248 – John Briggs – Profit First for Micro Gyms

Lawrence: Lawrence Neal here, and welcome back to HighIntensityBusiness.com. This is episode 248. Today's guest is John Briggs. John Briggs CPA is the founder of Incite Tax and Accounting, the largest firm serving micro gym owners in the country. He is a mastery level Profit First Professional focused on tax and cashflow strategies. John has been featured in CrossFit Journal, Box Pro Magazine, and on micro gym industry podcasts, such as Two-Brain Radio, WTF Gym Talk, and 321Go.

Lawrence: An expert speaker, he has appeared at the inaugural affiliate gathering, Gym Owner Growth Summit, ProfitCON, and has multiple speaking appearances at the annual Two-Brain Summits. He lives in Utah with wife and four children. John, welcome to the show.

John: Hey, thanks for having me.

Lawrence: Thank you for taking the time and really grateful for Allie. Allie Watts, who's been a previous guest on the show and become a good friend of mine. Grateful for her connecting us. And when I saw your resume and what you've been up to, I thought this is such a great fit. So do you want to give the audience a summary of your background and expertise, and we'll just sort of start there?

John: Yeah, sure. I know everyone wakes up or starts listening to a podcast, wanting to talk about accounting. So let's talk about the history of accounting for a little bit.

Lawrence: [crosstalk 00:05:09]

John: No. I've been doing taxes. I have had a tax firm for about a decade, a little more than a decade, and we just... Oh man, I just really don't like the government very much, when it comes to how they spend our money and the means in which they try to get it from us. I have this belief that I think we as business owners or gym owners can do so much more in the world if we keep our money. And so, that was kind of the passion that drove this idea to get into tax and to save people from the bully nature of the IRS.

John: And then, a few years into my tax firm, I got introduced into the world of fitness. I had a client who his service was to create websites for gym owners, and he really liked what we were doing and he just slowly introduced me to his clients. And then from there, it's just we really love working with gym owners. It actually drove me to want to understand them better. So I bought 50% interest into a micro gym over here, and so we... That's kind of the basic of it. We love to save people on taxes and we think fitness owners save the world, so we feel like we actually have a noble cause to what we're doing.

Lawrence: Awesome way to start. And as I was saying to you before we got started, I really enjoyed your podcast with Eric over at the Future of Fitness podcast, and I'll link to that because I think it's a good episode. You've got a really interesting background. Obviously, you've got a master's in tax, I believe, or tax and accounting, and you were financial controller for a business that had a really crazy year where you did 30 million in revenue but you went bankrupt that same year.

John: Yeah.

Lawrence: And obviously, you go into more detail on that podcast. One of the things I had to ask about that is there was someone who had... I think they would due 70,000 in commissions and there were people with sums near that who were due commissions. As a former salesperson myself, I felt heart start to pick up little bit, like I was quite... Because I can only imagine, those people who are expecting those huge sums of money or already probably in there or at least spending it in their dreams or in their minds, and they're probably telling their families. So that must have been really bad for them, when the shit hit the fan, right?

John: Yeah, so there is a happy ending to that side of it because at the end of the day, when they were... The company was about $1 million short of covering all the commissions. And whoever got their check to the bank first won, basically. However, in the area that we're located, it is like the Mecca for these summer sales type of companies. And so, when they heard that our company's checks were bouncing for the sales reps, it was a feeding frenzy. So they would contact all these sales reps and they literally would, without any documentation or proof, just say, "Tell me what your bonus check was supposed to be," and they wrote them a check for that right there as a signing bonus to then work for their company.

John: Because you're right, they were not planning ahead. And in fact, when we do their taxes, which is like the consequence of the past 12 months, they've already spent all the money, instead of saving it for taxes. So I know that those guys who were waiting for the 50,000, 76,000, $100,000 bonus check, man, yeah, they were going to be screwed. So luckily, there were some companies that benefited from that debacle with the company I was with. But yeah, it was scary and nerveracking. But all of us who were not sales reps, we were just totally screwed.

Lawrence: Wow. Okay. Yeah. Well, no, that's super interesting. And obviously, that was part of your experience leading up to what you do now. I've heard of Profit First before, and obviously it's talked about a lot in all businesses and the business or finance industry. I haven't read yet, but I've heard it multiple times. It's sitting there on my list to be read. And then, you took it one step further.

Lawrence: You read Profit First. You implemented it. You became a certified professional in it, and then you've wrote Profit First for Micro Gyms, which couldn't be more relevant to especially my audience. Gym owners who in a lot of cases are running smaller studios, who wants to become more financially adept and more efficient, and generate more profit. Can you just talk about the book a little bit, and talk about how exactly it helps the gym owner?

John: Yeah, I'd love to talk about the book. That's a great idea.

