



The Pumpkin Plan: Methods to Creating an Explosive Business

Ellen Rohr and [Mike Michalowicz](#)

Ellen: Hey, you know what that means; it's time for our Business Makeover 2014 event for the day. It's Ellen Rohr, The Plumber's Wife, turned Business Makeover Expert. I have enjoyed these interviews so much. I selfishly set out to make 2014 my best yet and to do that I figured I can invite my favorite people, business gurus, great thinkers, philosophers, tacticians, who could help me with new thought, new action, so that as 2014 takes off it would be my rockin' breakout year. I invited you, too, because I thought that might be a great adventure we could take together.

So it's been so much fun for me to record these calls and visit with these experts and I couldn't be more excited than I am to introduce the man you're about to meet, Mike Michalowicz. You may already know Mike Michalowicz. Our topic today with Mike is 'The Pumpkin Plan: Methods to Creating an Explosive Business'. I can't wait to get into our topic, but let me tell you a little bit about Mike.

Mike Michalowicz started his first business at age 24, just a pup, and he moved his young family to the only safe place he could afford – a retirement complex. With no experience, no context and no savings, he systematically bootstrapped a multimillion dollar business. We're going to talk to him about that business, too. Then he did it again and again, he's a serial entrepreneur. His experience in building three multimillion dollar companies fostered a philosophy rarely taught to entrepreneurs, which is the lack of money, experience and resources is, in fact, your greatest asset because these limitations bring about the key ingredient to entrepreneurial success and that's innovation.

Mike is the CEO of a business growth consulting firm called Provendus Group. He also has written for the Wall Street Journal and he's a Business Makeover Specialist at MSNBC. You've probably seen him. He's the author of *The Pumpkin Plan* and *The Toilet Paper Entrepreneur*. That's how I first met you, Mike, is when I read that book and you've got a new book coming out called *Profit First* and we're going to talk about all that. Mike, welcome to the program.

Mike: Well, thank you. That was a long tongue-twisting introduction. I appreciate it no end. I'm happy you were doing that and not me.

Ellen: Well, you're pretty accomplished. There's like 16 more pages, I just gave everybody the Reader's Digest version. I'm a big fan. We had the opportunity to meet in person, I gave you a big hug and I saw you speak. It's so fun when I meet someone that I've grown to know through their book and watching their videos online and then I meet them in person and they don't disappoint. Your energy, live and in the flesh, is even bigger and better than the fantastic energy that I experienced in your books and online. So you don't disappoint, mister.

Mike: Okay, now I feel like you're my best friend. I want to give you a hug right now. Thank you for saying all that.

Ellen: Well, yeah, exactly. Well, this is what's been so fun. I've done these interviews and I thought they're going to be good for me. I'm going to make them available to my friends and we'll record them and everything. Every moment has been so energizing and inspiring to me. I can't wait to dig into it, so we've got to go. I want to talk to you about your story. Let's start with that because you have a really funny story. You had no money, no resources, you've got people depending on you and no contacts and yet you built a million dollar business and it all started in the bathroom. I really appreciate that as The Plumber's Wife. Tell us your story.

Mike: When I graduated college I couldn't get a job. I interviewed around and couldn't get a job. I remember my last day of school going oh, my God, I have to go home and be a dishwasher guy or something? Well, I ended up getting a job at a computer store selling computers. When I say I couldn't get a job, I couldn't get a career. I mean I could get a job, but it was selling computers. After two years of this, I didn't think I could take another day of it. So I was out having some beers with a friend and we started bemoaning how the boss is making all the money off of our sweat and efforts. I said, basically in a drunken stupor, this is my shot. I'm going for it! I'm starting my own business.

Ellen: I love you, man.

Mike: I love you, man. I left this disgusting, drunken, slurry message to my boss saying I quit. I'm starting my own business.

Ellen: You did a drunk dial to your boss?

