JAMES**SCHRAMKO**

9 Invisible Profit Killers - Part 1

The things that lower profit margins also prevent you from building wealth. Charley Valher shares five out of nine profit killers to look out for.

Charley Valher

James: James Schramko here. Welcome back to my podcast. This is episode 962. And I've got to ask you this question, do you suffer these profit killers? And for this discussion, I've brought along Charley Valher. Welcome back, Charley.

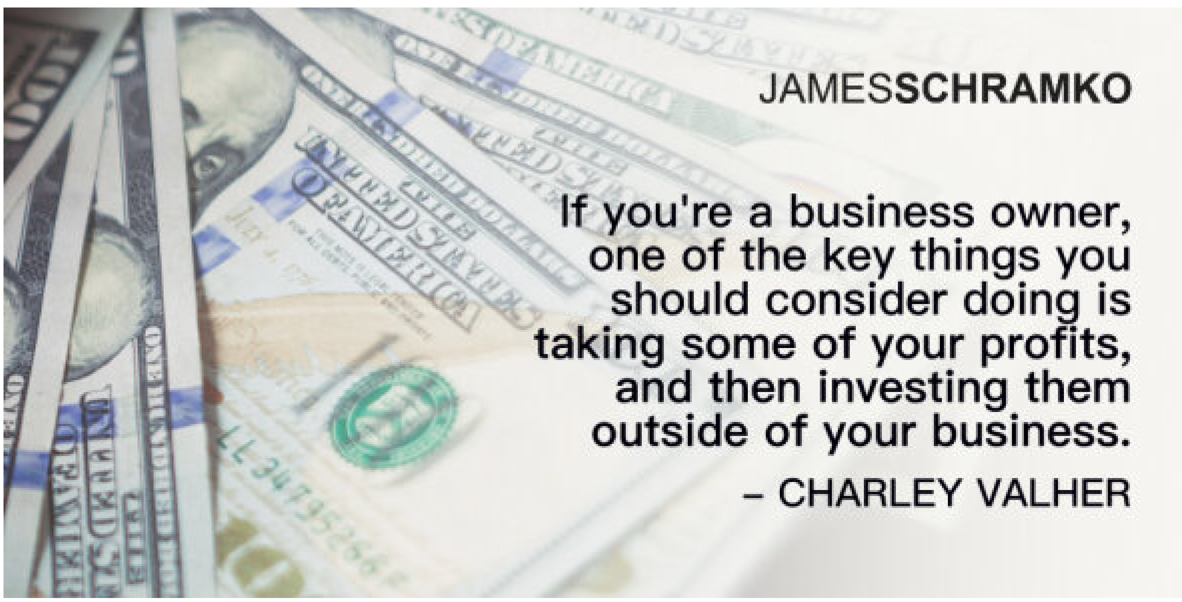
Charley: Thanks for having me on again, James. It's a pleasure to be here.

James: We're having lots of conversations steered in a large part around the sort of conversations that you're having on a regular basis in your own community. You're running businessandinvesting.com. And the things you're talking about here are topics that are coming up and really resonate with your audience. So we know they're in the wheelhouse of what we should be talking about. So I thank you for that.

But I'd love it if you could just share with me what you were just telling me before we hit record today about the common conversation you're having around business owners being able to save to invest outside their business. I know we've covered this in previous topics, that part, and we will continue to cover that sort of stuff later. But there were some obstacles. And I'd love it if you could share with me the common themes.

Charley: Yeah, absolutely. So I'll set some context here. One of the things I believe in, and this is my own opinion, and of course not financial advice.

James: Of course.



Charley: Of course, right, we've got to say that these days, is that, if you're a business owner, one of the key things you should consider doing is taking some of your profits, and then investing them outside of your business. And there's a whole bunch of reasons why we would do that, which we've covered in earlier episodes, but mostly, it's around risk, right?

We think that if your business was, I don't know, caught by a trend change, or a legislation change, or an industry completely removed, is that if your entire net worth is in that, it's gone in an instant. So I think many business owners resonate with that idea and understand why it's important to build some wealth outside their business.

What's a good amount to invest each month?

However, what was really fascinating in recent times, in people replying to my newsletter, or even just discussions in the Facebook group, a whole bunch of people then said, Well, I love the idea of investing outside my business, but I've got this problem. There's no profits to do so. Like, my business isn't at a stage yet where I can start making that moves.

James: How much are we talking about?

Charley: So the number I set, and this is where I set it for myself is, I think every business owner should aim for a minimum of they've got $5,000 a month to take out of their business and invest in their wealth creation outside of business. I recognize that's not a small number. But I just feel that when you get to that stage is that you're able to make significant moves.

And until you're at that point, the likelihood is you're probably better off reinvesting in your business to achieve that level of growth. And particularly, if you want to do things like property investment, you'll see that, well, houses aren't cheap, like, it's going to be something where if you're putting $100 a weekend, it's probably not going to get you to the outcomes you would necessarily like when it comes to saving for a deposit or being able to do those things.

James: It's not actually a dissimilar number to the maximum amount that you could pay into superannuation in Australia, for a spouse and yourself.

Charley: Completely.

James: I think it's somewhere around 27,500 per person.

Charley: Well, that's the exact number, James. That is the exact number. [laughs]

James: [laughs] I just transferred it, you know? I always pay my annual superannuation as quickly as possible, and lock it away, because I'm putting it into a different tax bracket. It's like it never existed. Once it's gone, it's kind of my fore-saving. Rather than pay it in installments, or at the very end of the financial year, I usually pay at the beginning of the financial year.

Now we're talking about in Australia, if you're an overseas listener, then we're talking about what you might refer to as a 401(k), retirement plan, etc. So that's one strategy that my accountant always suggests that I do, is to pay the maximum amount because I think it drops the tax rate down significantly.

