

# Rocky Lalvani

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## SUMMARY KEYWORDS

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## SPEAKERS

Pat Bolland, Rocky Lalvani

### Pat Bolland 00:08

Once in a while the Just Word delves into more than just investing... I love money management, personal finance, small business, let's just focus on small business for a while because all too often business owners look at their bank account, see no money and scramble to get new business. It doesn't have to be so stressful, according to our next guest, Rocky Lalvani, is the, serves as the chief profitability advisor and is a certified profit first professional. And he'll join us right after this. ... Rocky, a real pleasure to meet you.

### Rocky Lalvani 00:44

Thank you so much for having me on. Pat, excited to be here today.

### Pat Bolland 00:48

You know I do want to get to this whole concept of Profit First, but I know you love talking about money management and personal finances, and you have a number one rule about savings. Could you share that with us? And we'll start the conversation there.

### Rocky Lalvani 01:04

So yeah, I am a super big fan of compounding. People say Albert Einstein called it the number one, you know, wonder of the world or something along those I'm not sure if it's true or not. People make this stuff up. But you know, let's just look at this. From a simple standpoint. If you took \$1 and you doubled it every day, for a month, at the end of the month, you'd end up with about \$10 billion. Which \$10 billion 10 billion. Yeah, okay. But here's the problem, right? Let's say you skipped one day. So I was gonna do it today. But I'll do it tomorrow. Right, you lose \$5 billion. And if you forget tomorrow, and you do it the next day, you'll lose another two and a half billion or seven and a half billion dollars,

### Pat Bolland 02:00

Right? Because at the very end, if you end up with 10 billion, then it was 5 billion the day before because you're doubling it over time.

**Rocky Lalvani** 02:07

Exactly. If you skip 10 days, you're only going to end up with about a half a million dollars, which isn't bad. But you could have been a billionaire.

**Pat Bolland** 02:18

Yeah,

**Rocky Lalvani** 02:18

because you didn't take action because you didn't start, you didn't put the \$1 in and keep going. And that literally is the problem that I think most people face, they don't take action, they don't start, they don't get going. Now, no one's gonna double \$1 Every day I get that. But whatever your compounding power is, you've got a lifetime to do it. And if you don't start, you're losing a lot. And they don't realize,

**Pat Bolland** 02:48

Yeah, true. But I mean, when it's the first dollar, you got the first dollar in your pocket, even the second third and maybe up to the 10th, you've got that money available. When you get to the end, and you have \$5 billion, you got to double up the next day to \$10 billion, you don't have that \$5 billion. So there's, there's a limit to what you can actually do, right?

**Rocky Lalvani** 03:10

Well, I mean, you can do this on more practical terms. So let's just say I'm a normal investor, and I invest a set amount of money from 21 to 30. And then I stop, and person B starts at 30 and invest from 30 to 65. The first person's actually going to end up with more money than the second person, even though they only did it for 10 years, versus 35 years, because they had those Headstart those 10 years or nine years. Whatever the actual math works out to it's the concept, you can figure out the math behind it.

**Pat Bolland** 03:45

Right. Okay, so now that gets into your whole concept of profit first and the system incorporated into that and Mike Michalowicz actually, I think was the one that put it together. Am I correct?

**Rocky Lalvani** 03:58

He is, it's his book, and I'm just one of his certified professionals that helps people implement.

**Pat Bolland** 04:04

Okay, so what is the Profit First concept?

**Rocky Lalvani** 04:08

The profit first concept is give every dollar a job. So for most business owners, right, you get all this money coming in, and you got a big pile of money sitting there. And so you start spending it because we're told you got to spend money to make money, which is a lie. There are ways to do it without doing that. Right. And but when you start giving every dollar a job, and you sent it to do its purpose, you have much more clarity on your financial. So let's look at this from personal finance. Back in the day, you know, maybe our great grandparents got money from their pay, and what would they do? They'd have

chars or envelopes and they'd have labels on them. One might say rent, one might say food, one might say utilities, and they would take their money and they put it in the envelopes and when it came time to pay those bills, they paid them and when you were ran out of grocery money. I don't know, maybe you hunted, maybe you ate peanut butter out of the cupboard. You made it through the month. Right? You figured out how to do it, you got more resourceful as the money ran out towards the end of the month,

**Pat Bolland 05:16**

You know, you raise an interesting point because my mother had that, as she called it her mad money, but it'd be money that she found in the laundry, for instance, or, you know, took out of the wash, and somebody had left it in their pocket. And she would put it in a separate jar, and then she would spend it but I mean, all you're doing is structuring that way of collecting the money.