Mike: Yeah, drunk. Not even a girlfriend dial, a quit-my-job dial. Next morning, woke up hung over, asked for my job back. He says screw you, kid, get out of here and he called all the people that he knew that were in the computer business and said if this guy comes knocking on the door for a job do not hire him. He's a piece of garbage, basically was what he said. Within a day I was like oh, my God, I really have to do this now. So I started the business with a colleague and we did it out of the basement. It took quite a few years, quite a lot of fear and just panic, but ultimately it a million and then a multimillion dollar business.

Ellen: **What was the concept of the business?**

Mike: Computer networks. That's what I knew how to do, so I just installed computer networks for small businesses all around New Jersey where I am.

Ellen: Okay. So you leveraged what you knew, you went out and worked on your own and probably scared yourself a little bit.

Mike: Panicked, panicked. You know my first day was a law suit, by the way, my first fax ever.

Ellen: Why am I laughing? That's so mean.

Mike: In retrospect it's hysterical. In the moment, it was piss-your-pants scary. I plugged in my fax machine and I was (like an hour later) an order is coming in, I can't believe it. I had sent out some proposals. The first page comes in and I'm like wow, the Courthouse of Morristown New Jersey needs to hire me I guess and then the next page said you're being subpoenaed or called to court.

My former employer was suing me for calling on his old clients. By the way, that's illegal you can't do it you can't leave a company and then solicit their clients, because that's confidential information you wouldn't have had otherwise. So he prohibited me from doing that. That was my first day. The first day was getting served; the second day was being in court.

Ellen: You wrote a book about this experience and you have this moment where you're in the bathroom. Share that one with us. I love this story.

Mike: The aha-moment -- and I think we've all been there -- I call it the three sheet moment. I remember looking at the toilet paper roll and I was like there are only three sheets left, what do you do in this circumstance? Kind of my aha was you find a way to navigate it. It can be crazy stuff. You root through the garbage can next to your foot and see what you can find in there. Then I'm like, we've all been there and everyone has "survived" it. I'm like that is what entrepreneurship is.

We hear all the glorious stories, the founder of Spanks, Facebook or whatever, all become billionaires and then we're like ah, why wasn't that us. The truth is that is not real, meaning that it's not common. It is the absolute exception. For the vast majority of entrepreneurs it is a struggle to be successful. But the essence of success is not in becoming one of these big mega companies it's finding ways to navigate with as few resources as possible. If you can get by with just three sheets, as few resources as possible, you will be successful. The profit will come. You just won't be the size of Spanks or Facebook, but that's okay, you'll be profitable and successful if you manage on three sheets.

Ellen: When I worked with Benjamin Franklin, The Punctual Plumber, I worked with a group of venture capitalists who were very wealthy, decamillionaires many times over. When they started the company, they each put in the whopping amount of \$2,000 apiece to create a direct marketing campaign to get people in a room. They wanted to fund this great idea through sales because they're boot-strappers in their concept.

And even though they could spend money, they said why spend a million dollars and then start learning the lesson you're going to need to learn to survive, which is if we don't sell something we're not going to have the cash and wherewithal to make this thing go. So bootstrapping is really that philosophy of whether or not you have the money is to almost pretend you don't, because that's going to prove out your idea and cause you to be innovative. He said we could waste a million dollars or we could just bootstrap it.

Mike: That's so true. You know the best mentor for a business is our customers. They know what they want and what they don't want. It's not the words they say because you can go to people and say would you buy this, what do you think, and they'll say yes. It's socially appropriate. But they speak truth through their actions. Well, through their wallets. Either they spend or they don't spend and that is the big indicator.

I, myself, I've been on the flipside. After I sold my second company, I became an investor. I said I know how to grow businesses now and I started putting money into companies and it was a disaster, an absolute disaster. I didn't really know what I was doing, but I found the people I was investing in became experts at raising money not at building a client base.

Ellen: That's really interesting. Okay, you say I'm going to help you grow your company and then you start working with people who sell you on the concept of their business and can get the money, but then you've got to actually work this thing and you found a big gaping hole of skills. Tell me more about that.