And you can do things with your own retirement funds, if you have enough and if you control it well enough, and obviously, speak to someone who's really versed in those things, an accountant or financial planner, advisor, etc., someone with licenses and experience.

So I'm not telling you what to do with it, but I am saying that number is around about what most people that I'm coaching would be putting away, especially if they're an Australian business, as an absolute minimum default setting, regardless of what else other additional investments they do.

Charley: Yeah, I wholeheartedly agree with that sentiment. There is one downside with super though, or potential downside. Now, I think superannuation in Australia, and I believe the 401(k) system in the US the same, it's got some really great tax advantage. It does. And I'll give people the maths just quickly here.

If you put $1 into your super, it's kind of like putting $1.17 in, like that's the level of extra kick you get by contributing in that way, and like, that's a huge advantage right? Those tax savings are just allowing you to do that in a bigger way. But on the other side of the fence, if you're, let's say, quite young, is it might be a long time till you're able to actually access that money.

So if you've got plans to retire early, or you're looking at doing some significant purchases, or do things with your wealth before that date, you may make considerations of investing outside of super as well, in your personal name or in a business structure or trust of some kind. Now, of course, that is options, we wouldn't dare make a recommendation on superannuation on this show, James.

James: Oh my goodness, no, no. Definitely not advice.

Charley: Dangerous lines, but yes.

James: And you know, and of course, your retirement fund or your superannuation account can make purchases of shares and properties and stuff. And it can even have loans, apparently, but I don't know much about that. But I do know that I control my superannuation, and it has had good gains, but it's in a - you're right - I can't touch that until later on in life, which I think for some people might be a real positive, if they have bad habits.

But for me, what I do like, the main point I wanted to make here is, as a minimum, $5,000 a month would be great to put aside and not need in your business. But what we're finding is some people just don't have it - you're finding that - and when you probe as to why, you sort of clustered it down to a few main reasons. And we're going to talk about those reasons.

I've counted here, I've got one, two, three, four, five, six, seven, eight, nine reasons, nine profit killers that could be causing you to not have enough profit in your business to be able to invest it outside the business. So why don't we kick it off, Charley?

Charley: Absolutely. And just before I dig into the first one, I'll mention that these ones are a little bit unique. I don't hear these ones more commonly spoken about. I think many business owners, right, if they got their financial report, which hopefully they're getting and reading, if they saw, Oh, look, there's a software I don't use anymore. Well, it's very easy to go, Well, I'm going to eliminate that. Like, obvious expenses are one.

The other one is if you don't have a marketing and sales system, or you're not generating leads or sales, you know, that would be a pretty obvious one there. So we're not going to include them on this list.

James: So we'll call them the nine invisible profit killers.

Charley: Yeah, the unexpecting ones, a little bit.

How drama can derail productivity and profit

James: All right. Let's go with the first one.

Charley: Number one is drama. Right? And I know this might be a bit unusual, but I've had some encounters in the last month where a friend of mine, his business is in what I'll call conflict. And there's two business partners that are, I'll just say, fighting with each other at the moment. Now, what I was really amazed by is how much time and energy they're spending fighting with each other and causing drama, instead of actually having a productive business.

So I would wonder how much better their business would be or how much profitable it would be in this circumstance, if instead of spending, let's say, half their time, working out how they're going to deal with each other if they actually did productive things.

And it doesn't mean you need to have a business partner necessarily to have drama, like I know people where they have high drama organizations, whether it's their team they're working with, and there's always a drama or problem, or their clients, where they're spending a lot of time actually managing client relations in a dramaful way rather than delivering work.

So I think drama is this massively hidden expense in many businesses. And I would make the argument that a business with low drama in a niche that competed with another one that's got a lot of high drama would do significantly worse.

James: I think so. I think low drama is like a turbocharged diesel locomotive. High drama is like a high-performance racing car that's going to blow a motor at any point. This one, this really is a sweet spot for me, this topic. The greatest irony probably in my entire life is that my mentor, at the time, had a sort of mantra, and he used to reiterate to me over and over again, celebrate lack of drama.

This is a core drumbeat for the people I coach. Almost everyone who I'm coaching brings drama to the table, and I pull it out. And I want to live by example. I do feel I live a drama-free life compared to most, and part of having a drama-free life is not accepting bad clients, not having people in your business who are going to white-ant it or underperform. It's about not being too greedy with contracts or too edgy with risks.

So the diesel analogy is good for me because they just have less wear and tear, and they just chug along. So I would actually go to the point where I'd say I haven't over optimized my life. Because if you over optimize, if you push things to the edge, if you go for that brinkmanship, it can go too far. And the great irony is, the person who taught me this was in the most horrific partnership battle between the business partner, ended up losing the whole business.

And eventually, rumor has it, was sleeping in a borrowed car as an alcoholic and then passed away. And so he lost everything. And so he was the most drama-fueled person I'd ever met. And his lesson to me was celebrate lack of drama. So I think he had to wear it and understand it, to be able to pass it on and save the next generation.

So I think this is just a huge one, celebrate lack of drama. When we have a weekly group call in one of my coaching groups, and someone turns up and says, You know what, I don't really have anything to report this week. I did the thing I said I'll do last week. There's no major problem or issue or emergency this week. I know exactly what I'm supposed to do next week. I feel good. I'm sorted. And I'm like, We celebrate lack of drama. This is actually me doing a good job.

Personal drama is just as harmful to business

Charley: It's huge. I remember the first time you actually said that to me, I took my wife out for dinner. It was like, a really weird experience. And I'm like, what if this is like how it should be?

James: I'm going to say spousal problems are a huge problem for entrepreneurs. Because you hear a lot about the pressures, the entrepreneur is a driver and creative and wanting to get back into the office, and want to do deals. The partner is often trying to manage other areas of the life. They might be responsible for children, or living conditions, or social engineering with the peer group, etc.

