need to breathe.

You are instinctually wired to find the air you need to breathe, the water and food you need to survive, and to avoid danger. But for entrepreneurs, the solution to our business problems are in fact *not* instinctual. The business is its own entity, so you don't have biological triggers telling you that your business is thirsty, or starving, or just needs some cuddle time. We *think* we are connected to our business in that way. (We're not.) So we "trust our gut" and make what feels like appropriate decisions to grow.

If you find yourself walking down a dark alley and something just doesn't feel right, that is your instinct indicating something is wrong. I suggest you turn around fast and find another way to get where you are going, because if you don't, you might just end up in the hospital. Your senses—seeing, hearing, smelling—are all directly wired into your brain, providing immediate and helpful insights. While we are wired into our bodies, we are *not* wired into our business, and that poses a problem. Instincts save lives. Businesses? Not so much.

The thing is, we all *believe* we have good business instincts—that we can trust our gut to help us make the right decisions. And yet very often we end up like Amanda Eller, walking down a boar path in search of our way out. We are fixing the *wrong thing* at the *wrong time*. The most common, gut instinct solution that I see employed by entrepreneurs is this: sell more. For example, a business may have a relatively consistent degree of sales, yet the business is not profitable. Rather than try to resolve the PROFIT level, we

almost inexplicably revert to trying to sell more, believing that more SALES (the most basic level) will fix the PROFIT level. For Maslow's hierarchy this is akin to being caught up in a brawl (the Safety Level) and gasping for air to protect ourselves (the Physiological Level). It makes no sense. Even though, biologically speaking, we would have a fight-or-flight response; since we aren't wired into our business instinctually we gasp for air while we get punched in the face, repeatedly. Other times, a business is unable to deliver on time and as promised consistently, which is an ORDER-level problem. Yet the owner's instinct is to sell more, amp up revenue, and expect that will somehow fix the business operations. It doesn't, and it won't.

These trust-your-gut and shoot-from-the-hip methods of growing a business very often impede success. Some businesses are successful not because of, but in spite of, the entrepreneur at the helm. Without a specific, repeatable strategy to growth, their success is more like a lottery win than an architected plan.

What we need is a compass. Something that we can use to check our gut instincts, to make sure we are in fact moving true north. That is what the BHN will do for you.

What We Believe May Not Be True

Recently, I became fascinated with the story of the Winchester Mystery House, a sprawling, 160-plus-room Queen Anne Victorian mansion in San Jose, California. Once I read about this house, I immediately booked a flight to San Jose, toured the bizarre structure, and discovered an uncanny parallel to the typical entrepreneur's journey.

When Sarah Winchester's husband died of tuberculosis in 1881, he left her a fortune worth more than $500 million in today's dollars. William Winchester was a gun magnate, and heir to the Winchester Repeating Arms Company. Legend has it that Sarah believed she was haunted by the ghosts of people who were killed using Winchester rifles, and that she needed to build more and more rooms onto her home to satisfy (and hide from) the evil spirits chasing her.

Sarah moved to California, bought a two-story, eight-room farmhouse, and proceeded to build additions. Relentlessly.

Thirty-eight years later, she was still building.

With no rhyme or reason, and no architect to help her plan, Sarah set out to add new room after new room. According to Miranda of the *Spooky Little Halloween* blog, "Sarah would build whatever she felt like, often abandoning ideas and building around errors her workers made. She met with her foreman every morning to go over her hand-sketched plans for the day's work." Sarah would start every day's work by tackling the most apparent issue of the day.

I don't know about you, but I think Sarah needed an architected plan (and maybe a skosh of therapy). She believed in her instinct alone, and then every day she tried to figure out how to appease or get away from the problems (ghosts) she saw.

Eventually, what was once a farmhouse became a seven-story mansion with more than 160 rooms—rooms she built and then never set foot in again. Doors and windows opened up to walls, many fireplaces had no chimneys, and some staircases led to nowhere.

When the San Francisco earthquake hit in 1906, all of the top three stories were destroyed, and part of the fourth. The damaged areas were not restored, but instead were picked for supplies to build elsewhere. Today, what's left of the Winchester Mystery Mansion covers roughly 24,000 square feet and has more than 10,000 windows, and 6 kitchens. It's one of the strangest houses I've ever seen, and it is a weirdo's paradise. (Between you and me, I think I saw one of your bowling buddies there.) Get to Googling and see for yourself. When you do, think about your business. Think about all the choices you made based on instinct, or in response to a problem (an evil spirit), or to counterpunch a competitor (an evil-er spirit), or just because it is what an expert said you needed. Think about all of the "rooms" you built and maybe even abandoned trying to jump on opportunities, or solve problems, or just because you didn't know what else to do.

