



**SPI 329**

# **One of the Most Important Business Conversations You Need to Have with Yourself – with Dan Andrews**

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Dan Andrews: In the online business space, Pat, this happens all the time. What happens is someone comes in and says, “Look, jobs are an inefficient way to make a living.” We all nod our heads. That’s true. They’re a horrible time and money investment, so let’s start a business. You keep going down the path. The problem is, is that jobs do so much more for us, and let’s use the word career, than just give us money.

Pat Flynn: That’s Dan Andrews from [tropicalmba.com](http://tropicalmba.com), a friend of mine for over a decade now actually, somebody who had recently done something in his business that he kind of regretted. We’re going to talk all about that today. Hopefully you’ll be able to have these important conversations with yourself now so you don’t have these similar feelings and thoughts later.

Before we get to that, let’s cue the music.

Announcer: Welcome to the Smart Passive Income Podcast, where it’s all about working hard now so you can sit back and reap the benefits later. And now your host, he’s learning to play the guitar from scratch and loving every minute of it, Pat Flynn.

Pat Flynn: Thank you for joining me today in session 329 of the Smart Passive Income Podcast. My name is Pat Flynn, here to help you make more money, save more time, and help more people too. I’m thankful that you are here with me and our guest, Dan Andrews, today.

Dan, he and I were actually back in the day when I started out, we were both members of the Internet Business Mastery Academy. That’s where I got to know him and his amazing business overseas helping in the valet industry. He had built this million dollar business. It was good to catch up with him, although I didn’t realize to the extent at which he had taken a direction that he didn’t want to go down. We’re going to talk all about that today. We’re going to unpack the lessons learned so that you don’t go through the same thing too. If you have a business partner, this may be one of those episodes that you might want to listen with them or suggest they listen to as well. If you’re by yourself, then you’d have these

conversations with yourself, obviously. Anyway, thank you so much. Let's just dive right in.

Dan, what's up, man? Welcome back to the SPI Podcast. How are you?

Dan Andrews: I'm good, man. Thanks for giving me a ring.

Pat Flynn: Yeah, man. It's been a while. It's been a long time actually since we've last chatted. I'm glad we connected actually through Twitter direct messages because you've got some interesting stuff that has happened since. Why don't you give-

Dan Andrews: It's worth saying, Pat, I'm pretty sure you were in my first mastermind, like maybe even before I knew what a mastermind was. Do you remember this?

Pat Flynn: Way back in Internet Business Mastery days, right?

Dan Andrews: That's right. Yeah. In San Diego. You guys were like the first real internet people I ever met.

Pat Flynn: Were you at the table at Panera Bread in Mira Mesa when I showed up as this like nerdy, like "I have no idea what I'm doing here" person?

Dan Andrews: I remember. I remember when you were mulling over whether or not to do the income reports. You were like, "I'm going to do this."

Pat Flynn: Yeah.

Dan Andrews: That was the moment that I remember.

Pat Flynn: This was after ... Yeah, okay. That's right. We played Frisbee golf together a couple times, right?

Dan Andrews: That's right. Yeah.

Pat Flynn: Yeah, which we didn't really do any masterminding while doing

Frisbee golf, but it was still a lot of fun, man. You were there in the early days of my entrepreneurial life. You've had a lot of influence on just inspiring me right from the get-go, you along with Sean Nunan, Mark Mason, and obviously Jeremy and Jason from Internet Business Mastery. It's definitely been a long time since then.

What have you been up to? I know you had some businesses and you were working in the Philippines, Tropical MBA, all this stuff. What's been going on?

Dan Andrews: Yeah. At that time, I was running this ecommerce business that sold valet parking equipment, mobile cocktail bars, and cat furniture.

Pat Flynn: That's right.

Dan Andrews: I kept growing that business until 2015 when we exited, me and my business partner, Ian. I've basically spent the last couple years processing that exit and speaking with a bunch of entrepreneurs who've been through that process.

Pat Flynn: That's the dream, right? You build something, you exit, you get a load of money, and then life's good, right?

Dan Andrews: 100% that's the posted about dream on the internet, but the reality isn't spoken about. Here's what I found, Pat, is that 50% of entrepreneurs who exit their business aren't just like a little bummed about it, they're devastated about it.

Pat Flynn: Really?

Dan Andrews: Yeah. Why don't we talk about this on the internet?

Pat Flynn: That's why we're here.

Dan Andrews: That's why we're here. I'll be the sacrificial lamb and come out and be the guy who's going to say, "Yes, someone did pay us a bunch of money, but there's a lot about this process that I wasn't ready for." I wish I had known so many things before going through this. I have some misgivings, some regrets, but today I don't want to dwell on

all that. What I want to do is equip the audience with five thought experiments, sort of fun and profitable questions that they can ask themselves from day one. Even if you're just thinking about starting a business, everyone's going to exit, whether it's your choice or not. What your exit plans are and what your personal financial goals are is going to affect the way that you run your business, and it's going to help you end up on the right side of that 50% divide, because those aren't good odds. You're not talking about something that you get to do 10 or 15 times in a career. We're talking about a handful of times at best that you're going to get a chance to exit a business.

Pat Flynn:

I appreciate you coming on and sharing this with us because a lot of entrepreneurs, we just kind of dive right in without really thinking a lot about this. I think especially for the beginners in the audience, and there's quite a few of you, this is going to be a really important thing to think about. I love thought experiments. The first few chapters of my book "Will It Fly?" are all about thought experiments.

