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## Seven Stages Of Building Wealth Through Your Service Business

It may not seem like it, but this is a year to thrive. Every year is a year to thrive. To thrive means more than just getting by. It's more than making an extra five percent or ten percent, or having a new kind of revenue. It is about *vigorous growth*. It's about becoming prosperous. It's about having your personal and your professional goals meld together so your business supports who you are and what you want to do as the years go on. That's something that many people have never considered to be part of their business.

There are seven “stages” in the life of a business. Well, actually, there are seven “states” at which a business can exist. I call them stages because, in an ideal world, your business will progress from Stage One to Two, Three, etc.

In reality, most businesses exist at Stage Three or Stage Four and then go back and forth between those two stages until they are suddenly at Stage Six. I say suddenly because this often happens when the business owner dies.

Unfortunately, most business owners never get to the point of actually building wealth from their business – even after twenty years. In part, this is due to the fact that we figure out how to make our businesses successful, but we never get around to figuring out the stages after that.

### What comes after being successful?

The other major cause of this lack of wealth is very simply a lack of planning. I like to remind people that nothing happens by itself. When I ask a group of people who wants to be wealthy, everyone raises their hand. When I ask how many people have an actual written plan, almost no one does.

You're not going to get rich by doing nothing. You have to actually have a plan. Yes, I know that's obvious. But even after hearing that, almost nobody does anything to PLAN to become wealthy.

The really sad news is that it's not that hard to plan – or execute.

This little handout is a tiny thing that I hope will help you get started. YOU have to build and execute a plan to become wealthy. But maybe this will help you start thinking in those terms. Everyone who reads this will need a different plan. And everyone who actually follows through will need to do a lot of hard work. So let's be clear on that.

I've known many, many millionaires. And despite what you'd think from listening to some people, I've never met a lazy millionaire. I've never met one who hadn't worked their butts off for a long time to become wealthy.

There are people who get rich by accident or some fluke of marketing. Once in a while someone just happens to be in the right place at the right time. But MOST millionaires didn't go to Ivy League schools. Most didn't win the lottery. Most did not inherit wealth from their parents. Most millionaires worked really hard for a long time to get where they got.

And you can, too.

## The Seven Stages

Very simply, these are the seven “states” or stages that a business might move through. States of being is probably more accurate than stages since they are not strictly sequential. And, as you will see, you can move back and forth between some stages.

### Stage One: Establish Your Business

Stage One consists of all the things you need to do to get your business up and running. Most people reading this paper have already completed this stage. It involves getting started, finding some clients, figuring out what you sell, and delivering the work.

Stage One is 90% “minding the business” but quickly turns into service delivery. Then you get busy doing what needs to be done every day.

In the book *Small Biz Quickstart Workbook*, I divide this stage into three pieces. First, there's preparing to make the leap from employee to business owner. That might take months or years. Next, there's the actual (short-lived) period of setting up your business and getting it going. Finally, the book covers all the little things you get to figure out in year one.

### Stage Two: Grow Your Business

Stage Two is all about getting enough business to call yourself established or successful. That means finding clients. Maybe it means marketing. Maybe it means sales. Taken as a whole, it means doing all the things you need to do so that your business is big enough to survive.

Again, most people reading this paper have moved passed this stage.

BUT, lots of people have had a very tough time growing their business. Either they haven't grown well, or they haven't grown enough to move to the next stage. Growing "well" means you've built the right clientele. If you've built with the wrong clients, then you're constantly trying to get them to do the right thing for their own business, but they don't share your beliefs about what's best.

Many people in small business believe they have to take every client that will give them money. And so, they end up with a collection of mis-fits. They have a an assortment of clients from different industries, with different needs, different business models, and in search of different skills from their consultant.



If you don't put effort into *choosing* clients, then you get what you get. And your business isn't something you *built with intention*: It's just something you have because these folks were willing to give you some money.

Did you ever open a box of assorted chocolates that had no guide to what's what?

This one might be caramel filled, or solid chocolate, or have nuts in the middle. There's

only one thing you know for certain: It is not a box of your favorite types of chocolates!