John: So first, let me just give a basic... If those who are kind of like you, where they've heard it but haven't actually read the book.

Lawrence: Yes, so back up and talk about Profit First as a concept. Yeah.

John: So profit first is really, it's a cashflow management system that is designed to encompass our human behaviors and just simplify the process and take out all the accounting jargon and the stuff that typically gets in the way of a business owner implementing something successfully. At its foundation, we take this formula that people are familiar with when they look at their financial statements or tax returns, because both are always structured in the same way. You have your total income at the top. You subtract all your expenses and what's left over, as they call it, net income.

John: Well, Profit First is just saying the problem with that formula is that profit becomes the afterthought, and what we focus on is sales and we focus on expenses. Instead, let's just change where profit goes and flip it with expenses, so that we focus on expenses and make... So we flip it, so that we focus on profit and then expenses becomes the thing that we now have to control better. So the formula for Profit First is sales minus profit, a predetermined profit equals expenses. And then, from there you manage your cash. It's really great. Anyways, so that's the main concepts.

Lawrence: Yeah.

John: I'm sure we'll kind of [crosstalk 00:11:53]

Lawrence: Yeah. I'm trying to wrap my head around some of this because I haven't read the book, as I said. I've only listened to you talk about it and seen a few screenshots on Google and which I'm looking at right now. And one of the things that confused me a bit... Firstly, I love this. I love the shift in mindset. I think it's really powerful. It kind of reminds me of Robert Kawasaki in Rich Dad, Poor Dad, saying pay yourself first, right?

John: Yes.

Lawrence: I remember that from years ago. But the thing is what about... Clearly, this is addressed in the book, I'm sure, but what about things like your fixed expenses, your rent stuff, stuff like that? Surely, in my mind, that should take precedence over the profit because you have to pay that, right? So how do we account for stuff like that?

John: Well, so that comes into Parkinson's law is the human behavior that explains why we say pay yourself first always. Because as humans, we have found that we're super good at utilizing the supply that exists. So in this case, if we think about cash in the bank as a supply... In fact, this company we were talking about, the $30 million company, Parkinson's law reared its ugly head with this company because they saw the money in the bank account and they spent it because they thought it was available. When in reality, it wasn't all available, just like your income that's coming in isn't all available for you to spend on expenses because you have other commitments, like a tax liability that... Not that it's a commitment we want to, we're just forced to do that.

John: So Parkinson's law is this idea that we will utilize the resources to the extent available. And so, by saying let's pay ourselves first, we then force ourselves to become creative with the money that's leftover. Certainly, if a business owner pays himself first and they don't have enough for the bare necessity, keep-the-doors-open expenses, they probably first need to look at their lifestyle expenses because they're paying themselves too much. But it at least gets them to realize that they're paying themselves more than their business can currently afford to pay them.

John: That's why we say let's pay ourselves first, and then focus on all the other expenses because then from there, you can see when you sit down, twice a month, which is what we recommend with the system and you spend the hour to manage your cash on those two sitdowns, you'll see how much money you have available to spend. And if the money you have available to spend is less than the expenses you have to pay, that's your business screaming at you, "Hey! I don't have enough money to pay all these bills. We need to fix something." And so then, it forces you to get creative with expenses. And usually, with our clients that we've worked with, we generally start with cutting expenses first because most businesses have a little bit of fat that needs to be trimmed for sure.

Lawrence: Yeah. Awesome. Okay, so that makes sense to me. Are you at the beginning then, are you picking some arbitrary percentage for the different allocations [crosstalk 00:15:27]

John: Good question. Yeah. So when it comes to the Profit First system, and one of the reasons we found the need for the book is that as we were adapting Mike Michalowicz original system to gym owners, we were always having to change these percentages that he suggested. When I spoke to Mike about it, I said, "Look, I think I need to do a new table altogether," because [inaudible 00:15:51] study included all sorts of companies and I just wanted to do a study just for gym owners. And so, it worked out that because we work with 250 plus gyms, we had a big database that we could look at.

John: So we did a study and analyzed the financially-fit gyms and to see what percentages they're sending to different accounts. So with the Profit First system, as I kind of alluded to in my previous comment, your money is committed to certain spots already. And so we say, let's take that commitment a little bit further and actually set up a bank account for some of these general commitments that we have, like paying ourselves as owner's pay, giving ourselves a profit distribution, setting aside money for taxes in a gym. You're going to have to replace the equipment or maintain it, so let's have an account for equipment. And then, as the money comes in and we sit down, we're allocating money, our deposits into these different accounts, twice a month. So with that being said...

Lawrence: [crosstalk 00:16:59]

John: Because it's too long of a period and our businesses have cycles, and by splitting it up every 15 days, we can better understand the trend of when we have a lot of inflow coming in or when we have a lot of expenses going out.

Lawrence: And sort of reduce risk as well a little bit, as well, I suppose.