There's a lot of conflict between the way that the rest of the society lives, the employee society versus the entrepreneur. And it's hard to find that balance, and it can rip people up. I just listened to a podcast earlier, that was two entrepreneurs talking about their messy divorces, and how much their spouses hated them. But it most definitely affects - I've seen entire businesses shut down. I've seen them just funding family law court battles.

I've most definitely been involved in partnership disputes on a major ongoing basis. Not just on both hands and both feet, Charley, I'm talking probably 100 times, at least, in the last 10 years, where there's one super famous guy runs a publishing business, and he had a partner in the beginning, and I helped him remove himself from that toxic situation. And he's just gone on leaps and bounds.

That dinner that I took him to where I explained to him how to extricate himself and to be generous in the exit now, because he's going to be the winner long term, that changed his life, no doubt about it. But I've had this on an ongoing basis because I was in the battle zone, I saw it firsthand, I was actually the meat in the sandwich there.

I was the one they were fighting over, and ended up having to leave that job, and I watched it all disintegrate from the sidelines. It was unbelievable. But I've been there, so I can talk about it. And I engineer low drama in my life. It's actually an Aussie saying, by the way, like, no dramas. But I can actually live it.

I don't want drama, so that means not having to win every argument, not having to push things to the limit, not trying to optimize the crap out of everything, not being greedy, and not always having to win. If you can do that, then you're going to have a less dramatic life. And I believe it will help me live a longer, happier, more fulfilled life.

Charley: I concur. And you highlighted something really great there as well, James. It's not just drama in business. If someone has a very dramaful personal life, and they're distracted from their personal life, like, the likelihood that they're being as productive as they could be in business is probably very low also.

James: I think you shared a story of a business owner who needed a big house, because probably, they're having some spousal pressure for a big house. It's a bit of a catch-22. As soon as the spouse sees money coming in, and feeling like, their success, the needs go up and up and up, and then eventually it can break the entrepreneur, and I've seen that happen firsthand.

So if a business is at the point where they can't find a spare five grand a month, they probably are a micro business, or they're probably pretty involved. There's a lot of slippage between the partner of that person and the business and that person, right? I often say, you're not just in business with your partner, you're in business with your partner's spouse, or your partner's partner, because they're going to be in the ear, they've got the closer relationship, they'll usually beat you in a contest between whose word they're going to follow.

So I'm always super conscious of that. And everything I do with a partner should be spouse-approved. That's my sort of standard operating procedure. Will this fly with the partner? And yes, when I say to someone, go take your wife to lunch or spend time with your family, I know that's going to tick boxes on the other end of the line. And we're going to get more support down the track. And it's also the way that I think someone should actually live.

Beware of bad hiring

Charley: I concur as well. I think we've nailed this first point on drama. Should we move on to the next one?

James: Let's talk about the next one. The next one, I think, is a good one. I saw a video today. It was Alex Hormozi talking about when he hired a $500,000-per-year CTO, he paid a recruitment agent $140,000. And he sacked that person almost immediately, because they were late to three calls and didn't know how to operate Zoom.

Charley: For a CTO, wow!

James: Yeah, right. So it's big money for a CTO. Now, I immediately resonated with this, because in this case, he was very quick to call that one a failure. And the damage that can be done from a wrong hire is massive.

There's lots of industry stats, I used to read them when I was in my corporate job. They talked about it, you know, if you hire someone on a - back then, I think it was $50,000 or $60,000 a year, the cost of a wrong hire was like $300,000 in damage, not the least because you've had to go through the whole recruitment process.

But the worst case, if you're in a high-performance situation like we were, with the direct response sales team meeting with customers face to face and on the phone, as you know, the closing ratio between a good salesperson and a very bad one is significantly different. Could be one in two, one in three, to one in 10, or one in 20, or one in none.

It's all the marketing dollars, all the budgets spent, all the effort to get a customer to call you up or walk into your showroom, and then you just disintegrate them. It's not the marketing spend, it's the profit that you lost from that sale. That's the bad conversion ratio extrapolated is worth hundreds of thousands of dollars.

So the topic of course, is wrong hire. And you have to be very careful to hire. And I even did a podcast episode in the past, and we'll link to it in the show notes, about hiring slow. Some people hire a little bit too rapidly and skip steps. I know I've done significant training on how to recruit your next person, that's inside my membership. And that has saved a lot of people this mistake. But it's also good to recognize and call it when you see it.

I mean, in Hormozi's case, he had to call it for a $500,000 placement very quickly. So luckily, he wasn't stuck with the sunk cost fallacy. Like, we've spent all this money, I reckon we can turn it around. No, it wasn't going anywhere. And we did a specific episode on this topic, 955, on the cost of hiring the wrong person, which I'd refer back to, but yes, this is so important.

It's an invisible profit killer, because there's probably people in your organization that you would not rehire today based on everything you know. That's not the case in my organization, just want to let anyone who's editing or publishing this podcast know, that is not the case in our organization, but most organizations should be doing that test. Knowing what I know today, would I re-hire this person? And if the answer is not a hell yes, that's a warning sign.

When the cost of hiring puts you off

Charley: What a great filter question, if you went through your team and did that. I want to share a story on this one. This is many moons ago now, so quite a while back, but I'm able to look at this through the power of hindsight. One of the things I used to do was leave it way too late to actually start the hiring or recruiting process.

So I had this thing going on, which was definitely driven by a fear of money, right, was hiring someone and then not having enough work for them. And I would feel like I was wasting money by having all this spare capacity.

James: Well, there's also one other tip there. When we think of hiring someone, we're usually thinking of their annual wage.

Charley: Definitely.

James: So like, Okay, I'm going to get another person. Oh, that's 100 grand. No, it's an installment payment program that we only pay if it performs, like it's actually only whatever it works out at, X per month. It's a monthly installment program that you don't have to commit to a year to if it doesn't work out, like in Hormozi's case, it was an installment plan that lasted a couple of days.