Building a business based on who is willing to give you money on a given day is a lot like an unmarked box of chocolates: You don't know what you're going to get (but it probably has more nuts than expected).

. . . with apologies to Forrest Gump.

A business that has *grown well* enjoys consistency between what you do and what your clients need.

Businesses that have not grown enough are those that are struggling as much after five years as they were after one year. Their clients do not rely on them and are therefore not clients at all – they are barely customers. These businesses certainly haven't built a stream of recurring revenue. As a result, they start over every month with zero income.

One of my favorite stories is about a guy here locally in Sacramento. He quit what he was doing at about age forty and decided he wanted to go into IT. He took classes and passed tests, and he got his Microsoft Small Business Specialist certification. One day he came to me and asked for help. He had a client with seventy desktops and he wasn't sure what to do.

I was impressed! I asked him, "How did you get a client with seventy desktops?" He said that the only marketing he did was to take a stack of business cards, pick a neighborhood, and walk into every single business. He would go in and ask a very simple question: "Does anybody here want to talk about technology?"

I remember that phrase very precisely. "Does anybody here want to talk about technology?"

One day he walked into an office and asked that question. The receptionist said she'd check. He wound up talking to the in-house IT person, who talked to him about their bit IT projects, including refreshing all their technology, including a new server.

In other words, he went out and played the numbers game until he found a client who wanted to hire him. That client kept him busy for almost a whole year before they got to the server. That's when he called me.

What have you done (or do you need to do) to get past the scratching-and-clawing stage of your business and make it grow? The process of growing your business is something that we all figure out. If you don't figure out how to grow your business in the first couple of years, it simply ceases to exist. Or, worst, it becomes a frustrating, never-ending struggle for survival.

### **Stage Three: Re-Jigger / Fine-Tune**

Somewhere between one year and five years into your business, you will re-jigger. That means you'll start evaluating what you sell, who you sell it to, what you charge, what you could sell, who you could sell it to, and what you could charge.

Stage Three is where you fine-tune your business model now that you have some real-world experience. You've got real clients. Some you like and some you tolerate. Maybe there are a few you don't tolerate any more (that means you fire them).

You've also learned a lot about what sells and what doesn't, and you've created a mix of products and services that you enjoy selling and delivering. You've figured out what you need to know about suppliers, shipping, vendor relations, networking, client services, and all the other details you didn't think about back in State One.

Most businesses that last ten to twenty years spend ten to twenty years going back and forth between Stages Three and Four.

Rejiggering just means that you look around and you say, "Well, should I try this new thing? Should I think about specializing in this line of business application? Should I add some new product lines? Should I only take clients that are worth \$500 a month or \$800 a month or \$2000 a month?"

This is when the classic call from Michael Gerber begins to ring very loud: Take time to work ON your business, not just IN your business.

To fine-tune, you sit down and you say, "All right. What do I do that I like and what do I do that I don't like?" and so forth. Most businesses have rejiggered at least once by the time they are five or six years old. You might even stay at this stage, rejiggering for a long, long time.

Eventually, you get to the point where you've got a system that works for you. You've found the collection of clients that you want. You might have fired a few clients. You might have decided that you only want to focus on specific kinds of client, or you never want to certain kinds of client.

Whatever it is, you've formally thought about your business as a business.

That's a huge step because once you think about your business as a business, it begins to take on a life of its own. Before your business takes on a life of its own, you are simply working really hard month after month, trying to get by.

Until your business takes on a life of its own it can never be truly massively successful. You can never separate yourself from it. Until your business can live on its own, *you are the business*. And as long as you are the business, the business will die the minute you die and the business will fail the minute you're not there.

I know many people whose business will simply cease to exist when they die. This includes businesses that make millions of dollars per year. And, of course, I've seen this happen to businesses. They suddenly jump to Stage Six and exit the business – the minute they exit the earth.

## Stage Four: Work It / Execute

In the classic “Finder Minder Grinder” model of looking at service delivery, this is the Grinder. In Stage Four you execute the refined model you created in Stage Three. This is where your business hits its stride. You begin to grow at a steady pace. You execute more and more efficiently. You master the delivery of services.

This is the stage of a truly successful business. You moved beyond “getting by” in Stage Three. Now you work the system you've built, and it allows you to live a great lifestyle.