Upon Sarah Winchester's passing, construction immediately stopped. Her house went on the market, yet the massive mansion was unsellable. No one wanted the extraordinary, complex, and confusing house, nor did anyone have enough funds or expertise to fix it. Ultimately, an investor group purchased the house for pennies on the dollar and made it into an exhibit for seekers of the odd and extreme. A massive structure, under continuous construction for nearly forty years, it was ultimately worthless (except as a perfect illustration of what I am about to tell you).

When you trust your gut alone instead of analyzing your business, you could end up with useless fireplaces and stairs to nowhere. Or lost in a Hawaiian forest. So as tuned in and savvy as I know you

are, I'm asking you to forgo your reliance on instinct alone . . . at least for as long as it takes you to read this book and implement the action steps. Okay? Can we (virtually) shake on that? In other words, humor me.

The BHN may not be as mystical as the séance Harry Houdini held in the Winchester house one evening (true story), but give it a try. It just may save your company, and your sanity.

Here's a simple but powerful challenge: I have found that the most effective way to improve your business is to commit to another person your intentions to improve. So, here I am, your new accountability partner. Email me at Mike@MikeMichalowicz.com with the subject line "I'm doing FTN!" so I can quickly find it. In your email tell me why you're committed to the FTN process and what it will mean to you as you realize the dream you have for your business. With your commitment documented, your likelihood of seeing it through will skyrocket. Plus, it will be awesome for us to connect. Let's do this!

As I mentioned earlier, I have prepared free powerful resources and tools for you that supplement this book. Go to FixThisNext.com right now to get them. When you visit the site be sure to take the free evaluation. It will pinpoint what you need to fix next in your business. And you can be resolving it minutes from now.

A QUICK NOTE ABOUT *PROFIT FIRST*

Before we get rolling fully into *Fix This Next*, I need to address a thought you might be having about another book I wrote: *Profit First*. When talking about FTN, people ask me, "Mike, didn't you say we should take our profit first? If profit always comes first, how could you suggest addressing other things first in *Fix This Next*? You sound like a big, fat, smelly hypocrite."

The smelly part you can blame on my bad genetics.

The rest simply needs clarification.

When I wrote *Profit First*, I challenged the traditional formula of profitability: sales – expenses = profit. Simply put, traditional thinking teaches us that profit comes last. That profit is the bottom line. And *that* is the problem with the old formula. It is human nature that when something comes last, it gets delayed at best and ignored most often.

Profit First means that profit comes *before* expenses. Sales – profit = expenses. Take your profit *first*, put it into an account, and hide it away from your business, before you spend a single dime. Profit First means you allocate your profit first and then you are forced to reverse engineer your way to achieving the profit you already took. It is the pay-yourself-first principle applied to business. Profit First does *not* mean that profit is the only thing you focus on and that you can ignore everything else.

To improve your business, identify the most important thing your business needs at this moment and then fix it. At times it will be at the level of SALES, or ORDER. At other times it will be at the level of PROFIT, or IMPACT, or LEGACY. I suggest that once you implement Profit First, you continue to use it—as in forever. And once your profit is shored up, your next—as in, top,

or first—priority will be the next thing your Fix This Next compass points to.

If you haven't implemented Profit First yet, I suggest that you put the idea on pause until you finish this book. Because, as strange as it may sound hearing this from me, your profit may not come first (or next). You may have another Vital Need you must address before profit. I am sure Profit First will serve you, but until you finish this process, we can't say in absolute terms *when* it will *best* serve you.

Hope that clears it up. Profit First is the formula of taking profit first. It is *not* about prioritizing profit at all times and above everything else. We good? Good.

Chapter 2

FIND IT AND FIX IT

"YEAH, BUT . . ."

I'm always amazed by how many of us business owners have a serious case of the "yeah, but's." We believe our companies are so unique that simple solutions and strategies could not possibly help us with whatever problem we think we have. "Yeah, but my business is different," we shout from the rooftops. I get it. I thought that was true for my businesses too. Maybe you feel your business is special too. But the thing is, it's not even a wee bit true.

Just as our human DNA is 99.9 percent identical, the DNA for all businesses is nearly identical. I don't care if you run a farm or a pharmacy. I don't care if you invest, divest, suggest, or profess for a living. Your business is 99.9 percent identical to all others—just as they are nearly identical to yours. The remaining 0.1 percent of our DNA is the skin of our corporate bodies. Our businesses may look different on the outside. You may have different equipment and people with different skill sets. Your office may be virtual or

physical or nonexistent. That's just the skin of the business. What is under your corporate skin is nearly equivalent to all other businesses.

Before Ken Mulvey started his business, Supply Patriot, he was a bodyguard to the rich and famous. In one of our conversations, he shared some details of the protection services he provided for a key executive of a major publisher. As he recounted the story, I was thinking, "So the publisher gets a bodyguard, but the measly author guy gets squat? Nice. Real nice."