So when you think of hiring someone, don't think of the annualized cost and all the on cost, think of the monthly installments. That's my first little sort of tip on that. Back to you, Charley.

Charley: That's a great reframe right there. But we'll go through this symptomatically here is like, I would delay hiring to like the last possible second, because I was being tight. And then the next symptom of that is that I needed someone urgently. So then I wouldn't allow enough time to actually get a good group of candidates in, then I would rush the interview process and test task process because we then needed someone urgently.

And then the chances of me getting a true A-player that's been recruited well and then onboarded well after that, is near zero. And when it really hit me on this is that I had hired for a role not once, but twice, and it hadn't worked out. And I'd actually lost six months.

And when I had thought back to the start of this, it was like, if I'd had just done this properly once, I even paid a little bit more, right, I could have increased the salary and got a higher quality person potentially, is where would I be today was this massive gap in opportunity cost.

It's not even the cost of the employee that needs to be factored in here. And you've mentioned astutely so as well, James, just like, the potential revenue they could be in. But now I'm even thinking about the time loss, like just the amount of time we've lost by doing this poorly.

So I think having to re-recruit, either because you've made an error in decision, or waited too late, or just like, potentially like me, a bit of money fear early on and not wanting to pay or delay paying people as much as possible, I think this can all come in and like, just absolutely drain the profits of a business.

When’s a good time to hire?

James: Yeah, we call this bad hiring. We used to have triggers. When we had X number of customers, we need to start the hiring process, it became automated. So every time I went to the Philippines to meet my team, there'd be new faces, which I was not involved with in any way, shape, or form. It was dictated by the growth of the business automatically. It triggered or fired off a hiring requirement.

I usually focus on this, but most of the people I'm coaching, it's like, we need to build capacity to deliver. It's very, very stressful if you're able to sell stuff, but can't deliver it. It will destroy your reputation. And we'll cover that in a separate point. But the stress of knowing that you've got customers who you have to deliver something to but you're not getting to them is intense.

As we were scaling our SEO business, we could barely keep up with the marketing success that we were having. And we just kept growing and growing. We went from two to 38 people in a few months, and we ended up, I think it was six months, from two to 38 people, six months, we just couldn't get enough people fast enough.

And almost everyone I work with, I'm like, You better start hiring now for the boom period, because we're going to grow the marketing side. And I think Dan Kennedy says it's easier to solve a marketing problem than a capacity problem. So that's why I call it the marketing capacity seesaw. You want to hire well, you want to have a systemized process. So I broke it down.

And I got trained at a high level on this by the best industry professionals possible. When I was recruited to be in charge of a dealership, they put me through this whole sort of Academy. It was like Top Gun for car dealers, if you can imagine. And we got those people in and we did proper classroom sessions over a week.

And then we came back months later with our homework and stuff. And we got fully certified. And I broke that system down, and I refined and refined it until it became the benchmark. And Mercedes-Benz ended up asking me to train the other sales managers on our sales recruitment process, because our salespeople went to number one, all of them. They were so good.

And it started with a very methodological system of selecting the criteria you're looking for, interviewing, bringing in the candidates, not just taking the first off the rank, putting them all through a process, verifying them, reference checking them, making sure everything checks out, then having final interviews.

It's amazing how much people would transform from the first discussion to the end interview, and then making the offers. And then we'll bring them in on batches. And that’s kind of a good time to lead into the next point, if that's okay.

Are you training your people enough?

Charley: Yeah, let's drop it. Under training team.

James: Yeah. Like you're bringing people in and just like, not training them. The classic saying, you know, what if I train them up and they leave, and then, what if you don't train them and they stay, is the counterpoint to that? Most people, and my old state general manager, Bruce, he used to just get up there firing, you know, at the dealer conference, he'd say, You guys train less than an under nine girls’ netball team. And it was true.

Most salespeople, most sales professionals will never learn anything more about selling than when they start their job. They might get some company training, maybe. It's usually flimsy. I've talked about this in my book, I had some crappy training at the jobs I was at. At General Motors Finance, GMAC, they put me in a room with a cassette recorder.

And I was listening to tapes from America from the 60s or 70s. This was in the 90s. They were 20 years old. And it was the wrong culture. And I actually, I still remember this - When repossessing a car, avoid using terms like putting it in the barn. I'm like, I probably wouldn't have ever said that to a client that I'm going to put their car in a barn. But that's apparently how they talk in the 70s in America when they're repossessing a car. But that was not relevant to me.

Anyway, fast forward it. When we were at our prime, we had a video recorder, and we used to go out on the showroom floor every single morning and roleplay selling cars. We had the best team in the country. We were crack guns at this. We'd roleplay every day. We had a training register, had every single person and every single topic they needed to know, and we just ticked the boxes.

That is the simple way to make sure you get off some momentum with this. Drop a training register, list everyone in your team and what do they need to know, and then put a tick in every box. And if there's boxes missing, that's your next training topic. I had my sales team reading books and then doing a book summary each morning in the briefing, we had a briefing every morning.

They'd say, like, give us one bullet point from the book you're reading at the moment, what did you learn? They'd tell us the thing, and we'd go off, and we'd be fired up. It was like a wolf pack. It was like those werewolves in those teen heartthrob movies with the vampires, like they were running in a pack, they were so motivated. And we had girls too, by the way, just to make sure we counter any gender bias there.

But in any case, it was amazing. And my team right now, they have an Amazon credit card - they can buy any training they need to do, whatever, their web development or design or marketing. Like, I'll buy them any course, I'll let them have any resource they need to be better, any tool to be better at what we do.

And one of our tool rules, by the way, is that we know how to use the tool. And most tool subscriptions provide some kind of training or education center or help desk or phone-in clinic or whatever, where you can really learn how to thrash that tool beyond what most people ever use it for. And I encourage that, too.

Charley: Yeah, it's such a massive one. It's really interesting that I've even had you ask me for what courses I recommend for, like media stuff, because you've then bought them and given them to your team.