John: Yeah.

Lawrence: [crosstalk 00:17:20] less scary, I'm guessing.

John: Yeah, exactly. So then, I'm only looking at two weeks' of transactions instead of a month because I can definitely tell you from experience, I know that that month for gym owners often becomes 12 months. And then it's like, "Oh crap, I have to do my taxes. Give me a couple of weekends to get my crap together." When if we do it every two weeks, it's less.

John: I've heard this analogy used, and it fits really well for our industry. If you had a member come in and say, "Hey, I'm going to work out for 22 hours straight, and then I'll come in next year." Really not the same benefit as I'm saying I'm going to work out for an hour, 22 times. The same concept. We want a healthy rhythm to our cashflow, and sitting down every two weeks gives us that. So what was I answering, now?

Lawrence: Sorry, I interrupted you. You were talking about that when you adapted it to your book, how you changed the percentage allocations, so I was interested in that.

John: Oh, yeah.

Lawrence: Yeah.

John: Okay. So we looked at the financially-fit gyms and we looked at these common commitments that we have and we found what they're able to do for each percentage. So we have that table in the book, but none of our clients and I would be willing to bet almost 99% of gyms, as they come across this process are never going to immediately start with those percentages. Financially-fit gym started somewhere, just like we start somewhere. And so with the different categories, we have some minimums, some defaults.

John: For example, the Profit Account, which we feel is really important because the owner is taking financial risk and probably isn't giving themselves a distribution for that financial risk. So we say, "Look, you haven't done this yet. Let's just start with 1% of your income." Let's establish the behavior. 1% not going to kill you in the other areas. Let's give ourselves some time to cut back on the expenses.

John: We also often will look at what the owner is currently paying themselves and figure out what percentage that is of their income, and we'll see if that's feasible to start with. Sometimes there are some adjustments. As I mentioned, there are gym owners who are paying themselves a little more than their gym can afford right now, but that's okay. We'll get into it. We'll help them. And so there's a couple elements right there that we look at definitely to figure out... It's not arbitrary, but it's definitely not like what the book... What we say you can get to, it's generally not that number. We want to start at point A and get to that goal that the book talks about.

Lawrence: What are the... Are they set percentages that are like the nirvana in this niche, like for these different categories?

John: The percentage that I look at that's kind of the nirvana is if a gym owner is running a profit, net income percentage... So income minus expenses, whatever that money is left over, if that's 30% or higher, that's really good for the fitness industry, like really, really good. And so if they're in that area, then generally we can play around with how they're flowing their cashflow to make sure these other accounts that we have them set up, that they make sense. Because other than that, it really depends on the structure this person sets up. If they're primarily personal training, their gym looks a little bit different than if they do group training, or the...

John: I don't know if any of your gyms do the let's rent equipment only type of thing. Obviously, all those models look very different. Our book is designed to the gym owners who have the personal connection, not necessarily the renting equipment like the Gold's Gyms or Planet Fitnesses. We are more of the personal training attention. As you mentioned, the premium service and so we can command a better price and can we get more direct results, that type of stuff.

Lawrence: Have you heard of a studio called Discover Strength at all?

John: I have not.

Lawrence: Okay. Now, the reason I ask that is I know that we were talking before this and you haven't worked with or you weren't as familiar with the high-intensity strength training businesses. I [inaudible 00:21:43] there's an issue there at all because there's so much similarities in this game. I think you would find those particular businesses fascinating though because I'm just thinking Discover Strength, a great company that I have done a lot of work with and the listeners will be bored of me talking about it probably. I've had their team and Luke, who's the founder, on the show a lot, and they're just incredible team. Luke is just an unbelievable entrepreneur, and I think you'd find that fascinating because I think if you looked at their business model and how profitable they are, I think you'd just be blown away.

Lawrence: The reason I bring that up is I'd love to see, because you've got so much data on micro gyms. I'd love to see how a company like

Discover Strength would shape up against those other businesses because as I was saying to you before we got rolling, they're able to... High-intensity training is predicated on the idea that you're taking someone to fatigue and getting a really effective workout within half an hour, which you can't say for a lot of other personal training services out there. So I just wonder how the numbers would stack up, but that's a conversation for another time and maybe one day we'll do a little round table or something with Luke and maybe we can talk about that.

Lawrence: Awesome. So thanks for, I guess, setting the scene on the way the system works. Have you got any kind of tips on, for those listening to this, how they can go about implementing this? Let's say they're no quite ready to maybe invest in outsourcing things to your business or something like that, but they want to just try and implement this. Have you got any advice on the best way to go about that?