As part of his guard work, Ken attended board meetings. You know, because you never know when a thug is going to break into a conference room to steal old crusty doughnuts and stale coffee from old crusty guys with stale breath. Ken's job was to be on the watch, and since there was nothing to watch out for (refer to my prior point) he would listen. Closely.

"Mike, there were some of the biggest CEOs in the country serving on that board," Ken told me. "And they all had the identical problems that my friends' small businesses had, only with five or six more zeros at the end of every number. They had the same cash-flow problems, the same hiring problems, the same profitability problems. The same confusion over what to do next."

Ken's story reminded me of a conversation I had with a friend who owns a $22 million company. We were in a room with one hundred business owners at the Gathering of Titans annual meeting in Dedham, Massachusetts.

I've known my friend Stu for almost twenty years. We grew up together as entrepreneurs, and I've seen his company grow. A lot.

Although it fits the U.S. government's definition of a "small business" (less than $25 million in sales), Stu's company is *the* leader in their space. In fact, I suspect you would recognize its name. You would probably recognize Stu's real name too, which is why I am not using either in this book.

During a break, I asked Stu a simple question that, when you have a true friendship, can open the door to deep conversations and confessions.

"How it's going, Stu?"

"Great," he said with a half smile.

I know that smile. I've seen it on the faces of thousands of entrepreneurs, and I've seen it on my own face when I look in the mirror.

"Oh, no. What's wrong, brother?" I asked.

He sighed, did the look-over-both-shoulders move, and then replied in a hushed tone, "I only have four weeks of cash left in my business, Mike. I have no prospects. At least, not enough prospects to keep us alive."

This is not an unusual scenario for most small-business owners, but how could this happen to a $22 million industry leader? It had to be a fluke, right? Nope. Some of the most successful entrepreneurs in the world were in this room, and yet you might be surprised to discover that, at any given time, 10 to 20 percent of them are in deep shit.

Whether your business is big, small, or somewhere in between, the needs are exactly the same. Size doesn't matter, after all. Nor does revenue or number of employees or the number of years you have operated your (possibly crusty and stale) business.

I totally get that your business has unique qualities. Just like mine. Just like all businesses. All people have unique qualities too, yet we all share a common biology. These unique qualities are necessary and critical, because we need differentiators to attract our ideal customers. When we're talking marketing and branding, different is better. But we're not talking about that in this book. What we are talking about today is the biology of your business.

Just as all humans need to follow the same basic parameters to grow and maintain health, the methods to achieving growth and sustaining health are nearly identical for almost every business. Ours may look different from the outside. Ours may do different things. But never forget this: the essential makeup of almost all businesses is nearly identical. One guy may run a pizza shop and another gal might have a flight-instruction business. But the way they sustain themselves and grow, and the crucial needs they need to meet, are the same.

In this chapter, you'll learn a simple process to navigate the BHN so you can find what to fix next, and a simple method to find a solution so you can fix it and move on.

Find It

Let's pretend we're playing a game of tug-of-war, except instead of a rope we pull on opposite ends of a metal chain, and instead of trying to pull each other over a line, our aim is to find where the chain breaks. You take one end and, standing a few feet away, I have the other. Between us are twenty-five or so links of the chain. On the count of three, we both start pulling to see where the chain

breaks. No matter how we pull on the chain, neither of us has any control over where it will break.

The chain will always break at the weakest link. In other words, any chain is only as strong as its weakest link. No matter what you try, you can't manipulate the process to make a different part it break. It has a natural weak spot. If you want to strengthen the entirety of the chain you must address its weakest link, which, in the context of your business, I call the Vital Need. At any moment, of all the Core Needs that exist within your business there is a single Vital Need that represents the current weakest link. You can't manipulate the "game" to make it something different. Your job is to find it and then fix it next, before you move on to what emerges as the new Vital Need.

Within any business process, be it the finer details of how you build your product, or the broader sequence your prospects go through to become your clients, there are chains of events. At all levels of a business's development, from struggling startup to industry titan, everything goes through a chain of events. Within this chain there will always only ever be one link that is the weakest. The goal of this book is to help you find that weakest link and strengthen it, because when you strengthen the weakest link the entire chain is strengthened.

Eliyahu Goldratt introduced the Theory of Constraints in his must-read book, *The Goal*. According to the Theory of Constraints, a business process can only operate as fast as its slowest part. Therefore, if you want to improve the overall output of your business process, you seek out the highest priority constraint, open it up, and the entire business will now perform at the speed of the next biggest constraint.

As I shared in chapter 1, and as you undoubtedly know all too well, the common approach to growing a business is to grow everything at once. We need more sales! We need to make more money! We need to hire employees who act like owners! We need to stand out from our competition! We need to change the world! We need better marketing, better sales, better products, better services, better efficiency, better everything, and we better get a better attitude from everyone, right now. Damn it!! While it may be true that your business needs all of the above, if you try to make everything better at the same time, you will dilute your energy, time, and focus, and find yourself unable to meet even one of those needs satisfactorily.