James: Straight away. I bought the podcasting course you recommended, gave it to my team and said, This is what Charley said will take us to the next level. You know, so if you're listening or watching this podcast anywhere, you're part of that process, part of what's happening is because we want to improve, and it's one of our core values. That's another whole topic.

But one of our core values is that we're ninja good. And I want to be a good podcaster. That's why I have better equipment. And I want to ask better questions, and I want to have better guests. And I want to publish it better and distribute it better. And that's why I've been ranking better and getting double the downloads, as you know, before we changed our brand name. Like, it's all with the idea of improvement.

But it starts with training. And if you currently train your team less than an under nine girls' netball team - by the way, it's like basketball, it's a big popular sport in Australia - then you need to do something about it.

Charley: I find it fascinating that so many business owners value education for themselves. I mean, everyone listening to this podcast is like, they're trying to become more educated. We're a very interesting group in that way, that we seem to be a group of continuous learners and value it highly. But yet, we often don't transition that to our team.

We don't go well as our team doing the same, and then I look at it and go, Well, the likelihood that your employees or team have had previous employment that was very focused on training is pretty low. Like, I would actually say that most organizations do a terrible job of educating their team.

I look at this and go, this is somewhere where we've got to take the lead. Like, I think it's essential to be including this and also like, forefronting it to the team of like, you want to see training time on their diaries or calendars.

James: You want to be an employer of choice, like one of the big motivators for people is to develop and grow, to evolve. It's not just about pay, it's about growth. Most, and I'll say, especially young people, they will categorize a growth opportunity or a learning opportunity over pay, if two jobs are the same. If one offers training and advancement and skilling -

And I'm not afraid for my team to get better and stronger and more skilled, and we pay more over time, they're all earning a lot more than they were when they started because over time, as the business gets more and more successful, I passed that on to the team as well, an acknowledgement for the skills that we've got.

I'd put my team of six up against anyone's team. They're incredible, because they've been with me for over 10 years now, which is also amazing. But I want them to listen to every podcast we do, for example. So when we publish our podcast, it populates a Slack channel, that it just pops up in front of everyone's feed. And I ask them to listen to our podcasts.

Applying the 80:20

So every guest I have, everything that I learn, I'm passing on to my team as well. We're all learning together, because we're a team. And I think it's very important what you said before, that even though we learn, sometimes we don't pass it on. I often use the example of the 80:20. I know what 80:20 means. The Pareto principle. You know what it means, Charley.

As you go down the line, though, the chances of the people in your business knowing what it means diminish significantly, but that could be the one fulcrum that makes the most significant difference. And I still remember, we had this little situation in the business where there was a WordPress update, a security patch, and I was chatting with the webmaster about updating it. Can we make sure that gets updated because right now, our sites are vulnerable?

And she said, Yep, I'm on it. And I said, Just out of curiosity, what's your process? And she has a list of our websites. And she's going through them one by one. And I said, How do you list the websites? And I think they were alphabetical. I said, Right. And we had a lot of websites, by the way, back then, like 1000 websites.

I said, Of all the websites we've got, which is the most important website we have, the one that if went down would cause us the most financial loss? And she said, SuperFastBusiness. I said, And where is that on the list? And she said, Actually fair way down the list. I'm like, We should bring that to the top of the list. In fact, I would suggest we should order the list by how much pain we would be in if we lost the website. And she goes, Got it.

So now we're talking 80:20. After the first few websites, the risk is significantly lower, you know? Who cares if we lose one of our little SEO sites with a couple of links here and there? Like, not the big deal. But if we lose my podcast, that's a big one. So once that's locked in, that's repeated for everything from then on.

So take the time with your team, and nourish them, and educate them, and bring them up to speed. Don't be afraid to pass on the best lessons you have. I'd say most of the best business lessons I got were from my psycho crazy mentor, who ended up in demise.

But for the four or five years where I was under the wing, I learned so many good lessons that I've been able to pass them on over and over again. And because he took the time to install that for me, that helped me in my process of taking that dealership from last to first, because he was just powering me up to use it in the business. And I did.

Charley: It's just a massive one. I wonder if you agree with this point, James, or you see this commonly. I wonder if, you know, a lot of cases because people have an under-trained team, this is one of the things that keeps business owners more trapped in their business, because they're supporting this team that isn't necessarily trained at the highest level. And in turn, they never get to focus on higher-value or higher-leveraged opportunities.

So if your team's poorly trained, and you're constantly having to come in to fix things up, that's time not spent on your most productive time. So it's a real profit killer in that way.

The team-drama connection

James: That really sort of ties back to drama, doesn't it?

Charley: Maybe they're connected.

James: I'm hiring my team to support me so that I don't have to do the things that I shouldn't be doing. I shouldn't be editing a podcast. I'm not even good at it. Like, why would I do it? I don't love it. And I'm no good at it. It's insane for me to have to. So if I'm not hiring well enough to get someone who can edit a podcast better than I am, and I'm not training them properly, then that's back on to me.

So the reason I have low drama is I don't have to edit my own podcast, because I don't want to listen to myself for another hour or two, editing like, little uhms and ahs, which thankfully, there aren't that many. So that is a great point. We should hire people and get out of their way. That's like the Woody Allen director method versus Stanley Kubrick.

The actor comes up to Woody Allen. They say, How do you want me to do this? He goes, You're the actor, you act. I'll film it. Whereas Stanley Kubrick says, I want you to do it this way with this and that and you know, like a perfectionist and get-in-the-way type of director, you know? Very difficult to work for. Woody Allen is just cranking out one film a year, every year, with just letting the actors act.

And I take that approach. I've got a gardener who's come on board recently. And he said, Look, this is my package. This is what I do. And I said, Great. It's in your hands. It's up to you. Like, whatever happens here, it's your project, okay? Just let me know how I pay you. And I really appreciate it. And I said, I'm not really going to get super involved in it, I'm just after result. I just want it to look really nice and have no weeds, like, be maintained, and be updated as often as it needs to be updated. And he's like, Got it.