John: Yeah. What's great about this Profit First concept is that for gym owners, it's a little bit like cheating because they have such an advantage over other business owners because of the concepts that we use to explain it are like nutrition-related and fitness-related. So if you think about a new member when they come in, generally most gyms do some sort of assessment. Where is this member at? How overweight are they? How mobile are they? What am I going to be able to program in? That type of stuff, the assessment. It's no different when we're looking at the health of our cashflow. And so, the first step is to do an assessment on the health of your gym.

John: It just so happens we have a free five-day challenge, and I can get you the link, but what we've done... So in the book, we obviously run through this in a lot of detail as well, but we've broken up the steps that we explain in the book in five days, into very small, 15 minutes or less, digestible steps that a gym owner can do. And over the course of the five days, then on the fifth day after they've done the different steps, they'll have their assessment. But the idea is we need to pull up our financial statements, which I know most people go into comatose the second I mention that.

Lawrence: Me included.

John: But you have to. Yeah, you have to do that. We've got to look at our bank statements, and we need to pull some numbers out of those. And then, we have an Excel file as part of the five-day challenge, and they just plug in the numbers that we're asking them to. And again, we break it up so that it's only 15 minutes of what most gym owners have the least desire to do. And by the end, then it tells them, "Look, this is where you're currently at. Here are how your percentages lay out. Here's how they compare to the financially-fit gyms that we've looked at in our studies." And so they can see where they could get to, and they see the areas where they might need some strength training, if you will, or maybe they need to improve their financial diet, that type of stuff.

Lawrence: What's the link for that particular...

John: It's ProfitFirstforMicroGyms.com.

Lawrence: Okay.

John: That's the book. Backslash five, the number five, days. 5days.

Lawrence: Okay, cool. I'll make sure I send [inaudible 00:25:55] so people can try that out. So what I was sort of telling you at the start of this, how I did things the wrong way around and how I'm starting opening a studio of a friend here in Galway, in Ireland, which is where I'm located, in probably January time, so very exciting.

Lawrence: Now, have you got any advice for me in terms of a startup? We've not made any bad habits yet. Hopefully, we won't make too many mistakes. But any sort of advice in terms of financial best practice from the get-go that you would recommend?

John: Totally, and that's such a great scenario because we get this a lot. like, oh, I'm going to wait. It's like the member. I'm going to wait until I'm healthy and fit to come and start exercising again. We run across this with gym owners too. I'm going to wait until I have a little bit more profit before I started doing this.

John: Starting from ground zero is the best place to start with Profit First, as you mentioned, because you haven't established any bad habits or really bad expenses. We would recommend... The only difference with a startup gym versus this assessment that we just talked about is that you're going to forecast what you think you're going to make in a 12-month period. And based on your forecast, we're going to come up with percentages that will go into these different accounts.

John: Now, for a startup, generally if you just invested in some equipment, you don't really need to put any money into the equipment account for the first year. But we certainly want to make sure you're paying yourself the right amount from the beginning because that's going to force your behavior as you add expenses or think about expenses. You'll know, look, I need to take home this much money, which means I then need to gear my services around the ability for me to take this home. I need to price it the right way. I need to make sure that I don't bring on the shiny object expenses that probably aren't going to add any value to my gym.

John: So with that in mind, let me talk about this concept in the book that I really love. Most people, if they've sat down with their accountants, their accountant comes to them and will say things like, "Well, give me a list of your variable expenses and your fixed expenses." And they're like, "What the crap?" "Okay. Well, let me. I'm an accountant, let me explain it to you," because they think they're so important.

John: Fixed expenses, as you mentioned about the rent, it's the same amount every month, regardless. Whatever you do income-wise, you're going to have that expense. Variable expenses vary based on the income. So typically, if I'm selling supplements or apparel at my gym, those are variable because I sell $1,000 in a month, my expense to sell those supplements is different than if I sold $10,000 in a month.

John: So if you ever have an accountant ask you those questions again, you can say, "Hey, I've been given permission to not worry about those expenses because it's completely worthless, and doesn't do anything for me." The two expenses that gym owners actually need to focus on are is this expense productive or not productive? That's it. That's the simplest way we can look at it.

John: So now, as I'm starting off my gym and I know that I need to take home, say $5,000 a month, everything that's left over after that, I'm going to be much more focused on before I spend that dollar, asking myself is this a productive expense for my gym? Will this bring in revenue? Will this serve my members? Versus, yeah, I really want a peg board because it's cool. I want a gigantic tire that sits in the back and collects dust because no one's ever going to flip it. Whatever. I want to put turf down, even though we'll never program a workout that uses it. We like shiny objects as gym owners, and it doesn't always produce the results that we're looking for for our members. And so, by forcing ourselves to ask those questions, we can [inaudible 00:30:11]. We can be more productive with it.

Lawrence: So when you're looking at what makes a productive expense or a not productive expense, what's questions are you asking? What's the filters for defining what those are?

John: Yeah, so we have a chapter in the book that goes over them, and I believe there's like 11 questions.

