**The Quarterly Rocks**

Lawrence: Luke, welcome back to the membership.

Luke: Thanks for having me, Lawrence.

Lawrence: In this episode, we are going to be focusing on Quarterly Rocks which is the next step in EOS® as written in Traction by Gino Wickman. So Luke, do you want to start off by just talking about what exactly are Quarterly Rocks?

Luke: Quarterly Rocks get to the practice or the discipline of focus. So you are really asking the question, "What do we need to achieve in the next 90 days?", to put us on track to achieve our 1-year goa. So that 1-Year Plan with your previous episode on the 1-Year Plan. One of my favorite question in business is, "How could you guarantee that you would always hit your 1-year goal?" I mean, as an interview question if you ask candidates, "How can you guarantee that we will hit our 1-year goal." Man, if the candidate said, "Well, we use the discipline of setting rocks. The idea that everyone in the organization understands what the one, two, or three most important things they could do in the next 90 days that meaningfully move us toward that 1-year goal." That's what a rock is. So question number one is, "What are the 1 to 3 most important things that we will accomplish this quarter?" But you got to add that second part that put us on track for our 1-year because a lot of studio operators and a lot of entrepreneurs in general would just create fun projects. Well, a rock isn't just a fun project. It's something where if you achieved it you're going to achieve your 1-year. A great analogy is you're only choosing the battles that guarantee you to win the war. I mean, that's what your rocks are. Your rocks are the battles that if you win that battle you are guaranteed to win the war. So if you achieve the rock and really the methodology is if you achieve 90% of your rocks you will achieve your 1-year goal. You will achieve your quarterly revenue goal. So that's the first question, "What are the on 1 to 3 most important things I must accomplish this quarter?"

Now I think the second question that I think goes even a little bit deeper is if every other area of our business, so every other area of operation remains kind of at its current level of performance, "What's the one area were change would have the greatest impact?" A lot of business owners get a little bit nervous. They say, "Well, if I focus on these two things, what about everything else? Everything else is still important." Yeah, everything else is important. But let's just say everything else just stayed the same and you could pull out one or two things and really improve those two things, what are the two things that you really want to improve? So all of these gets to creating a 90-day world. Gino Wickman does a wonderful job of explaining that we kind of have this commitment fizzle every 90 days. I mean, it's our human tendency to move toward entropy and every 90 days we just get off track. So every 90 days we need to come together and regroup and say, "What is the most important for the next 90 days?" He looks at it as you're in the field and I guess in the field, I'm not sure what you're doing, you're picking something in a field. I'm not sure what people do in fields. And he says, you are looking at this vast field and it's just so massive it goes on forever you can even fathom covering the entire field. You just take a stick. You throw that stick out in front of you as far as you can and you say, we're just going to put our heads down and we're going to pick until we get to the stick. So our head is down that's our 90-day sprint. We focus on the next 90 days. When we get to that stick we lift our heads up, we take a deep breath. We reflect and where we've been and we say, okay now, let's throw the stick out again and decide what do we need to do in the next 90 days. So getting everyone in the company living the 90-day world is what's really powerful.

Now, the biggest mistake that people make when they set their rocks is that they only have rocks for the owner or maybe a leadership team. The power of rocks is that everybody in the company has rocks. So let's just say you have four people in the studio - there is an owner, there's three personal trainers. Well, you as the owner, you need to understand what are the 1 to 3 most important things you need to do in the next 90 days. And then your personal trainers need to understand what are the 1 to 3 most important things they need to do in the next 90 days that move you toward that goal. Let's say you have four people in your organization, or 14 people, or 40 people in your organization. Imagine the power of an organization with 10 people where all ten people knew exactly what the most important one, two, or three things they needed to do in the next 90 days, and that would be an unstoppable company. Most companies have people that are, hopefully if things are really, really good, are working in a fastidious manner. I mean, they are showing up to work and serving customers and doing the right things. But even in that scenario they haven't chosen the most important things that needed to be focused on that contribute toward achieving the 1-year plan. And so when you have that focus everyone understands what they need to do and what they need to do right now in the short term.