Mike: Yeah, it's the OPM syndrome (other people's money). It's very easy to spend other people's money because you don't feel the pain of it. So when funding these companies, they could spend money on advertising, buy inventory, maybe go out to a really luxurious dinner and then write it off by saying well, it's a prospective customer. I need to entertain them. So it's easy to justify when it's other people's money. When it's our own money it's a little bit tougher because we feel the pain when we see it come out of our own bank account.

What I found is that when people raise money, not all, but a lot of these entrepreneurs that raise money become really good at the process of raising money. They never make something that's sustainable, but they are able to go to investor after investor and convince them that they're just that far away from having a great success.

Ellen: How did you handle that? Did you have to split the seats with some of them or did you mentor them into their performance?

Mike: Well, this was my train wreck. After selling my second company, I invested in, cumulatively, about 10 other businesses. Nine of them went out of business. Nine of them went out of business so quickly that for some I was still paying bills and they didn't even exist anymore. One of them is sustainable today. It's growing, but ironically it's when I didn't contribute money to it. When it had to stand on its own feet is when it finally got straightened out. Now I consult on sales and stuff, but I'm not infusing money and that's the business that's successful.

Ellen: Wow!

Mike: But it was painful. Literally through that time period –I actually did a speech about it – I lost everything. I mean I lost every penny I'd made in building and selling companies in doing this because I was in an area I didn't know. They were talking money because they became good at it and I was giving money because I thought the only way to recover myself was to spend more money. I was ridiculously blind to what I was doing and I'm embarrassed by it, to tell you the truth.

Ellen: You are delightfully candid, through. I appreciate that you share these experiences. **So what did you learn from that experience?** I think that's one that a lot of people have is to be successful and then to lend a brother a hand. You know I've heard that, though, about venture capitalists. The reason why they take so much of your business, you know like on 'Shark Tank' or on these shows, is that they only figure one out of 10 is going to make it. So the one that makes it has to make it big and they have to have a big enough share of it.

Mike: Yeah, so what I learned about me is they say you can raise money from the four F's, I think it is, founders, friends, family and fools, I was the fool. I never thought I would. What I mean by that is I didn't know what I was doing. Being an investor in small business is like being an investor in the stock market. You have to analyze what you're doing. You have to make predictions and projections and then when you inject the money you expect a return. I was doing these businesses because hey, it sounds like a good idea. It's a good person. Just listen to me. I didn't do any analysis. I just started putting money into things.

So here's the grand lesson I learned for myself, perhaps for all of us, is I think I'm good at only a very few things. I sure as heck better stick with only those few things and have the discipline of saying no to all these other "opportunities" because it's not what's in my gift and, therefore, I'm going to mess it up. Someone else can do a better job.

Ellen: What are those things that you've discovered that you're very good at?

Mike: For some reason, I can make complex concepts very simple and I have an ability to deliver that message through the written medium, books, blogs, whatever, and actually even

better through speaking. So what I'm doing is picking heavy concepts. Accounting for many entrepreneurs is a very heavy concept, greatly simplify it. Not compromising its capabilities, just simplifying how to do it and then packaging it in a way that's communicated it easily and can be done through books and speaking.

That's my gift, make complex stuff simple, especially if it's a business community. I'm passionate about the business community, so make complex stuff simple for the business community and then deliver it to them so that they can take action on it immediately.

Ellen: Did you decide to go back in with your own business again? Is the venture capitalist part of you on hiatus?

Mike: Well, yes and no. I realize I still have an interest in that, but I'm not good at doing it so I've actually brought on a president to run that type of group.

Ellen: That's Proventus.

Mike: Proventus, exactly.

Ellen: Okay.

Mike: That's what Proventus Group is. So I'm the CEO, which means I put my input in there, but I don't run the day-to-day operations, because that's where I messed it up, and I repackaged the company to work around that one company that I was successful with. Don't infuse money into ideas; instead infuse ideas into a company that can generate money. It, basically, flips it all around. That's what I did with this one company, a manufacturer in St. Louis, and now we're doing it with two other companies that have come onboard. We intend to have about 10 companies onboard by first quarter that we have an equity piece in. We're infusing ideas and support, but not putting in money.

Ellen: Well, I just want to underline what I heard. You went into a new venture and you got your butt handed to you.