This is what success looks like. But there's more.

If you're lucky, you get to Stage Four and you stay there for years, making money. You've got a process that works for you. It may not look my business, it may not look like other successful businesses that you know of. It may not look like some of the big name businesses you've heard of, but it works for you. It's not quite on autopilot, but you know day to day (week to week, month to month): You've got a known amount of work coming in; you've figured out how many employees you need per client; you've got a system that makes money; you've got standard stuff that you sell.

This is the rinse-and-repeat part of the business. If you're lucky, you will reach this stage without spending fifteen years doing it. And, if you're really lucky, this will last ten years more more. That's entirely possible. It's manageable. It's doable. What you sell will change over time, but you will be able to go to town and just put your head down and keep doing this thing.

But remember: Most people are going to be stuck at Stage Three or Stage Four in their business forever.

Unfortunately, that means that you don't get to the point where you actually become a next-level business. Of course, *next level* is a different thing for everybody.

I will say, in my business, I was clearly at Stage Four between 2003 and 2008. We relied on a specific core offering with small business clients. It was a stable product in a relatively stable environment, and the economy was going well. During that time, it felt like everything we did made money. So we just worked the system and made more and more.

Don't get me wrong. We also put money to the side. We invested. And we started moving into Stage Five . . . .

## Stage Five: Invest Your Profits

The key to becoming wealthy in any business is to stop relying on earned income and begin to build **unearned income**. Earned income is your paycheck. It's what shows up on a W-2 or what you take as a draw on business profits.

You live on your earned income.

Now, if you want to grow wealth beyond that, you need to move money into a different bucket called unearned income. Unearned means that you made an investment and the investment did the work. For example, rental property is an investment. Stocks and bonds are investments.

The only way to move beyond a simply successful business and create wealth is to figure out how you're going to move money into the investment bucket. This is a huge topic, so I can't give you lots of details here. But once you decide you want to do this, you will find LOTS of resources to help you out.

I like to tell the story of how I got what I call wealthy selling IT services. The truth is, I didn't get wealthy selling IT services. I used my IT business to make money to invest in other things that did really, really well. If 100% of your money is invested in your own business, you can hardly ever become wealthy. You've got all your eggs in one basket and, when something goes south, it all goes south at the same time.

Note: I am not encouraging you to go out and start gambling with the stock market. But when your business gets to the point where you have intentionally decided to take money and put it into other things, those investments can become your personal wealth.

The economy can do what it wants. Your investments will just chug along, working on your behalf while you're occupied with other things. The value of your rental property might go up and might go down. There might be a stock market crash, and there might be a real estate crash. But your investments will just sit there. And, eventually, all those things go up.

Part of what happens at Stage Five that that you have moved to thinking of the world in very, very long terms. You're not looking at the horizon of the next month or the next year; You're looking at the horizon of fifteen or twenty years from now. You're looking at what to do for my retirement.

Most Americans are really bad at saving, investing, and preparing for their future. For homeowners age 65 and older, the median net worth is about \$201,500.\* That number's a few years old, so it's a big higher now, but still not very large. In my opinion, you will want more money than that in the bank when you retire.

The "system" you need is to regularly take money as excess profit from your business, invest it wisely, and be good at making sure that you make those payments. Invest in something. And again, I'm not talking about investing in diamond mines or gold mines. I'm talking about very sound, safe investments that will simply work for you.

\* [https://www2.census.gov/programs-surveys/demo/tables/wealth/2015/wealth-asset-ownership/wealth\\_tables\\_cy2015.xlsx](https://www2.census.gov/programs-surveys/demo/tables/wealth/2015/wealth-asset-ownership/wealth_tables_cy2015.xlsx)



Note: The people who have jobs instead of businesses know all about this. The frugal job-holders take maybe ten percent of their income and put it in a stock market account. And so, there are a lot of people who have worked for some state agency or corporation for thirty years. They have a 401(k) and they've got a couple of hundred thousand dollars in the bank.