Lawrence: You know, just on that. Can you give some examples of the rocks you set for your trainers for example in your business?

Luke: Most of our rocks are set where we say from x to y by when. Well, the by when is by the end of the quarter. From x to y is usually something around retention or something around referrals. A simple rock for a trainer would be leverage 8 referrals from current clients. So you're a trainer, you are training between 35 and 55 sessions a week, 13 weeks out of the quarter. Is it realistic for you to leverage 8 client referrals? I would say absolutely every other week you're getting new referral from a client, absolutely. What if you have 5 trainers? Your 5 trainers all with a rock of leveraging 8 referrals, okay, you just brought in 40 clients in one quarter. Does that contribute towards your 1-year plan? I would say, absolutely.

Okay, so how about retention? So look at some of the leading indicators of your retention. You find out that you lose clients if they don't train on a somewhat consistent bases. I hope most of your listeners are on autopay right now and not selling packages. We just should not be selling packages in our line of work. Well, on an autopay people choose to train a certain frequency. Let's say they choose four workouts, six workouts or eight workouts in a month. Well, if you are choosing eight workouts in a month, Lawrence, and you're the client and you are only using about five of those. Those three workouts that you don't use in our scenario they roll over and you can use them next month. But if they start to roll over and you accumulate nine workouts, or 12 workouts, and you are behind, what you eventually are going to say. You are eventually going to say I never do eight workouts in a month. Let me drop my workouts down to six or four. But what happens we lose 50% or we lose a significant percentage of our revenue from you. We wanted you to train more frequently, still less frequent in the rest of the world, but we want you to train more frequently. So a great rock would be get Lawrence or get my clients that I train to use 95% of the sessions that they purchased. So that gets you focused on the right thing if you are using all your sessions. You are not going to roll over your sessions. If you are not rolling over your sessions, you are not going to decrease the frequency of your contract, your autopay contract. Is that conducive to what our 1-year plan is? Absolutely. You are training more frequently. You are spending more money. Because you are training two times a week and not one time a week you are producing better results. So it aligns with what's best for the client. It aligns with our 1-year plan.

As a trainer, I'm constantly monitoring. I'm saying, "Hey, you miss a workout last week, Lawrence. What are we going to do over the next two weeks to catch you up? Let's really plan this." And you say, "Well, I got another 4-day business trip." "Well, here is the deal. That flight, what time do that flight take off?” “I got an 8 o’clock fight.” “Well, let’s do a 5:30am workout and you can still… Okay, I will help you schedule that.” So you are just looking at every client and making sure they are using all of their sessions. And by the way, trainers love that because they don’t have to sell anything additional. They are just getting the client to do what the client said they wanted to do in the first place.

So maybe for an owner a rock would be well we don’t have any processes in place. Let’s say for this quarter I’m going to write a core process for how we train people. So for us we have a, maybe you could say it’s a silly name, we call it iconic training core process. It’s just how we deliver workouts. Maybe you call it the World-class workout core process. You get on paper, maybe it’s five pages long, maybe it’s 25 pages long, exactly how you deliver workout. Every time you hire a trainer you just go back and you train the trainer off of that core process. Instead of this tribal knowledge where it’s kind of in your head, it’s on paper. Right now, we like 45 trainers and we are questioning, how do we do a particular exercise or how does this process handled? We don’t have to ask a manager. We just look at the process. So maybe your rock for the quarter is write that process. And then each quarter you could pick a different process that needs to be written and you write it. Well, what is our customer service or our customer experience core process? How do we actually interact with customers around here? So spend the full quarter writing that and training on that now you have in place going forward. And maybe every few years you could update that process as a rock. Your processes are really important. Your processes are your business. So creating a right process will be a great rock for maybe an owner.

