

Pay Yourself First



“IT ALIGNS OUR ACTIONS WITH OUR PURPOSE, AND IT MAKES ALLIES OF EVERYONE WHO IDENTIFIES WITH OUR PURPOSE.”

PAY YOURSELF FIRST

Several years ago, I donated three hours of coaching time to a charity auction. The man who bought my time did so on behalf of his wife, who owns and operates a specialty boutique. The husband is the CEO of a significant financial institution, and I was flattered by his confidence and his contribution.

Several weeks after the auction, I met both of them at her shop. I asked the usual questions to uncover her highest priorities and how I could best help her achieve them. It quickly became apparent why her husband had bought the coaching time.

She had been in business for eleven years and had not received a single penny of compensation for her efforts. No Paycheck. No Draw. It wasn't because she was hoarding cash in the company account either. They had enough money to operate, but not enough to pay her for her effort and risk.

"Are you okay with that?" I asked. It was apparent that the question made her uncomfortable, and I suspected that her husband had asked it before.

"Yes," she answered. "I'm okay with it. I don't worry about getting paid. I love what I do and the people who work here. The business is buying this building, and paying for my car, so there's that, but I'm not in this to make money."

"You might love what you do even more if you got paid to do it," I answered.

That comment didn't sit well with her, and our conversation tapered off into polite goodbyes. I haven't seen her since, although her store is still there. I presume she could afford to work for free because of her husband's income. Most of us in small business can't do that, and shouldn't even if we could.

WHY PEOPLE DON'T PAY THEMSELVES

Pay is compensation for the work we do in our businesses. Draws, or dividends, are a distributions of profit and are compensation for the risk of owning a business (there is risk, right?).

If we work in our businesses, we should receive both regular paychecks and regular distributions from profit, yet a surprising number of business owners don't take pay checks and live on haphazard distributions.

It is hard to explain the "why" behind other people's actions, but my experience suggests people don't pay themselves because **they don't have the money**, and they don't have the money because they don't make enough profit. They don't make enough profit because are afraid to do what they must to be profitable. They avoid the difficult decisions, things like raising prices, **laying off non-productive employees**, cold-calling new leads, moving to an affordable office, sacrificing the expensive pickup truck, and so on through the myriad other difficult decisions that determine profitability. Some business owners even believe it is somehow noble to work for free. It's not.

IT'S NOT JUST ABOUT THE MONEY

There are good reasons, besides the money, to pay ourselves. When we don't take a paycheck:

- **It affects our temperament, attitude, judgment and decisions.** A willingness to forego a paycheck is evidence of a scarcity mindset, and a scarcity mindset gets scarcity results. The scarcity mindset says "cut back." The abundant mindset says "earn more".
- **As we said above, it allows us to avoid the tough decisions.** If we've already made the tough decisions and still can't afford to pay ourselves, well then, we are in the wrong business. In that case, missed paychecks mask reality and postpone the tough decision to get out.

• **It not only affects us, but the people most important to us.** I talked with a long-time client about this article. He has always paid himself, but until recently, he paid himself far less than he was worth as the CEO of a multi-million dollar company. I asked him how it affected him.

"It didn't affect me so much as my wife. I always had an idea of what was going on and when I might be able to take a supplemental draw, but she didn't. She couldn't budget anything, and she hated asking each month how much money she would have to run the family, or to plan a vacation. It stressed her out, which stressed me out."

Despite his protests to the contrary, I know him well, and being underpaid affected him greatly.

• **It makes key employees nervous.** Employees understand that people must be paid. If they know we are not paying ourselves, we shouldn't presume they see our sacrifice as a noble deed. More than likely they are concerned about the health of the company and the future of their jobs. They know even if we don't.

• **We are kidding ourselves about profit and success.** I suspect the boutique owner knew that, which could explain her reaction to my comment about paying herself. Every paycheck we miss is a subsidy for the company. A company that shows profits without paying the owner overstates profits or worse, hides losses. Profitable, successful companies do not require subsidies and can afford to pay their personnel, especially the most important person of all.

DO IT

The answer to the above problems is to pay ourselves first. If you need to cut expenses to pay yourself, cut expenses then add an appropriate salary to what remains, and cover that too. Do it.

A client began a contracting business three years ago. For the first 9 months of operation he refused a wage and instead relied taking draws when there was

cash available. After nine month of my cajoling him, he finally agreed to add \$5,000 per month to his overhead and to take it as a salary.

He has not missed a paycheck in the 27 months since (although he has been late paying his suppliers a time or two). It worked for him and it will work for you, too.

HOW ABOUT YOU?

Are you taking a paycheck in addition to draws from your business? What expenses do you need to cut so that you can? How would your work life and family life **change** if you received a regular paycheck?

If you have any further questions, please don't hesitate to mail me at Martin@annealbc.com or visit www.annealbc.com



Martin Holland

Martin Holland is the son of a successful entrepreneur. He grew up hearing about margins and markets, R&D and sales, risk and return on investment. He learned to love the language and rigors of business and grew to believe that business is both the most human of all endeavors and the highest calling. After selling a company in 2011, Martin became a coach in order to help other owners build profitable businesses that do not require their day-to-day involvement.

A native of Norman, Martin earned a B.A. degree from Hastings College in Hastings, Nebraska and a Masters in Business Administration degree from the University of Oklahoma. Over the past 7 years he has written business plans that have raised over \$52.4 million in bank and investor financing. He has helped 157 (and counting) business owners reduce stress and increase performance through clarity of purpose, better marriages, more money, and more free time away from the business.