Unfortunately, there are also people who have owned their own business for 20 years and have nothing in the bank, having nothing in investments. I know this is a painful topic for some of you because I've talked to people about it. I have talked to people who have literally cried because they are nearing retirement and they have nothing, absolutely nothing, in the bank. So, this is completely avoidable.

Saving money is hard. Don't get me wrong. But it's entirely possible, and it's manageable. You need to make it a priority. You need to make Stage Five (taking money from your business and putting it into something else) a priority.

This is not new or unique advice. You can start right now to take money out of your business and put it into your stock account every month. Go pick up twenty books on business advice. Nineteen of them will tell you to "pay yourself first." It's one of the most common pieces of advice you'll ever hear, and yet most of us don't get past the stage of "working it" to get to the stage where we invest.

You can always stretch a little bit. For example, you can drive a five-year-old car, or a ten-year-old car. Instead of putting \$400 a month (or \$600 or \$800) per month into a car payment, you can put it into investments.

As Dave Ramsey says, "If you will live like no one else, later you can live like no one else."

Also remember my motto:

### **Nothing happens by itself!**

If you don't set that goal, it won't happen. You're not ever, ever going to wake up one day and suddenly look around and have a million dollars in the bank. It won't happen. You have to put that money in the bank.

So, make a plan, figure out how you're going to do it. You're going to start out slow. At first, it might take you six months to get \$1,000 so you can go buy your first investment on eTrade. But you'll feel good about it and you'll want to do it some more. And then, when you see it grow at 7% or 10% in the next year, you will want to do it even more.

You need to do this for yourself and for your family. It will not happen by itself.

## **Stage Six: Exit the Business**

The most common way that small business owners exit the business is through death. The owner dies and the business dies shortly thereafter. It's sad but it's true.

There are many other ways to exit the business. You can sell it. You can merge with someone else. You can go bankrupt. You can quit. Some are good, some are bad. But there are many ways to get out of the business.

The best ways to exit your business involve selling the business or extracting yourself from the business while you retain ownership. If you sell the business, you can never get to Stage Seven, of course, because you no longer own the business.

If your goal is to reach Stage Seven, the very best way to exit your business is to become a member of your own board of directors and help build the business to become one of your primary investments. That means the business works great without you. You simply earn money.

The most valuable business to sell is one that has no “deductions” due to money paid to the owner. The reason for that is that the new owner will be able to do the same thing. If you have to take \$60,000 or \$100,000 from the bottom line and pay a manager to run the business, that will reduce the sales price significantly.

I put selling the business at Stage Six because I'm assuming that now you've got a business that is worth something. It's making extra money (profit); it has some value.

Note: If you never get to Stage Five, selling your business in Stage Six is not going to be very profitable. If you get to Stage Five and your business is actually creating wealth, then when you get to Stage Six and sell your business, it can be worth a great deal of money.

Another way to “exit” the business is to simply take vacations. Go do something else. Start another business. In other words, keep this business, but don't live inside the business. Live above and beyond the business.

You are at Stage 6 if you own a business but are not tied to it. For example, if you buy a franchise, you don't have to go work at the Subway sandwich shop or UPS Store every single day. You can just own that business and let other people run it. When you have your small business set up that way, you can be the true business owner and then let the business continue to exist even though you are outside of that business. You are simply an owner.

The most valuable businesses to sell because are those where the owner's primary role is “owner” and not manager. If your business has evolved to the point where you simply take a profit disbursement once per quarter, the new owner can expect to do the same. Your absence won't be felt because you're already absent from the work part of the business.

## **Stage Seven: Be Entrepreneurial**

Almost no businesses of any size reach the stage of being truly entrepreneurial. Just because you're a business owner doesn't mean you're an entrepreneur. We use that term a lot, but we don't always practice being entrepreneurial.

A true entrepreneur thinks in terms business opportunities. Entrepreneurs see gaps in other businesses. They see vacuums that aren't being filled by anyone else. And when they see a vacuum that needs to be filled, they automatically think about more than simply a product that will fill the hole: They think about a *business model* that can be built filling the hole.



I have often said that every entrepreneur should own at least two businesses. There are many benefits to this. But it requires a true shift in perspective. You can train yourself to think as an entrepreneur. This is absolutely not something that you either have or you don't. You can learn this.