Mike: Handed to me.

Ellen: It isn't you that is a bad person. It was just like okay, wow. I don't want to keep sticking my hand in the mousetrap, so you regrouped. You realized what you were good at, you organized to overcome your weaknesses and you've repackaged that company to do what you really wanted, which is to be involved in other people's companies as a mentor and an investor. That's pretty rockin' cool. That's really cool.

Mike: Cool.

Ellen: I'm going to organize our time a little bit. You're going to turn into a pumpkin pretty soon, so let's talk about your second book *The Pumpkin Plan*. You visited about this online and you take a pretty complex subject and simplify it. **You talk about saturation versus quenching. What does that mean?**

Mike: This is something I derived from colossal pumpkin farmers. These are guys that can grow pumpkins literally up to one ton, like as heavy as a small car, where the ordinary pumpkin grows to about 10 or 15 pounds. So what do these guys do? The fascinating thing was they changed the growing process just by a little bit, a few things. Then I found that the same method applied to business. It grows a colossal business. That's what I did for myself with my second company. Once I discovered this, I did it for myself and it works.

Here's that one part you're talking about, quenching versus saturation. Ordinary farmers use a saturation method. If you grow ordinary pumpkins, you have this big watering system that goes over your huge field and once a night it runs and it soaks the plant, often killing many plants because you have to do this as fast as possible, but in the quantity gain that ordinary farmers are in it makes sense. Colossal farmers, on the other hand, use a quenching method. They go to the same plant, the one that's going to grow colossally, and they water it frequently. They go back to it maybe up to 20 times a day and give it just enough water for the plant to maximize its absorption and the plant starts responding with explosive growth. Well, this corresponds with entrepreneurs.

Most entrepreneurs who struggle and never grow anything extraordinary are in the saturation method. They go to a networking event and they just pump out as many cards as fast as possible to whoever they can get their hands on. They go on Facebook or Twitter and they tweet the living crap out of people. Buy from me, to anybody. Colossal entrepreneurs, on the other hand, quench. First what they do is identify who their best historical customers are, the ones that if they had 10 copies of them would be dramatically great for their company. They then identify where those customers hang out because, ultimately, birds of a feather do flock together. They then quench those areas.

So wherever your best clients hang out, appear there. You don't need to be pumping cards and marketing and saturating, just your appearance. If you appear repeatedly in the same small narrow area where your best customers are, by default they'll start to know, like and trust you. They see you frequently and they'll start buying from you. That's the core difference.

Ellen: That's true. If we see something often enough, we get used to it. We start to breakdown maybe barriers to it.

Mike: Yes, Coca-Cola does this.

Ellen: If we're just kind of a gentle introduction over and over again as opposed to being bombarded. That's why you date before you get married, I guess.

Mike: Well yeah, but big companies do it, too. Coca-Cola is a great example, they run commercials constantly. You're watching the Olympics and a Coke commercial on, they don't think you're going to run out to the store and buy a Coke. They just want you to see a logo and have fun seeing a polar bear drinking a soda. Then the next time you're at the store and you see a generic bottle of soda and you see a Coke, you're more likely to buy a Coke, even though it's a premium, because you trust the brand. Frequency begets trust. As a small business, we don't have Coke's budget. We can't run commercials for everyone, so how you achieve frequency is by focusing on a very, very targeted group. Appear there more than any of your competition, you'll win the trust and you'll win the business.

Ellen: You live this, too, because as we got on the phone you said now who are we going to be talking to? That was your first question.

Mike: Right.

Ellen: So that was really aligned with this philosophy. You have a new book coming out, tell us about *Profit First*. We hear a lot of people say oh, wait a minute. It's not about the money. You said profit first, that's a bold statement.

Mike: It is totally about the money. Money is the lifeblood of your business. Try to grow a business with no money. Try to live a life with no money.

Ellen: Are you on the fence about that?