Lawrence: Excellent. Yeah, and just some comments on that. If people are interested, how do Discover Strength increase the odds of them generating referrals from their client workouts then checkout the, there's an MP3 and PDF within the membership by David Schnieder who is the Vice President of Operations for Discover Strength. In there he describes how DS run workouts. I guess it's very much align with the core process that you mentioned there, Luke. Things like the teaching focus, the promotional focus, all the different steps of that process that I guess increase the likelihood of a referral being generated. And really can you, just for my benefit, can you just remind me the logic because I obviously there's a lot of our colleague still sell packages and swear by it. Maybe they do both autopay and packages. But can you just tell me why you felt like that's not a very good idea.

Luke: Well, the idea of an autopay is recurring revenue. And if you ever sell your business you will find out that when you do valuation of the business, the business is worth far less if you sell packages than if you have recurring revenue. So if you ever want to sell your business you need to be on recurring revenue because you will be able to sell the business, the valuation of the business will be 2x, 3x, 4x, 5x as much as if you sell packages so in terms of preparing the business for sale. Really, when I say preparing for business for sale I just mean increasing the value of your company. I don't care what the quality of your workouts are like. I don't care how many clients you have. If you're not on autopay or recurring revenue, your business is just not worth very much. You have not created a valuable business. One of the things we're all charge with doing is creating a valuable business. So that's number one.

Number two is if you think by selling packages you think your clients are training once a week they are not actually doing 52 workouts in a year. They are doing 43 workouts in a year, so you just missed out on 9 sessions of revenue. Well, maybe you are charging $50 per workout. You just missed out on a heck of lot of revenue per year multiplied by the 100 clients that you have, or the 500 clients that you have. You missed out on tens of thousands, or frankly hundreds of thousands dollars in revenue simply because your once per week client was not actually training once per week. Well, guess who wanted to train once per week? Your client. They wanted to, they just we're able to not and were not held accountable to it. You also wanted them to train once per week because you were convinced they will get better results. You want them to train once per week because you would drive more revenue as a whole. So by being on this recurring revenue you get people to actually do what they said they wanted to do. I'm not going to argue whether or not once a week, or once every 5-6 days, or twice a week produces better result. I think we probably have enough evidence to say that twice a week produces the optimal results when it comes to strength training. But if you don't believe that that's fine. You can be on a different frequency. But definitely get people on an autopay around that frequency so they are actually doing what they intend to do.

And then from the counting standpoint, the third reason is you have all this revenue that you received ahead of time that you can't necessarily recognize. It just depends on how you do your accounting. Is it cash or is it accrual accounting. You have received all this revenue ahead of time and you have to deliver the session later can be a little bit more difficult. Now, let's make an important aside. Everything we do should be through the lens of what's best for the company, what's best for the employee, and what's best for the customer. Well, the customer doesn't want to buy packages, okay. Why? Because you are acting like their bank. If you make me buy 20 sessions ahead of time I'm going to look at you and say, okay, your sessions are whatever the price is, "Why am I going to give you a couple of thousand dollars ahead of time for you to sit on? It's my money. I'm going to keep that money and I'm going to keep it my investment, and I'm going to continue to earn interest on it. I'll pay you just one month at a time." So 4, 6, or 8 sessions, one month at a time. If the client thinks for literally more than 30 seconds, they realized, "Why are you playing my bank? This is not in my best interest." As a client we should just be paying for as few sessions ahead of time that is needed. Now, the other advantage we still have with the autopay, Lawrence, is we are still receiving that money ahead of time. I would hate to be in a business that has the invoice after the fact, like, I can't imagine. And this is really what most businesses do is they do the work. They do the construction for you.

They build whatever it is and then they invoice afterwards and they wait 30 days, or 60 days, whatever the term is to get that revenue. That would be really tough. So we're still getting a revenue ahead of time so we have a great cash conversion cycle just a great model but yet the customer is not upset that we're sitting on their cash ahead of time. And you may say, "Well, my customer actually prefers packages." No, they don't. If you spend more than two minutes explaining it to them they'd say, "Yeah, why in the heck am I giving you all this money ahead of time? It makes no sense."