When you fill out the worksheet in the next section of this paper, you can begin to work on integrating your personal mission and goals with your business life. This is far beyond the Stage Three re-jiggering of your business. This is moving everything up to a much higher level.

Being entrepreneurial requires a great deal of work to get going. But it will invigorate you and keep you excited and interested in your business. It will bring fun and energy into your business(es).

There is much more to be said on this topic, of course. But the important thing is to begin thinking in these terms, defining your dreams, and then you can build a plan to put it all together.

Unfortunately, too many people throw around the term *entrepreneur* without really thinking about it. On social media, or at networking events, people will say, "I am an entrepreneur," or "I'm a solopreneur," or "I'm a serial entrepreneur." But they're not entrepreneurs; They're business owners.

In fact, most of them are job owners. Most people, they're stuck at Stage Three and maybe Stage Four, simply own a job. You move from job owner to business owner when you hit Stage Five and start taking money out of your business.

Entrepreneurs really are different. When you have an entrepreneurial view of the world, you see something but you don't think of it as a *product*. Your brain automatically asks, "What *business* is that?"

A business person sees a product; an entrepreneur sees a business.

When you think of it in those terms, it's much easier to say, "I'm going to break out of the shell of what I've been doing and I'm going to go do something else." To think about your business from an entrepreneurial perspective means to think about, "What can I do?" What do I like to do? What do I want to have in this business?"

In 2011, I wrote down the following resolution for my life: "I want to write more. I want to speak more. I want to travel more." That became what I did in my business, and my life. I literally transformed my business so that I travel all over the world, writing books and speaking. And I've built a decent size business around that vision.

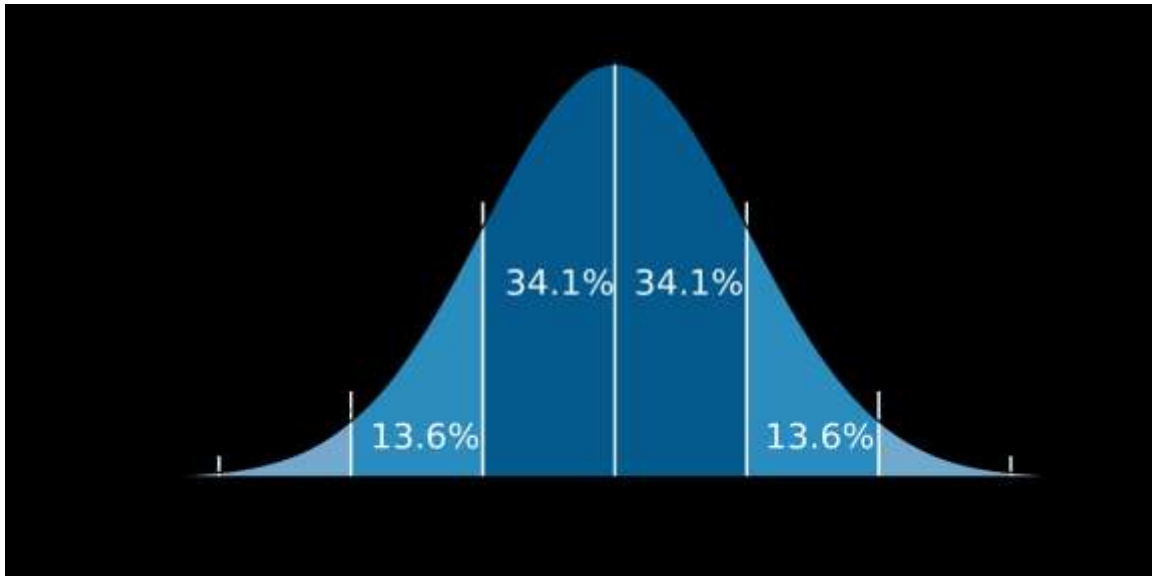
Most business owners – maybe ninety-nine percent – are working hard to get to Stage Four or maybe Stage Five *by working someone else's business model*. This makes perfect sense if you bought a franchise. But all those business owners who aren't franchises are still just doing whatever people in their industry do.

