

The only secret to
good business you'll
ever need to know

The *Profit* Principle

**How to turn what you know into what you do
– without spending (or borrowing) a cent!**

Peter Fritz



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***Peter Fritz &
Jeanne-Vida Douglas***



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About the authors

Peter Fritz was born in 1943 in the historic city of Arad in Transylvania, during the Second World War. Following the war, his city became part of the People's Republic of Romania, and he grew up a proud and feisty pioneer. But the injustices and persecutions of the communist government weighed heavily on his family and in late 1961, after 14 years of waiting for a permit to leave the country, they made their way to Australia. Peter began working as a cleaner, studied English and later attended university part time. By the late 1960s, he found himself working in the newly emerging field of computer science. In 1971 the company he was working for was forced to close by creditors, and, rather than lose his job, he used what he knew to launch a new company with some like-minded peers.

Forty years and a hugely successful career as an entrepreneur later, having co-founded a \$1.25 billion company that employs 6000 people worldwide, he wanted to gather his experiences in business into a book so he could hand his expertise down to his children. He began to look for a writing partner, someone who also wanted to share what they knew with others, and after asking around, a friend and business associate suggested he meet Jeanne-Vida Douglas.

A multi-award winning business journalist with a decade's experience covering the information technology sector, Jeanne-Vida was looking for a way to gather together the very best stories she came across in her work into a single edition. At the time Jeanne-Vida was juggling her own small business as a freelance journalist and business writer with

the demands of two small children, and was keen to encourage others to find ways to turn their skills into microenterprises.

The pair met in early 2007 at Peter's offices in Chippendale in Sydney, Jeanne-Vida bouncing her baby son on her lap, and they agreed to meet regularly for coffee to figure out how to turn these ideas and real life experiences into a book that could be shared down the generations and across the business community. Over many meetings they gathered ideas, wrote and rewrote, discussed and argued the fundamental ideas and real life examples that now fill this book.

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We are grateful to all those who allowed us to share their stories, to our customers and the thousands of businesspeople with whom we have worked, partnered and competed over the years for providing us with the experience and knowledge contained herein.

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And, of course, thank you to the patient waiters at Dee Bees Cafe who brought us an endless supply of coffee and courtesy as we debated the business of business.

Introduction

Dear Peter,

I'm writing to you on the first anniversary of your arrival in Australia. In celebration, you and your family are having a picnic.

You're lying on the grass in the dappled shade of the trees, listening to the chatter of other families and your own, which is underscored by the dry hum of the cicadas. This is the soundtrack to the overwhelming sense of freedom you've found in this new country. You still don't speak the language, but you know that will come. You've scrimped and saved with your parents to buy a small van — you don't need a showy car. You are 20 years old, and you're drunk on the sheer pleasure of living without the fear and paranoia that was so much a part of your life growing up in 1950s Romania.

Stop there. Stop what you're doing and slow down your thoughts. Savour the moment.

You have no meetings to attend, no obligations to fulfil, no network of friends or associates, no family to look after, and right now, no reason to rush. These will all come, but for the moment, just lie there and live in the now. Over the years you will gain strength from remembering that sense of absolute pleasure and peace and opportunity.

Your English will get better. You will make friends and you will go to university. You will work and study part time — and it will be worth it, so be prepared to persevere. Life is not lived in one great leap. It's made up of thousands of tiny steps, and you've still got a lot of walking to do. Take the time to finish what you start, and have the confidence to know that you are getting somewhere.

Don't be afraid of problems. You'll face many of them over the years, and you need to look on them as opportunities to develop your creativity. The problem will still be there tomorrow if you ignore it, and it will haunt you if you let it beat you. Face every challenge like a new opportunity and you'll make it through.

Don't be greedy. Greed is ugly and tasteless. We measure ourselves by externalities: titles, money, official recognition and so on. We calibrate ourselves to those around us and we will always find someone who is richer, smarter, more attractive and more successful. It takes a very strong person to break away from that, but if you spend your life looking over your shoulder, you will never be at peace with who you are and it will slow you down.

Obligations will come, and you'll fulfil them. At first they will feel overwhelming, and at times you will wonder how you're going to make it through. Trust yourself, pace yourself and don't choke.

Remember always that as humans we crave recognition and respect. Respect other people, not because of their achievements or possessions, but because your capacity to respect others is a powerful attribute which will serve you well. Make sure you provide those around you with that recognition and respect and they will repay you with the recognition and respect you will need to carry yourself through life.

There are only two decisions that will fundamentally change the course of your life. One was made for you when your parents brought you to Australia a year ago today. The other you'll make the day you realise that the company you are working for is about to close its doors. Just at that moment when everyone around you is preaching doom and gloom you will realise that you and some of your colleagues have the skills to keep the business going. But you will all struggle with the transition. You won't need bravery, intelligence or bravado. You won't need large amounts of capital. But you will need to undergo a fundamental shift in the way you view yourself. You will need to stop thinking like an employee, and begin to think and act like a business owner in your own right. The risk and responsibility will feel heady and disorienting, but you'll make it through, and soon enough you'll be too busy to think about it. Going into business for yourself will change everything. Embrace that change and don't be afraid of it.