So that's how I prefer to operate. I don't want to be out there with the watch and the schedule, like, where's that guy, you know, he should be around? or micromanaging him. He's going to hate working for me and want to charge me more, or just ditch the job and go on to some other job. I think some people are very difficult to work for.

And I know you had an involvement in a recruitment business. And I still do. My wife and I have visionfind.com. And some of the employers we get, I don't think I'd want to work for. And you know, we actually filter some of them out. And we actually let someone go last week, where we said, We don't think it's a good fit, and we recommend that you go and find someone else to fill your needs, because they're a sh*tty employer. Like, just really bad communicators.

They don't want to pay well, they want people to work unreasonable times, they've got attitude to our own staff. Well, that's it, you're out. Strike, boom! Never again. And it's okay. So that's back to drama. Again, we keep coming back to this, but it's so big. Just don't accept bad fit clients while you're at it, and don't accept bad fit team members.

And if you train people and give them an opportunity, and they're still not doing the role, then you've done everything that's reasonable in your power to pave the way for them to be successful in their job. I'm not saying you have to spoon-feed them. But I do see a lot of employers letting people go because they didn't give them a good opportunity. They never trained them in the first place. And they were set up for failure. And it's a shame.

Charley: Yeah, really, that was probably the biggest insight I got when I worked in recruitment, is how many employers actually set their team up for failure. They were never going to be successful in the roles. It was a truly interesting experience.

Know when a trend is dying

But let's jump into our next point here, James, and I'll frame this one up, is staying in a dying trend. I think this is a really critical one. I'll share my own experience on this one here is that, when I first got online, like, something that was really common was webinars, or webinars were kind of coming into the trend of like the thing to do.

And once upon a time is like, you know, you do a webinar, it was common to get people to, like 50 percent of people would show up. And then over time, that really started to diminish, where it got harder and harder and harder to do it. And people that stayed really stuck in the idea that they had to do webinars, they got very challenged by that. And many of those businesses ended up going under as they couldn't make the numbers work.

So at a point, you kind of have to look at it and go, Well, is what I'm doing right now the way I'm approaching my business? And this might be a particular service, a niche, a whole industry. Many, many things. It’s like, well, is this about to have a Kodak moment? Or is this the Blockbuster of this time, like maybe it's time to re-engineer where we should be focusing in to growth areas?

James: And apparently, there's still one Blockbuster store, a nostalgia store that people love.

Charley: Wait, I think it's like a tourist attraction, you go out there and get photos done there.

James: This is a huge one, staying in the wrong trend for too long. I think one way to describe this, a lot of people focus too much on tactics. And the other way that I describe it is people get stuck in a platform. So I've talked about OwnTheRacecourse and needing to diversify your risk from just one platform. I feel that people should be aware that what they're doing now probably won't work forever.

And so I like to play this game. It's sort of from Eli Goldratt, Theory of Constraints. I just like to like, whatever you're doing now that brings in all your money, put a line through it. What do you do now? And that Theory of Constraints exercise really starts to help stimulate ways to get around that, ways to solve that roadblock.

So I do this quite often when I see people just too single-point sensitive, this was a big phrase that I learned about this. Single-point sensitivity is when if you lose that one thing, you're in trouble. So for a lot of people, that could be their job. They lose that one salary, what are they going to do next?

But if you're a business owner, and you get paid by 1000 people and you lose that one customer, you still have 999 customers, so you're not really sweating it too much. So that's how you would reduce that single-point sensitivity. But in terms of business trends and growth, it's good to work out if you're in a growth or a decline market.

There are tools that you can use to help, like Google Trends, you can search for some of the phrases in your space. So if you're looking to flip bored ape, monkey type NFTs, you might be concerned that that's kind of run. If you're paying attention to the news, and you see that some of the mega stars are getting sued for a charge, basically, for pump and dump NFT schemes, you'd have to think, okay, well, that's maybe a fad. That's a little trend that's coming to an end or having a little bit of a sleepy hibernation for a while.

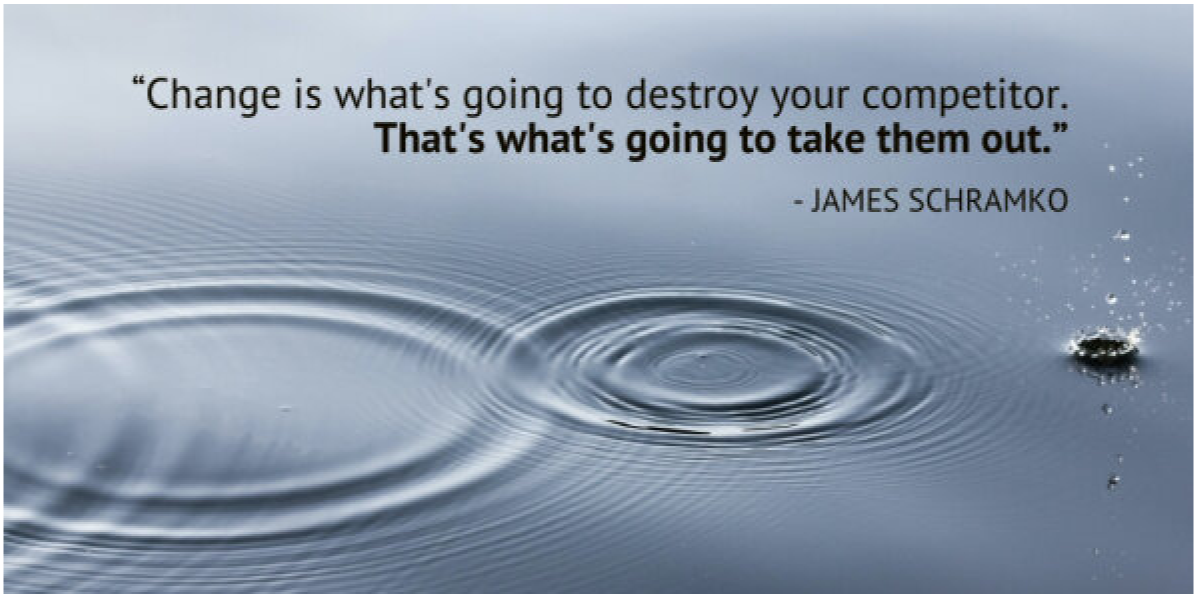
When I had this search engine optimization business, this was very important, I realized that we could be in trouble if blog networks get taken down. And we actually had a research and development team. That was such a core part of what we did, they even had their own jackets. But their job was to pretend what we do now doesn't work. That was the standard mission. What we're doing now won't work in the future, we need to find what's going to work in the future.