Once you have identified the most Vital Need you face, you'll then apply the fix with all the available resources you've got.

Using the BHN as your checklist, here are the steps to figuring out which Core Need is your Vital Need and the one you must fix next:

STEP 1—Identify: Within each level, check off the Core Needs that your company is adequately meeting to support the level above it. If you aren't adequately meeting a need or don't know, leave it unchecked.

STEP 2—Pinpoint: Evaluate the lowest level that has unchecked Core Needs. So if you have unchecked needs in PROFIT, IMPACT, and LEGACY, work at the lowest level of the three: PROFIT. Of the needs you left unchecked at that level, which one is most crucial at this moment? Circle this as your Vital Need.

STEP 3—Fulfill: Generate measurable solutions for the circled Vital Need. Implement your solutions until the Vital Need is adequately addressed.

STEP 4—Repeat: With the Vital Need fixed, find the next Vital Need by repeating the three steps above. Use this process for the life of your business to navigate through challenges, maximize opportunities, and continually uplevel your business.

Following this process doesn't mean you can ignore the rest of your business—you need to keep those plates spinning. It goes without question that you need to service many parts of your business at all times. You can't suddenly tell your customers, "Hey! We're just going to ignore you for a few months, while we take care of some internal stuff. Talk to you soon. Oh, and please keep sending us your money in the meantime, my beeyotches."

You can't grind the business to a halt while you work only on the next Vital Need. Using Fix This Next, we identify the biggest problem that, when fixed, will unleash the most forward momentum for the business. Instead of doing everything all the time, we will continue to maintain the necessary and allocate remaining resources to fully serve the next Vital Need.

Addressing your business's most Vital Need may require you to make tough decisions. You may need to make sacrifices to fix the problem. For example, if you determine that your Vital Need requires you to fix a collections problem, the only fix may be to fire the clients who chronically pay late. Facing the loss of short-term revenue, however temporary, may stop you in your tracks. The

temptation may be to take on less-than ideal clients or work you are not well suited to do, or don't like doing, so that you can "make up" the temporary short-term loss. Welcome back to the Survival Trap, buddy. The only way out is to hold the line—do what you need to do to make sure that you build your business in a healthy manner, not based on your desperation.

I feel there are a couple of sexy things about the BHN: First, the whole "two birds, one stone" thing. When you identify a Vital Need at a lower level, you may find that resolving that need resolves a higher-level need.

Second, perhaps the coolest aspect of the BHN: as you fix the Vital Need, it leverages all the work you already put into your business. In fact, sometimes levels can be resolved and cleared with little effort, maybe even in minutes. You do not need to reinvent the wheel here. You just need to bring a Vital Need to conclusion, something you may already have been doing without acute awareness.

Using the BHN and these four steps will help you break through almost any plateau, quickly resolve setbacks, and grow your business in a sustainable way. Whatever goals you set for your business will be much, much easier to reach and much, much more likely to sustain.

As you continue to repeat the four-step Fix This Next analysis, your business foundation becomes stronger and stronger, ensuring that your vision for your business becomes reality.

The FTN Analysis in Practice

When I first met Tersh Blissett, I instantly knew he was one of "my peeps." How did I know? Because he was wearing a vest.

I wear a vest every time I deliver a keynote. It's my thang. My team likes to make fun of me for my "costume." Kelsey Ayres, who I am beyond blessed to have as a colleague, occasionally wears a T-shirt to work that reads "Live Your VEST Life" next to a picture of me in one of my uncoolest denim vests. Cute.

Occasionally, I host a free conference at my offices in New Jersey to share and test out my newest concepts. (If you want to attend one of these free presentations, simply sign up to "get the tools" on my website at MikeMichalowicz.com and keep an eye out for one of my out-of-the-blue announcements inviting you to my next free thing.) Tersh attended my first-ever live presentation on Fix This Next. He sat near the front, and because he was wearing a pressed shirt, narrow tie, and a killer vest, I assumed he had a financial business, or that maybe he was, you know, a badass, awesome, amazing, supercool business author guy. I mean, who else can pull off a vest so well? I soon learned that I was dead wrong: Tersh owns IceBound HVAC & Refrigeration in Savannah, Georgia. He doesn't just wear a vest, he's an air-conditioning guru. Which makes him ridiculously cool. (Get it?)

Talking with him for just a few minutes, I knew we had more in common than our fashion sense; I had met a soul mate. Tersh is kind, driven, and smart as a whip. He is an entrepreneur through and through and is doing everything he can to grow a healthy business.

After the conference concluded, Tersh was the first to give me feedback on which aspects of Fix This Next were helpful and which weren't. As I further enhanced and simplified the system, I was in constant touch with Tersh for his feedback. When I finally finished

the system as you see it in this book, Tersh was my first call. I gave him the lowdown and asked him to diagnose his business. He sat down with his wife, Julie, who is a partner in the business and called me back later that day.