Lawrence: Okay. But one rebuttal might be they offer a discount on their package, alright, so to provide an incentive to the customer for buying in bulk.

Luke: Yeah. I would just go back to the philosophy of hold on how did your workouts become less valuable if I buy more of them. It just seems weird that we devalue the personal trainer's time, we devalue the workouts. I can't think of a professional that discounts based on volume. I have spent so much time and money with an attorney in the last year, and as we did more and more work with the attorney he never discounted his prices, okay. I have yet to meet an orthopedic surgeon that if you tear both of your ACLs they give you deal on the second one. I mean, our accountant, as our accounting becomes more complex, they haven't said, "Hey, we are putting more hours into this. It's going to get cheaper as you use us more and more and more." I just can't think of a professional that discounts. I'm not saying what's right or wrong. I'm just saying do you look at yourself as a professional. If you look at yourself as a professional in my opinion, and this is just my opinion, you don't discount. By the way, you are discounting yourself, your customer understands that this is truly not a professional. Let me tell you, your customer may appreciate that discount you're giving them but they are also confused by it because everyone else that are purchasing from the other professionals they are purchasing from don't offer discounts.

Lawrence: That's nice stuff. Yeah, no, this has been a really interesting tangent. But let's get back to the Quarterly Rocks. A quick question on that from me is when you report the revenue and profit figure of your quarterly rocks, do you report that as what your revenue should be after 90 days from this point or do you report it as revenue and profit just made in that particular quarter?

Luke: Every quarter we have the revenue goal for the quarter, so you just say, "Hey, by the end of this quarter whatever the due date is this is what our revenue should be. This is what our profit should be. Now, let's settle all of our individual rocks so that we actually achieve that.' And then when the quarter is over you do a recap and you say, "Okay, our revenue goal for the quarter was $96,000. We hit $91,000, so we're 93% the way there." Then you look at each one of your rocks and you say, "What is done or not done?" Done or not done, and that's it. The methodology is if you achieve 90% of your rocks you'll achieve that revenue for the quarter. I found that over the last 8 years to pretty much be true every single quarter. If we ever don't hit 90% of our rocks, we generally don't hit our revenue goal. And if we hit 90% of our rocks, we hit that revenue goal.

Now, there's ever a time where you hit all of your rocks, you achieve them, but you're not hitting your revenue goal. What's that a sign of? You definitely set the wrong rocks. The rocks should definitely be link to you achieving that revenue goal. The rock could still be revamped our website, improve our website so it's an inbound sales tool. Now, that's a big project you need to work on in a 90-day period. Will it drive your 1-year goal and will drive that quarters revenue? I would say, heck yeah. Getting that website right will definitely influence your ability to drive that revenue.

Lawrence: Oh, excellent. Awesome. Can you just to, I guess to wrap this one up, could you describe the rocks you have with DS, and maybe speak on what they are now and what they may change to with the advent of COVID-19?

Luke: Let me give you a couple examples of rocks. Some were miserably missed. So one of my rocks this quarter, we define the end of the quarter as when we do our next quarterly meeting. Today is April 2nd so the quarter is technically over. But tomorrow is April 3rd that's when we have our quarterly meeting, so all of our rocks are due already that quarterly meeting. Well, I was supposed to do 8, what's called V2s, and who cares what it is called, but it is basically the second call. It's a web call where I go to through a PowerPoint. It is scheduled for an hour with a prospect to buy Discover Strength franchise. I am supposed to do 8 of them in this quarter. Well, I have done zero of them. Well, and it's not even COVID's fault. We didn't get registered in the state of Minnesota as a franchise. We are about two weeks away from that registration process being completed, and I legally cannot do that call and explain our franchise offering until we have been registered in the state of Minnesota. So I missed that rock massively, alright.