**Rocky Lalvani 05:37**

Correct. Same thing, you know, if you're wondering, how do I start my compounding just set aside a certain percentage, have it automated, go to a separate account, and it'll build wealth for you while you're sleeping? Okay, happens,

**Pat Bolland 05:52**

I get that on the saving side, I understand where you're coming from. But how do you do that in a business because if I'm starting a business, there are costs associated, I'm not going to be able to put money away for a while, if ever?

**Rocky Lalvani 06:04**

Well, so that is because right, you're looking at profit as an event, not as a habit, we look at profit is a habit that we build. So what we do is every dollar that comes into the business from dollar one, right, we said we were going to be profitable, we created a pro forma, and we said, well, we're gonna have a 5% profit margin, we said, I'm gonna get paid. We said, We have to pay taxes because we are profitable, right? And then we have what's left to spend, what most business owners do is they spend their paycheck in their business, because, well, I gotta put money in this business. They spend their profit on their business, because one day, I'll be profitable one day, I'll start wondering about it. They spend their tax money in their business. And then when the taxman comes, they're in big trouble. Right? So what we do is we tell you from your first dollar, every time money comes in, put it in one bank account, and you can look at that bank account, and you can see how much money came in. It's clear as day if the money is all mixed, how do I know how much money came in? I don't. So by having one bank account where all the money comes in, it's clear to see how much came in and then I allocate it to my other bank accounts, I put money aside for profit. Now, in the beginning, it might be 1%, you're not going to miss \$1, out of 100, we put money aside, so I get paid, I'm the one who invested in this business, I'm the one who works 90 million hours a week, should I not get a paycheck, most business owners pay themselves last instead of first, then we have to set aside our money for the government. And now what's left is what's truly left to run our business on our operating now, if we're a new business, we might have to make a capital infusion. The first thing I tell people is if you're going to run your business like that, let's say for the first year, take all of your money that you're going to infuse into the business, put it in a separate bank account. And every time your business doesn't have enough to run, go into that bank account, feel the pain of removing money, and putting it into your business. And I

want because that's going to give you the marker of how much is left, you will immediately know, hey, I spent about \$1,000 a month in this business. There's \$10,000 in the account, I just took 1000 I got nine months of runway left. I gotta get to move it. Right. It's all visceral feeling. It's putting feelings to your money. This is not an accounting system. It's a cash flow system designed based on the way entrepreneurs behave, what they do is they look at their bank account and go can I spend, or can I not spend? Or do I need to go out and hunt? And yeah, that's what this does. Yeah, okay.

**Pat Bolland** 08:59

So a small business owner would say, I am re investing in my idea in my company. That's how they justify taking that money and putting it in. Are they wrong to say that?

**Rocky Lalvani** 09:14

Well, so you guys are in the investment business, right? Yeah. So let me ask you a question. Would you make an investment without asking, what kind of return am I gonna get on this?

**Pat Bolland** 09:27

No, not a chance. I like to have some idea.

**Rocky Lalvani** 09:31

Well, so why isn't the small business owner then saying, Hey, I'm investing this in my business. When do I expect to return this month? Next year? In six years? Have you actually done the numbers to say if I put \$1,000 in the business? When am I going to get my \$1,000 back? And by how much is it going to grow? Because if you put \$1,000 in you work 40 hours this week and you get \$1,000 back Well, that was wasted 40 hours of time, and risk and effort.