"Mike," he said, "Julie and I spent less than fifteen minutes with the Fix This Next system and achieved a degree of clarity we never had before. Fifteen minutes and our eyes were wide open. And the funny thing is, ten of those minutes were spent brainstorming solutions for the business's Vital Need. It took only five minutes for us to figure out exactly what we needed to do next."

Prior to learning about the BHN, Tersh was trying to do "everything" to move the business forward. In 2018, IceBound achieved a respectable $750,000 in revenue and was on track to reach $1 million in 2019. Following the Profit First system, his company had reached 12 percent cash profit (in addition to a solid weekly paycheck for Tersh and the business paying *all* of his personal taxes). The business had been running, for the most part, without Tersh's active input.

Tersh's instinct told him to focus on the IMPACT level of his business. He was working on a structure that would be more and more charitable. He believed that donating time and money was the way to serve his community, and this would, in turn, bring in more business.

Tersh then did the Fix This Next analysis. He moved through the checklist level by level, starting at the foundational level of SALES, moving up to PROFIT and so on until he got to LEGACY, checking off the Core Needs his business adequately addressed at each level, and leaving the others unchecked. Within the SALES

Figure 4. The BHN with satisfied Core Needs checked

level, Tersh left Prospect Attraction and Collecting on Commitments unchecked. At the PROFIT level, Margin Health, Profitable Leverage, and Cash Reserves were left unchecked. In ORDER, IMPACT, and LEGACY, other items remained unchecked.

Then, he and Julie looked at the most foundational level with unchecked needs. In the SALES level, they examined Prospect Attraction and Collecting on Commitments. They were waiting on nearly fifty thousand dollars of accounts receivable, which for a company doing $1 million in revenue is a lot. While about 5 percent of their revenue was waiting for collections, Tersh noticed that

his poorly paying clients represented just a couple of big jobs. So even if he resolved the collections issue, the clients he had were not suitable. In fact, he noticed that his big corporate clients ignored IceBound's COD requirement and followed a net 90 payment cycle, and some even reached out *after* ninety days to point to a "problem" with the invoice or some other excuse that would inevitably stretch the payment another ninety days to six months. These corporate clients were crushing cash flow. It was also clear that they had an attraction issue. Not in terms of quantity—they got a ton of inquiries from corporations. The problem with Prospect Attraction was the quality of customer they attracted.

The Vital Need for IceBound was Prospect Attraction. Tersh realized he had been instinctually working at the wrong level. He was focusing on IMPACT instead of SALES. Tersh's business instincts had him walking down the boar path, just like Amanda Eller's "internal guide" did for her.

So, with his BHN compass, Tersh immediately decided to stop IceBound's charitable efforts. This might sound cold and callous. But it is not. The only way you can give effectively is if you have a strong, healthy foundation of getting. Tersh had to strengthen his business first so that he could give in a sustainable way next.

It took them only five minutes flat to find their Vital Need. Then they focused on finding solutions to improve their Prospect Attraction. They considered vehicle wraps, yard signs, search engine optimization, proximity letters, and other marketing ideas to attract their ideal client. That's when the obvious hit them: Before they could market to their ideal client, they first needed to define

what they considered to be the ideal client. Any marketing effort would be a hundred times better if it could target exactly the right customer.

Fifteen minutes and Tersh and Julie had aligned their focus on the next thing that would strengthen their business in a big way: an avatar of the ideal customer. At first, coming up with their avatar proved difficult. Tersh and Julie discovered that IceBound's customer demographics seemed to be all over the place. They had a pretty even mix of male and female customers. Some were young professionals; others were retiring executives.

To understand how Tersh and Julie settled on their avatar, you need to get a quick primer on IceBound's technology. Have you ever found yourself sweating under the blankets and then shivering as soon as you throw them off? Turns out, this is not a temperature problem; this is a temperature-plus-humidity problem. According to Tersh, the fix is having the right size equipment to manage both. IceBound's technology monitors the relative humidity, temperature, and dew point so homeowners can have maximum comfort.

Considering the information more deeply, Tersh and Julie realized that what their best customers had in common was that they all placed a high value on their overall comfort. Their ideal clients were professionals in their late forties to early sixties who were empty nesters and who wanted to replace their air-conditioning so that they could avoid that nightly sweat/shiver dance and achieve the perfect temperature. They wanted quality over everything else.

Once they figured out whom to sell to, Tersh and Julie could concentrate their marketing on that avatar, change the sales scripts,

and likely allow them to be more specific in the offering. And it might, just might, skyrocket their revenue and profitability within, let's say, thirty days. More on that in a bit.

Tersh and Julie were able to get laser focused on what their company needed. You will achieve that for your business too, and you might even do it in fifteen minutes or less.