One of Hannah's rock this quarter was to create 8 new emails in a drip campaign. Drip campaign is just, and you can use a lot of different services for it, it is just automated emails that go out to continue to market your message. I think there's really evolved ways of doing this and great books written about how to do this, but Hannah has to continue to come up that content. So she writes 8 new emails to go on that drip. Let's this constant drip campaign run our marketing. What that do? It drives introductory workouts. Remember, one of our three goals for the whole year was to move to 1,200 introductory workouts. Well, is that the most important thing she could do in this next 90 days to drive the 1,200 intros? Absolutely. We have a constant drip campaign driving introductory workouts to our landing pages and converting those. So that's one of the things that she's worked on this quarter.

Lawrence: That's awesome. Yeah, I love that. You know, I am a huge proponent of email list and email sequences, and cart abandonment sequences. I just think this is such an easy win for so many HIT studio owners out there to understand how to add a juicy lead magnet or PDF like you guys have to their website, start collecting emails, and start having a sequence in place that drives those introductory workouts.

For the members listening, if you're interested in learning on how to do that I'm very happy to help you set that up. I've run a call up at the link in the notes for this. I'm quite prepared to go on more calls at this difficult time during COVID-19. Also, I'll be happy to help through the one-on-one coaching or whatever medium works best for you to communicate with me. I don't know if I kind of told you this, Luke, but I've been learning a ton lately about card abandonment sequences. I've been implementing them myself and the irony is I'm having to completely change the messaging of my entire cart abandonment sequence because obviously it's probably not appropriate talking about growing a physical studio right now necessarily.

Luke: Sure, yeah.

Lawrence: I had written a 10 email sequence over 60 days for those that see my sales page but decide not to purchase. I just thought this idea is so wonderful because very few organizations actually have cart abandonment sequences. And so I emailed her and said, "You should seriously consider having something if you can for when someone go to sign up to schedule a workout but then closes the window." A different email campaign that goes out to that user. Yeah, just some of my thoughts around that. I think that's a huge opportunity there for the members.

Luke, this has been really interesting and really valuable. Is there anything else you want to add?

Luke: I got to add one more line. When we started using rocks, we were like a year into using rocks, and Hannah who has been with us for a long time… She's been with us for just over 10 years now. Now that we use rocks we accomplish more in 90 days in one quarter than we used to accomplish in three years. She was kind of laughing and smiling when she said that. And so as she said it, I was laughing and smiling also but, man, inside I was like crying because guess who is running the company three years ago. You know, it was me still. And I was addicted to what? I was addicted to being busy. Like in the early days of Discover Strength I was like at the studio at 5:30 in the morning vacuuming, and then training clients, then we have a team meeting, and then I train more clients, and I respond to email. And then at 8 o'clock at night we would do our workout together as trainers, and then I would go home and then I'd read for 30 minutes before I went to bed. I would hit the pillow 10:30 at night. My alarm would be set for 4 the next morning and when I went to bed I thought, man, I'm the hardest work and SOB out there. And I felt great about myself. But then if you ask me in a moment of complete vulnerability, "Luke, what did you do today to actually move the organization forward toward it's 1-year goal?" Well, first of all I would say, "We don't have a 1-year goal." But secondly I would say, "Well, I don't know. I don't think anything." I just served clients, responded to emails, and really hustled. So I confuse my day being full and being busy with am I doing the right things to move the organization forward. So when Hannah said that we get more than in 90 days now. I was like, yeah, we were pretty pathetic before. And we were into workouts, and I was into taking care of customers. But when you have the mindset change that what you have to do in the next 90 days, you really become so much more productive as an organization. It is just a game changes as an organization. So that's kind of an important final comment.

Lawrence: Awesome. Thank you very much for that, Luke. I'm just so… Just as you finished that comment I had to let the dog out in the room because she was going mad. Thank you so much. This has been really productive and looking forward to talking to you soon.

Luke: My pleasure. Thank you, Lawrence.