**Pat Bolland** 10:06

Yeah, excellent point when you're when you change the focus to profitability, and then as you say, cashflow management, what does that do to your life experience?

**Rocky Lalvani** 10:20

When you say life experience, you mean, how do you live life? Like, do you mean you get to sleep at night? You mean, you're not? Worry, you're not freaking out all the time, because how am I going to pay the bills? How am I going to pay the tax man? You know, I cannot tell you how many business owners that I've talked to, that have seven figures in revenue, and nothing for them to show for their work, because they paid themselves last, because they were constantly reinvesting in the business without asking the important question of when he's gonna get a return. Is it gonna work? And what does that look like for me?

**Pat Bolland** 11:03

Yeah, yeah, fair enough. Okay, so I get into this whole Managing Cash Flow thing. I understand that. Why don't why doesn't like a lot of small businesses have accountants? Why don't accountants teach you this?

**Rocky Lalvani** 11:16

Because that's not their job. First of all, accountants aren't necessarily business owners. So they don't understand how business owners think accountants thinking credits and debits, and making sure that everything is done compliant. Technically, an accountant, a CPA is a tax person, their job is to make sure that the tax form is filled out correctly. Their job is not to make sure you're profitable. And more often than not, they know that if they call you up and say, Hey, Pat, you you owe an extra 10 grand in taxes. Because you were profitable, you're gonna scream at them. Because you don't have the 10 Grand because you spent it because you didn't use profit first. So they're like, oh, Pat's gonna call me and he's gonna scream at me if he owns 10. Grand and taxes. Hey, Pat. I think you need a new truck. It'll save on taxes, go ahead and buy it. And then four months later, you know, you can't make the payments on the truck. Your Cash Flow sucks. The accountants got nothing to do with that. Hey, you bought the truck? What do you want for me? I saved you on taxes. Like you paid me two.

**Pat Bolland 12:25**

Oh, okay. That truck sounds awful appealing. So I see where we're going. Yeah, that's, that's the attraction. Yeah. Oh, I worked hard. I got a truck out of it. But yeah, really, what you're suggesting is rather than buying the truck, put it away in savings. What do you think is an appropriate profitability level to put aside for yourself? I indicated for entrepreneurs and people starting business 1% Is good number to start out. But what's, what's the real target.

**Rocky Lalvani 12:54**

So I think if your business is not at least 10% profitable, you're going to start to hit a struggle point. Because a couple things we want to do. Number one, you need to pay yourself market wages. If you're not paying market wages, and you can, then you say you're profitable, you're not really profitable, right? Because you're not paying yourself. So pay yourself market wage, at least 10% profit, because that gives you cushion. What we like to do is get business owners up to the point where their business has two months of expenses in cash inside the business. Ready, because COVID happens. Because life happens because you hit a recession, because you know, your best customer leaves like this is all gonna happen. It at least gives you 60 days to survive, not 60 minutes, right? Cash flow is king without cash, you will struggle, so we want you to have a little bit. And then from 10%, you know, if you can increase your profit, one or 2% a year, it will compound right 10 years into business now you're at a 20 or 30% profit margin maybe.

**Pat Bolland 14:10**

Right? Yeah. So in fact, when you get started, you're recommending a two month cushion just there. So if it cost you, I don't know, half a million dollars to get started. You've got to have a couple of months on that business to make sure that you can make it through to the first year. Am I correct in saying that?

**Rocky Lalvani 14:27**

Correct. I usually tell most business owners, the first year is very difficult. You generally are going to struggle year to breakeven. Year three, it's when things really start to get going. The reality is most businesses, half of them don't make it to five years. I think the numbers 95% Don't make it to 10 years. Those are American numbers. I don't know the Canadian numbers. Most businesses don't survive and cashflow is one of the biggest problems. You can even have Have a growing business that's, that's skyrocketing. But because you're growing so fast, your cash flow may not keep up, and you may not

have enough cash to afford to grow. And so people just think growing is the answer. Not necessarily not if you need cash to grow. Yeah, okay,

**Pat Bolland** 15:19

So let's go to the other end of the spectrum, just not an entrepreneur getting started, but some family business that's been, you know, second, third generation. And a lot of those companies fail. Is it because they aren't using the profit first concept?