And we were able to migrate off requiring blog backlinks to being able to find links elsewhere, other people's sites, social media, etc. And we survived the big blog slap down, the Penguins and the Pandas and all the… Almost all our competitors got flattened. And this led to the other problem of like, growing too quickly, because everyone was coming to us. Now, we were one of the few suppliers that could get results. So have that R&D team, have that R&D philosophy.

I like to put aside time. Often when I'm surfing, Charley, I'll just think, Okay, what's my next move? What happens next? Where do I go after this? What do I want it to look like in a year from now? What do I think the trends are showing me? I pay attention to the data as well. At the moment, as we record this, I'm just switching over my platform for some of my members in my membership.

What I do to decide what to do, apart from writing it all down, huge amount of notes on this, talking to people who I actually trust, I look at the data. When I look at my profit and loss by line item, which are the products that are showing me people want?

And I explained to you, Charley, I think in an earlier discussion, that I have had a rush of referrals for a medium high-priced ticket program on subscription. And that's definitely my future. And it means that there'll be parts of my product mix that will fall away, but I'm okay with that.



The importance of embracing change

So one thing that I would suggest in this topic is you have to be comfortable with change. You have to embrace change, celebrate change, savor it. Change is what's going to destroy your competitor. That's what's going to take them out. And if you do research and development, if you do a constraints exercise, if you plan on what's working today not working in the future, you'll be okay, you'll actually thrive.

And if you look back at the trajectory of most of the famous people, they were not doing now what they were doing back, in the future, it was something completely different. Whether it's Elon Musk with PayPal or whatever, or Bill Gates, you know, pitching his little software program to a couple of small startups, whatever, like, people move on.

Zuckerberg started out, I think, comparing images, face mesh, and then he moved into the university type thing. And now, Meta is sort of moved on a lot, you know, whether it's Instagram or whatever, even Google now, you know, with YouTube and stuff. So our future will be different. It's just worth finding out what that difference might be early.

Charley: Absolutely. And embracing it to that point. I think, to your point, change is such a powerful advantage. Agile organizations can do incredibly well. It's how we did well when we had the media company focusing on podcast, is like audio-only was being commoditized. Being the ones that were willing to push into video when many people criticized that, I will mention as well, seemed crazy. But now, like, video podcasts are almost the norm. And I'll expect many more changes to come in that media industry as well.

James: I'm thrilled when we get a good ranking because of how many podcasts are around compared to when I started. Like, 2009, there's a lot of podcasts. And it's kind of fun to still have some freshness in the market and just continually publishing content and having people respond to it is great.

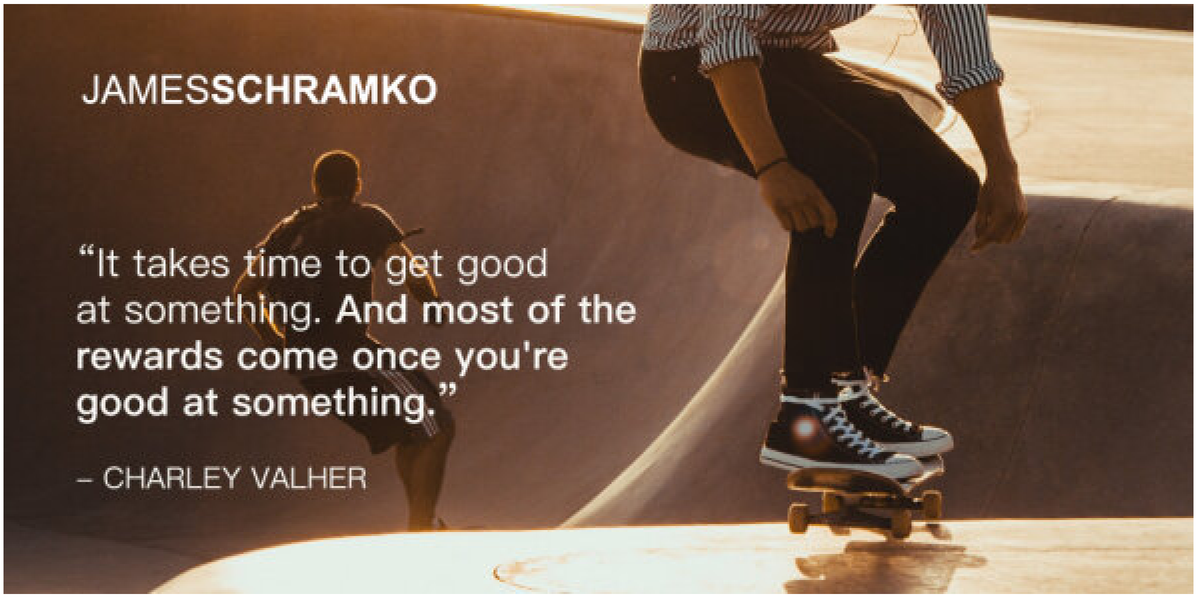
So if you're listening to this, by the way, this is episode 962, we're talking about nine invisible profit killers. If you enjoy this podcast and you haven't already done so, it'd be great if you'd just leave a comment or review somewhere on, wherever you listen to it. I'd appreciate that. Over to you, Charley.