Lawrence: Okay.

John: But the general idea is does it bring in immediate revenue? Does it improve or support a system that brings in revenue? What else? There's a lot.

Lawrence: I don't expect you to remember all 11.

John: Yeah, but that's the idea. Does this expense, does it serve my member? Does it give them a better experience? Those types of questions versus... Well, most of the time we don't ask ourselves questions about expenses. We just spend the money and think it's going to work out because we're really optimistic. [inaudible 00:34:01] like, okay. Actually, let me think. Do I need two membership subscriptions? One that tracks the data of my members, and one that tracks their workout history? Do I need three different music subscriptions to play music in my space? Those types of things. Well, one of those might be productive, but three? No.

Lawrence: What have you found to be most effective in terms of the minimum tools you need in the beginning, like whether that's some software, or other that you think are really, really good tools for a fitness business to start out with? Is there any that come to mind to make this whole thing a little easier?

John: Yeah. I think for gyms that are just starting out, I think the tool that is the most viable is you as the gym owner. What is the passion you're going to bring to show people you will be able to change their life?

John: Most people need a space. We're in Utah, and so if someone tried to have a gym in the park, where they didn't have any rent expense, they'd have a six-month business because there's six months out of the year that most people aren't going to want to be outside. I know the further north you get, the worse it is. So generally, people are going to need a space. But then, we get into this thing where gym owners want to start searching, like gym management software. Well, great. That's going to give them 5 billion results and then they're going to read all these comments and try to do reviews to see which one should I get? Honestly, if you're just starting off and you have nothing, I don't know, use Excel. Most people have that. It's free.

Lawrence: Google Sheets.

John: Yeah, Google Sheets is free.

Lawrence: Google Sheets and Google Docs is an absolutely lifesaver for startups, I think.

John: I'm going to lean towards let's minimize our expenses and make sure we're going to get this off the ground with income first, before I automatically add in 250 or $300 a month in some sort of membership software. Now that being said, once you have the revenue to handle that, there are great softwares out there that can do a lot of the stuff that you don't want to do. Certainly, tracking attendance is something would be one of the first types of softwares I would recommend looking at because then it tracks when your members are coming in. It racks who they are. It tracks everyone who has been through the door, even if they're not member, which then gives you the ability to contact them later.

John: We ask... In the book, I make this point too because there's just a lot of people who do marketing pushes, especially with the gym owners that we deal with. This whole six-week challenge thing is something that's been getting... It's got a lot of traction and then now finally, light has been shown on it's not really the best way to grow your membership.

John: The point in the book is retention. Retaining my members is always going to be the best thing for growth versus coming up with the new fanciest way to get people through the door. So gimmicky, salesy, high pressure stuff. I just don't think it works very well, and I say I don't think because it's based on data that I've seen with clients we've worked with. But all that's a long way to go back to that's why I like a software that can track attendance because if I have a member who's paying and they didn't come in at all that week, unless I know that they're out of town, I want to reach out to them, and so I can set up reports in these types of softwares that can automatically tell me, here are the members you should maybe talk to this week because you didn't see them, last week.

Lawrence: So that would be like proactive retention, basically.

John: Yeah.

Lawrence: You are echoing so much of the good stuff that's shared on the show around how important retention is in this business. What was I going to say? Something you said.

Lawrence: Oh yeah. There was something you were saying there about the six-week challenge. And also, I don't know whether this is similar, but I also think too much emphasis is placed on things like if you're launching in January, you've got to do a big launch. It's like I don't know any businesses that put their... I mean, Paul Graham, who is there, I think he is the founder of Y Combinator, a famous venture capitalist. He's never ever seen a company be really successful because of a special launch. Like one week was amazing and then that made the company super successful. It's obviously a longterm thing and it's something you do every day.

Lawrence: Are you on the same page with that, or do you think launches are over-hyped with any new fitness businesses, if we want to stay focused on this?

John: Yeah. Seriously, like yeah, our business is terrible. We're horrible with our members, but we had that one great week in the beginning when we first started, and that's why we're still in business. Yeah, that concept is crazy.

John: Now, there's excitement around a launch and human behavior tells us that humans perform to a deadline. And so, in some way, when you market like, "Hey, we have a grand opening," there's some sex appeal to that. But no, I don't think if a gym has a successful launch or doesn't has any merit on whether that gym is going to stay in business or not.

John: I have a client I can think of off the top of my head. He's got a gym in North Carolina, and I know his launch didn't go that well and it took him like 12 months of grinding. But he kept with it because his business model is solid and he provides a good service, and he's still around and he's still doing what he's passionate about and he's saving people's lives by keeping his gym open. But he had a terrible lunch, and I know others who they nailed it in the launch and they got a ton of members through the door, but they use gimmicky crap. And so, when that gimmicky crap was over, people realized, "Wow, this actually is not a very good service, and I don't think I want to pay for it." So yeah.