Never forget this (as in, highlight this and tattoo it on your forearm): among all the apparent issues your business has, one *and only one* of them will be the most effective one at any specific moment. We can't rely on our instincts to just magically pick it out every time. We humans are fraught with bias and emotion, and our humanness can get in the way of our finding the best solutions. The BHN will become your handy-dandy compass from this day forward, bringing an easy, thoughtful, and methodical process to all considerations in growing your business.

How to Determine If You Got It Right

The question most entrepreneurs ask me when they go through the FTN analysis is: how do I know I've fixed the problem? You want to get it right, but how do you know if you *did* get it right? The answer is: you don't know instinctually. So the only way to be sure that your solution worked is to measure it. (Highlight and tat that one too.)

I learned this lesson the hard way as a young man in college, when I was entrusted by a group of peers to manage one of the most important functions for all humankind: the Wednesday night fraternity party. After successfully navigating the final hell night and

being ordained a brother, it fell on me to pull off the next event. (As a shocker to no one—including you—I was also given the coveted Delta Sigma Pi Wise Ass of the Year Award. Which, for punitive reasons, mandates you manage the next party.)

Wednesdays were the kickoff day for the party week at Virginia Tech (Go Hokies!). Wednesday parties built momentum for the Thursday and Friday parties, which would get people revved up for the Saturday all-nighter parties and the Sunday block parties. The weekend parties would then roll into the Monday bar scene, which often bled into the Tuesday house parties, which would get people ready for the new party week . . . starting on Wednesday. It's a miracle any of us graduated college.

This was the first party I was responsible for, and I was clueless. I had no idea great parties, even frat parties, were planned in advance. Even if I *did* know that great parties were planned out, I wouldn't have known where to start, or how to determine if my efforts worked. For the Delta Sig Wednesday night party, my goal was simple: have an epic party, dude. I didn't really think about how I would know if it was epic, beyond people telling me how epic it was. I had already failed the "be specific and concise" acid test.

I took the frat "investment fund" (which is what we called it) and went to the hardware store. I bought one big rubber garbage can, one sweeping broom, and one pool skimmer. I then went to the grocery store and bought ten pounds of grape Kool-Aid mix. Then I went to the liquor store and bought their entire grain alcohol supply. If I tried to make the same purchases today, it would

look like a scene out of *Breaking Bad*. Oh, and I also bought one can of Coca-Cola to be ironic.

Back at the Delta Sig house, I got to work. Meaning, I made the pledges snake the garden hose in through the basement window and mix the Kool-Aid, hose water, and grain alcohol in the garbage can. If you were smart and spent your youth doing productive things rather than attending frat parties, you might be wondering, Why did you need the broom and the water skimmer, Mike? You use the broom to stir the mixture, and you use the pool skimmer to sweep up the contaminants, Pledge.

I have now shared my entire planning and prep for the party. You may notice, I fell way short on step two. I didn't really have a plan for my "epic party" outcome, I just did what my gut told me to do, get grain booze and mix it up. I planned for nothing else. No music. No food. No alternative drinks, except for the one ironic can of Coca-Cola. Best of all, no invites sent to anyone, including the brothers! I mean, I did mention it at the house meeting that afternoon. I recall my announcement being something like, "My bros, epic party tonight at the house!"

A few people showed, some got schwasted, but the party stunk. In the folklore of Delta Sigma Pi's Virginia Tech chapter, this went down as the second-worst party ever. The worst one was hosted the following week by brother Greg Eckler, whose fraternity nickname is Elk-Terd, but I am strictly prohibited from sharing his nickname, so I won't.

I wish I knew then what I know now about how to measure outcomes:

1. First, know what outcome you want to have. Then determine the best ways to achieve the outcome and pursue the easiest, most impactful solution(s).
2. Next, determine how you will know if you have achieved the outcome. This is the measurement that must both show that you achieved it and indicate the progress you are making toward your desired outcome.
3. Then, set an evaluation frequency to monitor your progress toward your outcome. Don't measure so often that you won't have significant data to review, and don't measure so infrequently that you miss opportunities to improve.
4. If according to your measurements you are not making progress, adjust your approach. If you are making progress, keep doing it.

Now that I am out of my frat-bro stage and in my author-guy stage, I have figured out a few things. First of all, I was a moron. Second, I was a complete moron. Beyond that, I've realized a few more things: clarity and specificity about outcomes is key. Instead of having an epic party as my plan, a more specific, measurable outcome would have been better, such as, "I want at least 80 percent of the brothers saying this was the best party of the year." (While 100 percent would be amazing, it would have been unrealistic. Elk-Terd always found a way to undermine me.)