Mike: Yes, I am on the fence a little bit, you can tell. Here's the core philosophy. Most entrepreneurs that I've interviewed in my own businesses I admitted ran by doing what's called bank balance accounting. I look to see what's in my bank account. I say oops, I've got a lot of money today. That's great. I'm going to spend and pay all my vendors and then I'll panic because there's not enough money to pay me or I look at the bank account and there's no money in there and I just panic outright. It usually results in this constant panic.

We're told to do GAP accounting (General Exception Account Principles), but they're too complex so no one does the income statement, review the balance and check for cash flow. Basically, no one does that on a daily basis.

Ellen: That's what I preach, though. That's changed my life. It can be done and it's not that complicated, but I want to hear your approach on that. I agree that most people don't and that's why I'm such a busy and popular girl, but let's hear your take on it.

Mike: It works. It totally works, but it requires a huge change in your own behavior and most people don't make the leap. But here's the interim step, it's called Profit First. What you do is every time a deposit comes in take a percentage, 5%, 10%, some of my clients I work with 20%, and put it into a profit reserve. You should have a separate bank account so the temptation is removed and every time a deposit comes in move that percentage of money first into this profit account and then you can continue your bank-balance accounting.

You look at your bank account and you can make your decisions based upon it, but what this does is it forces you to operate your business with less money. It's not a shell game. It's not like you just moving a portion here to ultimately invest...

Ellen: That's an awesome tip. You know what's cool about this, this works for kids, too. If kids get the idea that when they bring money in the door they're not going to get to spend all of it and when we discipline them right away to sock some away, you could save yourself a lot. I work with prisoners and when they get out they're going to sell their services. We teach them how to put business plans together and they spend everything they got. They just didn't get this piece of it. I love this. Love it.

Mike: Yes, it's like a 401(k). Employees do it and it works. It's the best savings vehicle ever for employees, but entrepreneurs need to do ourselves. That's how you do it.

Ellen: I love how you bring a simple idea that would make a ton of difference and that requires discipline, but it's just a steady drip of it. Do it and set it up so it just goes. I like that a lot. I appreciate that. **When does this book come out?**

Mike: It's coming out in the summer of 2014.

Ellen: So this is what we're going to ask you to do. I hope you love Mike as much as I do. If you want to learn more about him, I know he's going to become your new BFF (best friend forever). So on the page where you're listening to this webinar, Mike gave us a little bonus call. I'm so happy that you did. I said I've got the speakers that I need, but you're not on the list yet. Will you play with this? He said sure. So we fit in another interview and I'm so happy that you did. Thank you, Mike.

Mike: My pleasure.

Ellen: Mike said what I'd like to do is just introduce people to my website. So if you go to BusinessMakeover2014.com/michalowicz or just click on the link right there on the web page, you'll go to Mike's site and then you can watch his videos and learn more about him and see his book *The Toilet Paper Entrepreneur*, *The Pumpkin Plan* and now the latest book *Profit First*. We've already gotten a little teaser and a great tip today. Mike, you're awesome.

Mike: You're awesome! Thank you.

Ellen: Hasn't this been fun. Now, leave us with some parting thoughts. You get the last word today, what do you want to share. **As you were thinking about this event and you said I know what I could share with them, what have you yet to share with us?**

Mike: Here's probably the ultimate tip and this is book number four coming out.

Ellen: Oh, did I miss one?

Mike: No, you didn't miss it because it's still two years away, but the core concept is I've been studying marketing for people for all types of businesses and I notice that everyone tries to out market someone else. I've discovered the most successful people who market their business pursue not being better but different.

So I have a saying, better is not better, different is better. Whatever you do to expose your business, it's not about beating the other guy. It's actually about being different than the other guy. How can you do something that's not been done before. That gets noticed, customers flock to it and your business will start to grow faster than ever.

Ellen: I love that.

Mike: Correct.

Ellen: You are so smart. I'll get you the name of a chimney sweep. You said you were looking for a chimney sweep?

Mike: Yes, I need a chimney sweep for my house.

Ellen: I know people. All right, I'll get the name. Thank you so much for playing with me.

Mike: It's been my pleasure. Thank you, bye-bye.

Ellen: Thanks Mike. Thanks for listening this is Business Makeover 2014.