Lawrence: It's misplaced effort almost, isn't it, when maybe you should be focusing on just having a great product?

John: Exactly.

Lawrence: Because I can't help but think that if someone said to me, "If you're launching in January, you have to have some kind of... It's a great time because people have put on loads of weight over Christmas and they're going to be prime to buy." And I'm like, yeah, but you're going to get the wrong customer. You're going to get a client or you're going to get a large percentage of clients who are going to come for that bit of "instant weight loss," which we all know is practically all diet anyway. But it's like yeah, and they're going to stick around for how long? They're probably not going to be the right fit. You're going to channel [inaudible 00:40:47] those customers, right? Whereas...

John: Such great... That's so great. Exactly, it's the wrong client [crosstalk 00:40:52]

Lawrence: Am I on the money? Yeah.

John: Yes, so on the money.

Lawrence: Okay.

John: In our gym here over the summer, we had a couple of competitors who offered this summer months, $10 for three free months, basically. Some sort of ridiculous thing. Well, we had some members, which is fine, it happens, "Well, do I want to pay $130 a month, or do I want to pay $10 for three months?" So they jumped ship and now that the three months has been over, a lot of them have come back because they realized actually the service we were getting at my gym is better than the free service.

John: And so, you even have scenarios like that, where you have to stick to your principles. I don't believe in discounting for the sake of discounting to get people through the door, just like I don't believe in doing these types of Groupons or in this case, it started with these six-week challenges, where we're getting these people who think they're actually going to look like their favorite supermodel in six weeks. It's like no, we're going to establish some habits, hopefully. But other than that, you want six weeks to outweigh 30 years of bad decisions? We need a little bit more time.

Lawrence: Yeah, you're right because where I see a six-week challenge being effective is not necessarily for... So I know businesses in this niche, in our niche, who will use a six-week challenge to drive additional revenue for existing customers. So they'll sell... Maybe they'll increased training frequency, so sell additional sessions and they will sell maybe consultancy and nutrition on top of that. So it's a way they've used as a tool to generate more revenue, but it's not a customer acquisition thing, and I think that's the difference.

John: Totally.

Lawrence: I believe the way I described it is an effective way to use it, or at least test it in your business, but not as a primary driver of customers.

John: Absolutely.

Lawrence: Yeah.

John: Yeah, I love that difference. That's right on.

Lawrence: Okay. Awesome. All right. So we touched on tools a little bit there, but I like the fact that you didn't really speak about many specific brands or tools because, like you say, it's not really that important in the beginning. Certainly, for a startup.

Lawrence: I want to talk a little bit about the mindset, which I thought was really fascinating. You talked about this on a podcast I listened to and in the book. Some of the traps that a lot of the gym owners fall into, and there's one about gym owners always being like a bit of a martyr. Can you elaborate on that, and talk about your experience with that?

John: Yeah. Oh man, I don't know what it is, but it's just all over the industry. This whole idea of that... I think it's safe to say as gym owners, we know that we are giving people the gift of life. If they actually do what we're asking them to do and sticks to nutrition and exercised regularly, they will live longer. There'll be less of a strain on the insurance world, which would then force those guys to change the way they treat us.

John: Health is the foundation of humanity and that's what members get if they come through our doors. And somehow, we got our messages mixed where we'd say things like, "Well, I'm saving their life. They're getting healthier, so I don't really need to be paid for it." No, don't. As somehow getting paid to give them that benefit cheapens what we do, and it's nothing could be further from the truth. But there is that martyrdom syndrome, like, yeah, I'm going to wake up at 3:00 AM and I'm going to stay in the gym until whatever, 8:00 PM, and I'm going to be here 20 hours a day and I'm going to sleep on the couch because I can't afford my house anymore. And when people ask, whatever, "Don't worry about paying me. I'm just happy to help it."

John: If you want to help people with the gym membership and stay healthy, and all that stuff, you have to have profit to stay in business. The more profit you have, the longer you can stay in business, the more people you can help. If you don't have profit, all that passion that you know we've fallen on the sword for, you're not going to have a playground to use it anymore.

Lawrence: Yeah. It's the put your gas mask on before you put on your child's analogy, isn't it?

John: Yeah.

Lawrence: Is it a gas mask? Am I using the wrong... It is a gas mask.

John: It's the air mask. [crosstalk 00:45:37] Oxygen, yeah.

Lawrence: Oxygen mask. It's not gas mask. [crosstalk 00:45:40] Yeah, that's probably the wrong type of mask. But yes, it's the same principle.