Then I would have asked the brothers, "My dudes, thinking about the, like, *totally epic* parties you've been to, what made them, like, *totally epic*?" I suspect they would have wanted my grain-

punch concoction, but they also would have wanted other low-key choices, like kegs of beer, soda, and water. They would have wanted great music and some junk food. And, the number one best idea would have been to tell the brothers in advance and, idea of all ideas, actually invite guests. If I had set a desired outcome and then put a measurement or two in place, I could have figured out how my supplies were working out, and if the RSVPs were piling up to true epic proportions. But I didn't do any of that. And now I am legend (along with Brother Elk-Terd) . . . for sucking at party planning.

Sadly, most entrepreneurs try to do epic things in their business, too, and the outcomes fall flat. They sit there with not much to show for their efforts but a garbage can reeking of the sweet stench of grain-spiked grape Kool-Aid. The problem is, we don't know what to do next, and we don't have specific target outcomes for the strategies we do employ, nor do we have measurements in place to determine if we achieved them.

Some entrepreneurs do have the clarity, using the BHN, and as a result grow their business faster and more healthily than ever before. Tersh and Julie knew that the next basic need their business had to resolve was Prospect Attraction, and to do that, they created an ideal client avatar by looking at the qualities of their best customers, those customers who paid a premium for their HVAC services and valued the work they did. Then they would start the cloning process, which, if you want details, is explained in *The Pumpkin Plan*.* But remember your new Fix This Next discipline: first pinpoint what you need to fix before exploring books or resources to fix it. Okay? Okay!

*Get the book and free resources at PumpkinPlan.com.

With this realization, Tersh and Julie put a measurable plan in place. Instead of their traditional marketing house by house, IceBound saw the opportunity in the C-suite. Tersh knows how many prospects he needs each week for growth, so coming up with the specific outcome was easy. He told me, "If I can get three new executive prospects a week, that will position me for serious growth with my best customers." See how simple that is? All IceBound has to do is track their number of qualified prospects each week. If they get at least three from the C-suite, they're golden. If they fall short, they need to adjust their marketing.

Tersh targeted the ideal avatar on social media so only homeowners who were professionals with older children saw the ads. Then he went for the mother of influencers: real estate agents. When you buy a house, often you address the HVAC systems. Real estate agents know the demographics, so Tersh set up a referral system, thanking agents for introductions to his avatar with a referral fee and impossible-to-get tickets to events. Like, true story, tickets to see my pals the Savannah Bananas. I love it when something comes full circle.*

He also declined marginal opportunities, saying no to people who were not the ideal avatar. He said no to price shoppers and sent them to the competitors. As Tersh said, "Our avatar wants superior service over a cheap price, and if someone asks for a cheap price, we know they are not our avatar and we decline the opportunity immediately."

---

*I have documented the Savannah Bananas' growth trajectory in *Profit First*, *Clockwork*, and here in this book in chapter 7. The Bananas used Fix This Next to identify their greatest opportunity to date, and it is not what you think!

The results were remarkable. In a summer season when the average ticket (job) price declines due to overwhelming small-job repair demand, for the first time ever, IceBound increased their average ticket price from $7,300 to $12,500. This jump is unheard of in their industry—and it happened within four weeks! It took fifteen minutes to pinpoint the Vital Need and, after coming up with a fix, just four weeks not only to solve it, but to break industry records.

You need to do the same process for any Vital Need you resolve in your business, because numbers don't lie.

Fix It

As I was reading John Doerr's book, *Measure What Matters*, I was reminded of the simplicity and impact of measurements. Doerr calls them objectives and key results (OKRs). In other words, determine your goal (objective) and how you are going to measure your movement toward it (key results). Doerr goes on to explain how megacompanies such as Google and Intel used OKRs. The story that hit home with me was about Intel.

Intel identified a threat as Motorola started to gain ground in the CPU (central processing unit) market. Andy Grove, the president of Intel, responded with Operation Crush, a very simple plan to take back the market from Motorola. To track their progress, they put in a simple metric: units sold of the 8086 processor. Objective: beat Motorola. Key result: units sold of the 8086 CPU.

It's a simple equation, but the fascinating part is the strategy that came about. The commission-based salespeople were retrained

to understand that while the money was not in the 8086, what it did do was lock the client in with Intel. The other technology they sold that supplemented the processor was where Intel (and the salesperson) made profit. Marketing strategies were developed. New education and marketing material was created, showing the benefits to the customer of Intel over Motorola. The plans were sorted out, the key result was tracked, and within less than a year Intel was king of the game again.

Metrics are the scoreboard. They are how you measure whether you are winning the game. Set up the scoring system, and the game reveals itself. No score, and you have no idea if you are winning or even if what you are doing is working.

Measurements are the scaffolding of the BHN. As you build your business, moving up and down the pyramid to strengthen the foundation and build out the higher levels, you will depend on the scaffolding—the things that give you access to the structure and put you in the right spot to build the structure correctly.

