

# Blood Money

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Business owners need to pay themselves first and build up cash reserves for the next downturn in their business (isn't Michael Dell lucky he has plenty of cash right now!). A Profit Distribution Account (PDA) is an excellent way to do this. Mike Michalowicz sent me the following column he wrote about his proposed PDAs for business owners.

As background, Michalowicz was a founder and former President of Olmec Systems, Inc., a regional computer network integrator, which he sold in 2002 through a private transaction. He subsequently co-founded and served as Managing Partner of PG Lewis & Associates, LLC, a national provider of data forensic services, which he went on to sell in a public transaction in 2006 – he has his PDA full. He's now helping first time entrepreneurs launch and fulfill their dreams!

Please take ten minutes and read his insightful column – it could mean millions in extra cash to you personally.

## **Blood Money**

*By Mike Michalowicz*

I recently received a notice congratulating me on donating a gallon of blood. I quickly did some research on Wikipedia ([www.wikipedia.com](http://www.wikipedia.com)) and learned that the human body has slightly over a gallon of blood pumping through it. Clearly, if I gave a gallon of blood in one sitting I would be a goner. Shoot, even if I only donated one third of my blood (approximately 3 pints) in one sitting I might suffer some tough consequences. But since I donate one pint of blood at a time, my body hardly misses it and I can donate as frequently as seven times a year without missing a heartbeat (pun intended). My blood donations have quickly piled up and in a very short time I have given a gallon.

We've all heard that cash is the lifeblood of our business. I think it's hard to argue otherwise. Shouldn't we treat our money like our business's blood? Just like a medical emergency, a business in need of fiscal attention often requires an infusion of capital.

Medical needs sometimes can be predicted and sometimes can't. Regardless of the timing, with a pool of easily accessible blood reserves the chance for survival dramatically increases. Sometimes our business problems are predictable and other times they blindside the living crud out of us. Regardless of the timing, with a pool of easily accessible cash the chance for business survival dramatically increases.

That's why you need to regularly “donate” business cash flow to your reserves. The best method is by taking your profit first. What do I mean by this? Every time money comes into the business, **and I mean every time**, a percentage is automatically transferred into a separate account. Just like a pint of blood, a healthy business will hardly feel it being withdrawn. I like to call this reserve the Profit Distribution Account (PDA).

How much money can be transferred to the PDA without threatening the health of the business? Most stable companies should be able to post a profit of 10% to 25% after all expenses. So trying starting with a low threshold, maybe 5% of every inbound dollar goes to the PDA. Over time slowly increase the percentage and monitor closely to see if your business gets woozy. Once you have consciously (more often subconsciously) adjusted expenses and cash outflow to sustain your PDA withdrawals, you will quickly accumulate a tremendous cash reserve. Be cognizant not to stow away too much money too quickly. Just like donating blood, the rapid drain of cash exiting from business operations will cripple or kill your organization.

Should tough times come upon your company, and they often do, you now have a source of funds that you've built up. The PDA's cash reserve will see you through these times. On the bright side, as these funds grow they will ultimately be in excess of any imaginable rainy day needs. At that point you should take portions as an equity distribution. Trust me, it's a real nice way to reward yourself for running a healthy business. There is a nifty little process I recommend on how to do this, but I'll save that for another article.

If you've never given blood, I strongly encourage you to do it. There's no question it saves lives. If you don't currently donate to your company's PDA account, I strongly encourage you to start. There's no question it saves companies.