Lawrence: It's really funny because when I heard you say that, I thought, yeah, it's like I'm connecting the dots with so many conversations I've had with people in this industry who I believe feel like that. I also remember Luke saying he was having a conversation with this thought leader in customer service and they said there is nothing... I think I'm going to butcher this a little bit, but it was like there's nothing noble about undervaluing yourself. And obviously, that really resonated with Luke and in turn resonated with me and I thought, yeah, that's a really common issue.

Lawrence: What are some of his others? Other kind of poor mindsets that you see in this business, and how you sort of flip that around? Anything else that comes to mind?

John: Yeah. I just need 10 more members. I'm struggling. Things are good, but if I had 10 more members, everything's going to be gold and after I get those 10 more members.

John: I remember talking to a client about that and he's like, "Yeah, I've said I need 10 more members for the last hundred members." Because the idea with 10 more members is we're focusing on income, which is great. Sometimes we need more income. Sometimes the space that we have is too big for the small and the number of clients we have. There's a legit reason sometimes to focus on income, but I feel like it's too big of a push, which is why I love the message of Profit First, which is let's focus on the money left over after the income comes in. So if my mindset is just 10 more members, I bet with the Profit First system, focusing on cutting my expenses and really being honest with myself on is this expense productive or not? I will probably find enough expenses to cut that I don't need 10 more members. I just need to cut the 10% of fat that's hanging around in my expenses. So, that's one mindset that comes to mind.

John: Let's see. It's a hobby, that's always one. I just want to help people. I don't need to be paid.

Lawrence: [crosstalk 00:47:59] into the martyr, isn't it?

John: Yeah. I think the one of the biggest ones is that just profit is a benefit for me, and not for my members. I think that's the biggest mindset problem the gym owners, which is related to the martyrdom syndrome but profit definitely benefits your members. You get to experiment with service offerings. There's just so much you can do with profit.

John: If you don't have profit, you can only do one thing, which is hope to survive. If you have profit, you can do all the million different things you can focus on that are going to benefit your gym owner. And so yeah, that's the biggest one. Profit benefits your members, guys. It totally does. You need it.

Lawrence: Do you think the reason why we think profit is a bad word is because capitalism has been demonized so much over the last 10 years? All the greedy bankers and socializing all the debt after the crash, and everything like that. Do you think it's gave capitalism a bit of a bad name, and we think of profit differently and we need to kind of... Do you think that's the undercurrent here, perhaps?

John: I do. I think there's that element of greed. The emotion of greed is tied to the word profit. And if I focus as a gym owner on getting profit, now I'm a greedy scumbag capitalist, like the evil capitalist type of person who's not actually creating value, but the capitalism that the media portrays of I'm taking money from people and that's why I'm a capitalist. Yeah. The greed is so tied to that word, and so we don't want to focus on it because it's like, well now I'm selfish.

John: No. You can serve more people and longer if you have cash left over. It's how it works. So if you focus on having cash left over, you can actually focus on all those other things. Your noble purpose, the thing that gets you up in the morning, the passion, saving humanity through health. You can focus on all of those things if you have cash left over. Yeah, so that's why just focus on having cash left over, so you can do all the other stuff.

Lawrence: Just the way you said that made me feel like you've sat across from so many people, gym owners, and just had that kind of face palm moment where you're like, "I can't believe you're saying this."

John: Yeah.

Lawrence: No, I fully agree. Now, just final question, before we sort of wrap up. In terms of metrics, I love to listen to you talk about vanity metrics. This is such a problem in business, right now. I primarily run an online business, which this podcast is part of, and I went through this whole phase of being served obsessed with podcast downloads and hits to the website and things like that. It was a huge relief for me and a huge kind of turning point in my own mindset when I realized it doesn't matter if a podcast episode gets a hundred downloads, if those hundred people happened to be part of your target market and end up buying your services, It really doesn't matter.

Lawrence: I know people who have... I'm going off-tangent now. This is just to illustrate a point. I know people that have like 50,000 downloads a month with their podcast, but they don't generate any income. They don't convert any of those listeners to customers, and they're not being all altruistic and doing it for the fun of it. They do want to actually build a business. [inaudible 00:51:45] I'm sorry, that doesn't mean anything. Sorry to break it to you. And obviously, there is some nuance because if you're trying to get sponsors, then you probably need volume. You need a large number of listeners. But then you could argue, well, they still have to be relevant.

Lawrence: So anyway, a long way of saying that a lot of us are really obsessed with these vanity metrics that aren't really that meaningful. In your opinion, when it comes to this business, micro gyms, what are the KPIs we should be focused on? What are the metrics that are important that we should be tracking? And maybe you could look at it from perhaps a startup lens, like what are the one or two things that you need to think about? And then, maybe for mature businesses as well?

John: Yeah. I think for a startup business, it's simpler because you have less stuff going on. Like revenue, we love this one altogether. You want to track revenue. t's easy to track. You want to make sure it's trending in the right direction, but you also want to track net income because we like both of those. And those, if you have an accounting system, those are automatically in your accounting system. You just have to open the report and look at it.