Once you identify your Vital Need within the BHN, you then build the scaffolding (measurements and tracking) around it to ensure you properly fix it. Specifically, I suggest you use a somewhat more comprehensive method than OKRs, a method that instills progress checkups and appropriate improvements in the objectives and measurements. I call it the OMEN method:

O—Objective. What is the result you intend to achieve?

M—Measurement. What is the most straightforward way to measure your progress toward your outcome?

E—Evaluation. With what frequency will you analyze your measurements?

N—Nurture. If necessary, how will you tweak the objective and/or measurements?

1. *Objective:* What is the outcome you want to achieve for your Vital Need? Where does it currently stand (the baseline)? Identify the requirements for your goal to be considered successful and how you are going to move from your baseline to your objective.
2. *Measurement:* This includes the metric(s) for your outcome, within a specific time frame. What is the simplest way to effectively track your progress toward the objective? The fewer metrics the better. Minimize the number of metrics to avoid distraction and confusion, but have enough to give you an adequate reading of your progress.
3. *Evaluation:* Determine the frequency with which you will check your metrics and set interim goals on your way to the intended outcome.
4. *Nurture:* As you progress, you may notice that your objective isn't quite right or you aren't measuring it effectively. Make the objective and measurements highly visible/accessible to the relevant people. Then give you and your team permission to change the settings (objective, measurements, and/or evaluation frequency) to improve the progress toward the objective.

The OMEN method gives scrutiny and attention to the Vital Need you identified to resolve it as efficiently as possible. When

the objective is achieved, you then remove the scaffolding of constant scrutiny and focus, and leave a key metric or two behind to ensure sustained results and signal if a new problem arises. Then move on to the next Vital Need and set up new scaffolding using OMEN. This is the building of a Dashboard, an important process I detailed in *Clockwork*.*

Now that I live by the BHN, I have the least stress I have ever experienced in my life. That doesn't mean I have no problems in my business; I constantly have challenges and problems and issues. Now, though, I know exactly what to do next: pinpoint the fix that will have the most impact and don't get distracted by the countless obvious but superficial issues.

When I complete the resolution to a current challenge, I go right back to the BHN to pinpoint exactly what I need to do next, regardless of all the urgent issues that constantly spring up. I wish I understood this a long time ago, and I'm glad to be able to help you understand this now. Because, you see, the only way to get unstuck quickly, to unlock a new level of growth for your business, is to stop wasting precious time and resources trying to fix the wrong problems, and instead zoom in on the right problem and fix it.

In the next five chapters, I'll go over each level of the BHN and help you zero in on your Vital Need. Addressing the Vital Need is the opportunity to strengthen your weakest link so that you can realize the vision you have for your company. You don't have to

*You can get the book and free resources at Clockwork.life.

carry around the secret about how frustrated you are with your business, or how long your business has been stuck at a plateau, or how your $22 million company is four weeks away from shuttering the doors. You don't have to live in fear that you may never make a go of it, that the naysayers in your life were right. Please don't let the good fortune of luck make you believe that success happened because of your skill, and please don't let your skills be discounted as luck. Take a breath and focus on what is *really* going on in your business. Pinpoint the most impactful issue. And then apply the fix.

Entrepreneurship is a challenge of epic proportion. You must build your wings only after you have made that leap of faith off the cliff. Whether you are years or decades into your journey, or even if this is day one, I know you're up for it. I am sure of this.

I know this, because even if you and I haven't met in person yet, we have something in common: the DNA of our businesses. Every business is built on the same DNA. It's only the choices we make that differentiate them. That's it. And with your new BHN compass, you will make different choices. Better choices. The *right* choices.

You were meant to avoid the boar paths of business and the oft-misguidance of your gut. You were meant for greatness. There is not one doubt in my mind. Grab your compass, my dear friend, we've got some business navigating to do.

TUNNEL VISION IS also a challenge for, well, all of humanity. But it can keep an entrepreneur stubbornly stuck in the same spot. We get frustrated because we are not seeing results, so we often respond by doing what's not working, only harder. This can be frustrating for people on the outside, because it is so obvious that tunnel vision is the problem. That is why I encourage you to engage the services of a qualified business coach. For decades I have employed business coaches to give me an outside perspective on my businesses, and I can't say enough positive things about the experience. In short, the good ones are trained to identify core challenges, giving guidance (or bringing in resources) to fix them, and are not emotionally attached to the business like you are. The Fix This Next model is an ideal way for you and your business coach to diagnose what your business needs next, and then you can get to it with your coach and fix it. Go to FixThisNext.com to get the free tools and coaching resources.

AVAILABLE THROUGH THESE RETAILERS

amazon

INDIEBOUND

BARNES & NOBLE

Get it on Apple Books

BOOKS-A-MILLION

audible an amazon company

MikeMichalowicz

MikeMichalowiczFanPage

FixThisNext.com

PORTFOLIO
PENGUIN