Your realtor is 99% the same as 99% of the realtors in her market. Your stock broker is 99% the same and 99% of the stock brokers in his market. Your dry cleaner is 99% the same as 99% of the dry cleaners in the market.

And on. And on. And on . . . for 99% of all businesses.

But today, we're in the middle of a massive convergence of new technologies. The world is changing at the speed of light. What do you want to do? What would the perfect business look like? How can you merge what you do for money and what you love to do in your spare time?

Here's the most amazing part of this: It's easy to think differently – once you think it is. This is a basic diagram of a basic standard deviation:



By M. W. Toews - Own work, based (in concept) on figure by Jeremy Kemp, on 2005-02-09, CC BY 2.5, <https://commons.wikimedia.org/w/index.php?curid=1903871>

Don't worry: I will not ask you to do hard math. The math is easy:

In a normal group of people,

- 68% of everyone is within ONE standard deviation from the average
- 95% of everyone is within TWO standard deviations from the average
- 99.6% of everyone is within THREE standard deviations from the average

The lesson is: No matter what industry you're in – or thinking about – you only have to be a tiny bit different to be way outside the "normal" for that industry.

## Summary Notes . . .

And so, think in terms of all of the things you could do, and please don't be afraid to fail. Every business has to go through these stages. So, if you start a brand new business, whatever it is, you have to establish that business. You have to grow the business. You have to rejigger it and determine whether or not it's going to live or die. And then you need to work it and see how much money you can get out of it.

Rinse, repeat. Rinse, repeat. Rinse, repeat. Move through the stages.

There are people who make a living thinking up businesses, getting them going just enough to prove the concept, and selling them off. And if they do it just right they make a thousand dollars, or \$10,000 or \$100,000. Once in a while, they make a few million dollars. Once in a great while, they make ten billion dollars.

I can't promise you're going to make \$10 billion, but your job will become much more fun when you begin to think in terms of a much higher level and think about your business as one little piece of what you do that is significant. It's a major piece. And if you are worried that you're not going to have money for retirement, or you're worried that you're going to get bored in your job and burn out, then adding a massive entrepreneurial perspective can help tremendously.

I think a most people are not going to do anything about this. They'll finish reading this, set it aside, and say, "Okay, that was interesting. I'm never going to do it." But, I encourage you to make this the year where you make some changes in your business and take hold of things and move ahead.

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## Why Does Your Company Exist?

Your Name: \_\_\_\_\_

Your Company: \_\_\_\_\_

THINK about your answers to these questions. Don't commit to the first thing that comes to mind. Revisit this a few times until you are clear on your company's purpose. Do not be bound by the past. This is about building your future.

### The Last Question:

(Fill this in after completing everything else.)

Why does your company exist? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## Pyramid of Purpose



## The Building Blocks

1. Internal to yourself, what is the purpose for your business? List as least three items.

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_
- d. \_\_\_\_\_
- e. \_\_\_\_\_

2. In client-facing messaging, what is the purpose for your business? List as least three items.

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_
- d. \_\_\_\_\_
- e. \_\_\_\_\_

3. Thinking about your chart of accounts, what do you want to sell (like to sell)?  
Rate each as high, medium, or low.

	H / M / L
Products and materials	_____
Hourly Labor	_____
Bundled Service Labor	_____
Subscription Services	_____
Other Monthly Recurring Offerings	_____

H / M / L

Other: \_\_\_\_\_

Other: \_\_\_\_\_

4. What kind of people do you like to work with? Think about your favorite clients. Who are they? What do they have in common? Why do you like working with them?

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5. What kind of businesses do you like to work with? (small, medium, large, dentists, attorneys, non-profits, home offices, etc.)

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6. Your business should help you reach your personal goals. What personal goals are advanced by your business (or could be)? List at least three.

- a. Financial: \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_
- d. \_\_\_\_\_
- e. \_\_\_\_\_

7. What activities do you like most about your work? List at least three things you would like to do more of.

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_
- d. \_\_\_\_\_
- e. \_\_\_\_\_

**Remember:**

A small business exists to serve and advance the goals of the owner, both personally and professionally. Your business has a purpose.

Determine what that purpose is, and then go fill out "The Last Question" on page five, above.