John: With a startup business, attendance would actually be the one that I look at the most. The second one I would look at is what Two_Brain, this company that does a lot of consulting, they call it ARM, average revenue per member. Some people call it different, acronym.

Lawrence: Lifetime value kind of thing? LTV?

John: Yeah, I'll get into lifetime value because I'm glad you asked that because I definitely have a beef I have to pick with that one. Average revenue per member, where if I have $10,000 in the month and I have 100 members, I just take the division and there I go. So I like average revenue per member because we also want to see are we able to offer more services to members or better services over time as we track that?

John: With lifetime value, I think there's two ways we look at lifetime value that I want to make sure as a gym owner, we understand the difference. If I have a marketing guy come to me, who's going to try to sell me on using a service, because once you're in business, these guys come out of the wood works and they always have bad English because they don't speak English as their first language and their emails... Anyways.

Lawrence: Story of my life.

John: Yeah. They're going to say, "Hey, well what's your lifetime value of the client? Because that's going to tell us how much money you should spend on marketing." No. No, it's not because the lifetime value that they're looking at has a whole bunch of guesses and assumptions that you as a gym owner have to make. Well, are they going to be with me, 10 months or do I think they're going to be with me two years? That one difference changes the whole value of my lifetime value. How much do I think they're going to pay over those months? That number also is going to change the lifetime value. And if I calculate that wrong and I tell the marketer, "I think my lifetime value of a member is $8,000," they're going to say, "Then, you can spend $7,999 to acquire that customer, and you'll be ahead because you have at least $1 profit," and that is the worst approach possible.

John: I actually for the book did some research. I couldn't find very much because I'm not a professional researcher. But what I did find was the term lifetime value of a customer, and I don't know if that's the exact word they use, but the same concept. The first time it was ever introduced was in a marketing book because it was created by marketers to basically sell people on why they should spend more money with them to get more clients.

John: The lifetime value of a customer that I do like is actually a byproduct of this average revenue per member that we talked about and the average length of engagement. How long are they with my gym? Because those two things are based on real data, or data, I guess, is plural.

Lawrence: [crosstalk 00:56:04] make a difference to me. [crosstalk 00:56:06] data. What's the formula for that then?

John: So it's average revenue per member times length of engagement. That's my lifetime value is.

Lawrence: Is that a mean average?

John: Actually, it's just the multiplication of your two averages. So it wouldn't be the mean, it would be the average of those. So yeah, anyways, so we like tracking average revenue per member and then length of engagement. And then by default, I can calculate what my lifetime value is and then I can track that. Because a lot of times, when we look at KPIs as you mentioned, the 50 downloads, what actually is driving that? 50 downloads is a consequence of something else. Just like lifetime value is the consequence of your average revenue per member, and how long they stay with you. So let's focus on those two numbers before we just focus on this crazy arbitrary number that marketers want us to look at.

Lawrence: So they would be called like lead metrics, right? Like they're not be foundational kind of main metric, but they're an indicator kind of [crosstalk 00:57:22]

John: Yeah, exactly.

Lawrence: Yeah. Okay. Cool. Awesome. Well, I want to be respectful of your time, John. This has been a really nice, I think, introductory episode about this topic and I'm looking forward to talking about... That wasn't what I meant to say. Reading Profit First, but also your adaptation of it because I think it's going to be really useful. What's the best way for my listeners to find out more about you, and what you're up to?

John: We have my tax firm website is InciteTax.com, and that's incite, like to insight a riot because we think we need to just push back a little bit with the government. And so, that's I-N-C-I-T-E tax.com, or the book is ProfitFirstForMicroGyms.com, but any of those places are fine.

John: I also am open to direct email, if people want to email me questions and stuff, john@incitetax.com is a way they can contact me. And they can pre-order the book right now on Amazon, if they wanted. It's called Profit First for Micro Gyms. We are going to launch, January 7th. And yeah, that'd be awesome.

Lawrence: Awesome. Yeah, I do just think this is really interesting because I think your your book is just so relevant to the listeners of this show, and I am yet to have stumbled across a accountancy tax firm, who specialize in small fitness businesses. So I encourage listeners to check out what you're doing there and see if... Take your... The five, was it? What's it called, the five step?

John: Five-day challenge.

Lawrence: Five-day challenge, that's it. And I guess, through that, figure out if maybe your service would be a good fit for them as well. I just think it's an ideal, and this is one of the great things about being able to do this in this podcast is finding people like you and be able to work together and help my audience.

Lawrence: For everyone listening, to find the show notes for this episode, all the things that John and I mentioned, please go to HighIntensityBusiness.com, and search for episode 248. And until next time, thank you very much for listening.