**Rocky Lalvani** 15:37

Well, so the first question is, you know, the person who started the business had a love and a passion for it, maybe a skill and a desire. Does that third generation person have that? Does that third generation leader have the business skills that they need to run the business? Or were they just handed a business? And so that is, that is, I think, the number one question, and do they even want to be in that business? Is it what they truly enjoy? And do? So I think those are part of the problems. The second thing is how is business information passed from generation to generation? How do you actually test if your grandkids are capable of running the business and are willing to do it? So I think a lot of information has to be passed down, and they have to make sure it's a good fit. Okay,

**Pat Bolland** 16:29

so the profit first concept don't necessarily apply, because they've already got profits.

**Rocky Lalvani** 16:34

Ya know, they could have been struggling for those three generations. I mean, Profit First applies everywhere. It doesn't matter how long you have or haven't been in business. So if you are a third generation business, and you are struggling, and you don't have a ton of cash, you're barely scraping by and Profit First will help you to get better. It helps. We've worked with businesses that have been in business 10 to 30 years. And they've always struggled in general, within 18 months of working with us, they tend if they follow the rules, and they do what they're supposed to, they're like, we've never had so much cash, we don't know what to do with it. I like will call Pat up, give it to him, he'll invest it for you. And life is good.

**Pat Bolland** 17:21

Okay, we're so Rocky, when you walk into a business, whether it's a brand new one, or one that's been around for 20 to 30 years, as you indicate, what's the first thing you do and what you look at? Where do people start if they want to take on this concept?

**Rocky Lalvani** 17:35

Well, so those are two different questions. The reason I say that is the first time that we sit down with a new business owner, that becomes a client, we spend two hours getting to know them, their history, their beliefs, how they behave around money, and what they truly want out of their business. Because until we know who they are and what they want, we can't set a target to help them get there. So that's what we do for business owners. From a Profit First standpoint, the biggest struggle point that we see with most business owners is they won't go open up the five bank accounts. Like it's hard for them to open up bank accounts. But yet, like you can do this yourself, you you've listened to this podcast, all

you need to do literally to get started is maybe just open one bank account, call it your profit account and put 1% in it. Try it for a couple months, see what happens. See how much money you get? And then say, Oh, this does work. Maybe I should do more.

**Pat Bolland** 18:33

Yeah, truth be told, somebody told me not the Profit First, put your taxes away first. And so I do have a totally separate tax count. I've always always have had that. I never thought of doing the profit to be dead. Honest.

**Rocky Lalvani** 18:47

Yeah, the same way. I mean, these are universal principles. They apply to your personal life they apply to your business they apply to everything. You just have to apply them in the way that works best for you. So rock

**Pat Bolland** 19:02

if people want we're just getting a little shorter on time. Now if people want more information, where can they go to find out how to the concepts that are based with profitability and expand from there.

**Rocky Lalvani** 19:16

So before they come in, they check that out. Could they do me a favor? Sure. Can they hit like on the show? Pat does a great job. Can you give them a little love it like share it with a friend?

**Pat Bolland** 19:28

Yeah, yeah, sponsor ... subscribe subscribe

**Rocky Lalvani** 19:30

Subscribe, whatever you need to do. Yes.

**Pat Bolland** 19:33

I love you Rocky

**Rocky Lalvani** 19:36

If you'd like to learn wherever you're listening to this, you can probably find the Profit Answer Man podcast. And that's where we teach everything we do. We give all the information away. Go into much more depth than I have today. And we'll bring you success stories ... we'll bring you tips on how to constantly improve and grow profit in your business.

**Pat Bolland** 19:57

Rocky a real pleasure. You've opened my eyes on several fronts. Thank you.

**Rocky Lalvani** 20:00

You are most welcome. Thank you so much for having me on today.

**Pat Bolland** 20:03

Okay, Rocky Lalvani He's Chief Profitability Advisor and a certified Profit First professional.