By the time you reach my age, you will have spent a combined total of more than a year of your life on planes travelling back and forth to different business meetings. You will have worked alongside hundreds of people, from the cleaners you are working with now to the most powerful business leaders and politicians.

You will discover that success is not about what you achieve as an individual. Success is about finding and creating ideas that can grow into opportunities, services and products. Success for you will be about creating an entity called a business which will take on a life of its own, and grow and expand beyond your wildest dreams.

Don't run the race alone. Look for others and learn from them — run with them if you can. A team will always win against an individual player, and there is wisdom in a crowd, so listen to others but trust your own instincts for the final decision. And don't let anyone call you a workaholic — you'll enjoy doing what you do, so you'll never really need to work. Just follow the paths that engage your mind, and if it becomes all-consuming at times, go with it.

But right now coming to Australia has given you a moment of weightlessness. Your compass is spinning wildly as your life finds its direction again, and begins to point you to where you will go.

To paraphrase William Ernest Henley: you are the master of your fate and the captain of your soul.

Sincerest regards,

Peter Fritz

7 March 2010

Part I: The profit principle

Chapter 1: Introducing the profit principle

I'm not going to tease and taunt you and lead you on a journey of gradual revelation. There's no great secret you need to discover or bolt you need to unlock. There's no precious recipe or perfect formula that works every time.

What I'm going to give you upfront are the four key components of the profit principle.

You won't believe me anyway, so you'll need to read on to figure out exactly how to link what I've learnt through four decades of trial and error with your existing business or idea. But just so that you know from the very beginning: I've made a lot of mistakes, and the main reason I'm writing this for you is so that you can sidestep those same errors. You're welcome to disregard what you read here and go ahead and commit those errors yourself — in fact, you probably will. But this way, at least you'll be off to a better start than I was when I peeled myself off that grass on that sunny afternoon a year after I arrived in Australia, because you won't be starting from zero.

The first and most fundamental part of the profit principle is that you don't need to spend money in order to make money. Yes, I know that's the opposite of what everyone's been telling you for years and years. The whole reason most people don't go out and start their own business is because they keep telling themselves that they need money to start a business. They believe that they need capital — they need to rent premises, print up cards and put up a website. In other words, they need to get and pay for all the trappings that will make them think they have a business.

But in reality, they have it backwards: you don't need to spend money to make money; you need to make money to make money. Business only works if there is more money coming into your company than is going out, yet we think we can't start a business without having money in the first place.

To implement this first part of the profit principle, you need to always opt for the solution that brings money into your business rather than the one that takes money out of your business. This is an approach you need to adopt from the very beginning. Don't hang up your shingle until you have a contract that will pay for the shingle to be made. Don't print up cards until you have money coming in that will cover the costs of the printing.

It sounds crazy not because it is crazy, but because in order to understand this first principle you have to reject a lot of rubbish ideas you've been told (and probably repeated yourself for years and years).

Think about it for a minute. Having a pile of business cards and letterhead doesn't mean you are running a business — it means the local print shop is running a business. Having offices, desks, computers and printers doesn't mean you're running a business, it means the local office supply shop is running a business.

At this stage of the game, don't become what you seek; don't become a customer of other businesses before you find your own customers. To be successful, you must first find your own customers and use the money they pay you to print cards and make websites and organise all the trappings that make you think you have a company.

This brings me to the second part of the profit principle: your business isn't a business until you have customers, and it's not a successful business until using your goods and services becomes habitual to those customers.

Don't test your ideas out on friends and family — they will of course tell you that your ideas are great, because pumping up your ego doesn't cost them a cent. You'll soon discover that all this ego boosting is worthless compared to a single individual who happily hands over some cold, hard cash.

Your business will only be up and running when you can balance cash in and cash out, and if you're paying for the latest and greatest in e-commerce websites, printing business cards and renting office space before you've got your first customers, you've already failed.

So, how do you get a business started without a whopping capital investment? How do you promote your services without a print run of business cards? It's not as hard, or strange, as it sounds — it's just a matter of thinking a little more creatively than most people out there. Your point of difference will be that you can run your business in a cost-effective manner. Your profit will come when you understand how to make money before you spend money.

This brings me to the third part of the profit principle. Through years of experience I've discovered that the most straightforward way to start and run a business is to share both the risk and the responsibility by finding partners rather than doing or paying for everything yourself. Do what you know how to do and find partners to do the rest. Sweat equity, experience and corporate knowledge are all worth far more than any monetary value ever placed upon them, and the best way to increase the value of your business is to find partners with complementary skills and experience.