Charley: Thanks, James. What a nice little prompt. You want to go for that share as well, right, the share is the one that they love the most, if they share it.

James: I'll drop that one in after topic seven.

Sometimes it pays to stay the course

Charley: Awesome. So we're going into the next one here, which is changing directions too often. I think this is huge. I've come across many people where it's, I don't know if they're getting bored, and they just feel like the nature of disrupting things and creating that drama of, here we are again, coming back to point one.



But for myself, I recognize that it takes time to get good at something. And most of the rewards come once you're good at something, where if you're changing what your organization does, every month or every even quarter, the likelihood that you'll ever become efficient at something is very low. And then that would decrease profits immensely.

So if one month you're an agency, and then next month, you're a courses and education company, and then the next month, you're a different one, it’s like you've never gotten good at any of them. So how would profit ever get to a reasonable state? Like, most of the business owners I deal with who I see that are doing incredibly well, is like, they tend to stick a course, they tend to develop something where they have an advantage or a skill in an area. And that's where most of the profit comes from.

James: Yeah, look, that's so true. I coach people who change business models every month, it drives me insane. Like, almost every call I have, they got this new idea. Partly it comes because they're trying to benchmark off other people, but they're unfortunately comparing the mature version of that person to their immature version of where that business is at for them.

And sometimes, they actually lack the skills or capabilities or the temperament to be able to pull it off. Like if someone is introverted and hates talking to people, I don't think they should be running a membership, perhaps. If they don't like customers, or they don't want to talk to customers on the phone, then they probably shouldn't have an agency unless they start building up a wall of cams.

So I think for a lot of entrepreneurs, they just get restless and bored. And there's a great copywriting saying, it's like, the copywriter will tire of their copy well before the prospect.

Charley: So true.

James: Sometimes people just change for the sake of change. So I think it's good to be able to change. But I also believe that - and the way that I do it is really straightforward, right, this is my methodology - the first thing I do is I make sure I'm qualified to do the thing that I plan to do. That should be fundamental, right? It's called integrity, but it's actually not common.

And secondly, because that means it might be time, the second thing is I always do an overlap period. It's like a Venn diagram, right? There's the thing I'm doing now, and the thing I'm going to be doing, and I start them out together, and then I slowly move it away until it's its own thing.

For example, when I had a job, and then I was building my online business, there was a two-and-a-half-year overlap period, until I could do it completely standalone. And then I let go of the job, which was a good move in hindsight. Back in 2008, I was a very brave man. But I did it.

And now, I've been building my surfing business now for probably seven years, I'm going to say seven or eight years, slowly building knowledge for nine years of surfing. I figured, this is something I said to myself way back, this gives you an idea how long I think, it'll take me 10 years to actually be qualified to even have an opinion about surfing.

And now I'm in the sweet spot. On my latest surf trip, I was able to say to people, Hey, how come you've got these fins on this board? Tell me why that's happening. And they're like, Oh, this is just the fin set I had, or it's the only one I've ever tried. I'm like, Well, okay, I think if you try these other fins, you might really open up the performance of this board, because a lot of people have the wrong fins on their board. But they don't know.

And now, because I've tried so many different boards, I know a lot about a lot. I've done all the history. Most surfers have no idea about the history, or the technical stuff or whatever. Because I've applied a business methodology, I've got a spreadsheet, I've tracked the data, I've measured them all, I've recorded them, I've used GPS speed and everything to understand more about what's going on, I feel like I'm coming to the window where my opinion actually is qualified.

And I've been building that entity up on the side to start really becoming powerful, which it is. And so having a long timeframe, using an overlap philosophy can get you more discipline around that change. It's not something you chop and change every month. No one's winning that way.

Charley: I would say that's probably on the reverse of this episode. One of the common traits in the, what is it, hyper successful, is that long-term view, right, that long-term time horizon. It's very, very common for billionaires to have had this very long-term view.

James: A possible filter might be, what have you been doing for at least 10 years? Like, in my case, it's easy. I've been coaching people for more than 10 years, I've had a podcast for more than 10 years. I have a membership model for over 10 years. I've had my team for over 10 years.

So I feel like I've got a pretty stable platform to introduce innovation. It actually leads into one of the other things we're going to talk about, so I don't want to preempt it too much. But I'm excited to talk about that one.

Expect a part two

Charley: Well, James, I've actually - we're almost, I'll say, we're halfway through this list here. Now, this conversation, I feel, is so important, and I'm really enjoying this discussion here. I think we might need to call this and do a part two.

James: Well, wow, that's totally fine. Let's do that. Let's say, in our next, part two of the nine invisible profit killers, we're going to cover - there'll be one, two, three, four, five more invisible profit killers, is that right?

Charley: I feel like we've gone - I feel like we started with nine.

James: I don't want to rush this.

Charley: I don't want to rush it either. I feel this is hugely impactful, but I feel like we've covered more than four and then we still got more than four to go. So somehow, we've ended up with a couple of extras along the way. But valuable discussion, I think so.

James: We'll recap. We've talked about drama. We've talked about bad hiring. We've talked about training the team. And we've talked about being bad trends growth or decline. And we've talked about changing direction rapidly, too often. So that's five things. There's four left.

Charley: Alright. We'll do the four in the next episode. I think this is, what is it, a cliffhanger now? Leaving people on the edge.

James: It's a cliffhanger. This is where we ask, you know, if you enjoyed this episode, please share it. This is Episode 962 at JamesSchramko.com. We'll put up an abridged notes version of this you can access, and all the transcriptions and notes from every episode. It's available just to opt in. And yeah, appreciate having you here, Charley, from businessandinvesting.com. We will continue this conversation.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