I'm interested in this too, Dan, because I'm building businesses, physical product businesses, similar to sort of what you just talked about, and obviously the online stuff too. Some of those businesses are businesses that are created to potentially be a sellout. SPI is obviously not one of those because I'm forever going to be tied to that brand, but other things, yeah. Honestly, I haven't done any research on this. My goal was to just like build big, grow fast, sell out, and enjoy life, but now I'm wondering if that's the right thing to do, and I'm wondering if actually maybe I shouldn't have done these businesses in the first place, or tried to start.

Let's dive right in. Where do we start with this, man?

Dan Andrews:

I think what we ought to do is set the context for ... When you think about, "Hey, what's my business worth?", or, "I'm thinking about selling", or, "I want to free up some mental RAM. I'm getting bored", which is actually a really common motivation, is selling to solve problems, which end up existing on the other side of your exit anyway. You're going to encounter a whole professional services industry. One of the lessons that I've learned is that they're focused

on such a very small percentage of this total process of the exit. Their role is to help you get the paperwork done, help make sure everything's legal, make sure the process goes through the right steps, but if you're selling a business that's of any meaningful size, it could take two, three years of your life. That's a huge emotional process that you're not going to be able to outsource to these professionals. Since it's a pretty rare thing to do, relatively speaking, it's going to be hard to find this information. Like I'm saying it's absolutely critical to meet people that have been through this process and can share with you the extent.

The punchline here, Pat, is unfortunately, you're not going to be able to trust the professionals because the professionals are on team deal. They're not going to be on team you having a great exit, even if that's their sales pitch to you.

Pat Flynn: Do these professionals have a name, like is there an industry that we can call them by, or is it just like your attorneys and escrow people and the whole thing?

Dan Andrews: I think the most important thing is the business brokers because the business brokers get business by letting the market know that they're experts on how to create deals. While that's true, they're not expert in you having a satisfying exit. The values are very differently aligned. You might think of this like in the real estate marketplace. Your real estate agent isn't incentivized to help you maximize how much your home is worth. They're incentivized to make sure the home gets sold.

Those sorts of nuances seem obvious on the surface, but when you're in the process of two years, you're getting jerked around by different potential buyers and tire-kickers, you're emotionally exhausted, and there's no one around you that's going through this similar circumstance, it's easy to call up your broker and to say, "Oh, man. What's going on?", and to believe everything they're saying. You should listen, but the bottom line is as with everything in business, you're ultimately responsible for how this goes. Part of the reason I wrote the book is to try to tell the stories of these



entrepreneurs and say, “Look, you’re going to have to live with this for the rest of your life. You have to take responsibility and have some enthusiasm for this project, even if the reason you got into it in the first place was because you’re sick of running your business.”

Pat Flynn: Yeah. What’s the name of the book?

Dan Andrews: The name of the book is called “Before the Exit: Thought Experiments for Entrepreneurs”. I recommend people thinking with the exit in mind as they’re starting, as they’re considering what kind of business they want to get into.

Pat Flynn: Let me play devil’s advocate there. There’s going to be people out there who are like, “Isn’t it bad to think about exiting when you’re starting a business? Aren’t you setting yourself up for failure? Doesn’t that mean you’re not going to put your all into it because you’re already out of it?”

Dan Andrews: Commonly the advice that follows when people say, “Consider your business with the end in mind” is they’ll say things like, “Make sure you build processes. Make sure you’re not baked into the business. Make sure your EBITDA or your net profit is maximized so that it’s ... “ All that stuff is such a small percentage of this. Actually, I think our businesses are more important to us than we often realize. They’re not just a way that we earn a living. It’s not just how we pay the bills. These are our identities, our sense of service, our community, our team, our tribe. Sometimes we throw the baby out with the bathwater when we say, “It’s just a way that I pay the bills.” It’s much more than that. In that sense, Pat, I think we ought to consider our values and what we’re building from day one.

Pat Flynn: For sure.

Dan Andrews: Why don’t we look at some of these thought experiments and maybe you could see if it might be worth considering afterwards?

Pat Flynn: Yeah. Let’s go into it.

Dan Andrews: Okay. The first one is called The Lifestyle Ladder. You could pull out a sheet and you can construct what are the meaningful levels of cash in your personal bank account that make a difference in your life. I can start by sharing some of mine. You can give me feedback whether they match up with yours.

Pat Flynn: Sure.

Dan Andrews: The first one for me is being in debt, which is ... I'm a complete expert at that topic because I was in debt for a great long time, probably when I met you. The next step is being broke. Big difference there. For me, the next level was when I got on the Dave Ramsey train, financial freedom, and I got \$20,000 to \$40,000 in personal savings. That was a really big deal to me.

Now the next level that I had an appreciable difference in my life was having six figures in savings and a business that gave me the cash flow. Something has emerged here that wasn't intuitive to me, which is that the amount of cash that you have isn't linear. It doesn't behave linear. In other words, going from \$0 to \$20,000 in your bank account is a life changer, but going from \$20,000 to \$40,000 isn't. It doesn't make much of a difference in your actual lifestyle.

Why is this important? Because when you're thinking about selling an asset that you built for three times earnings, that asset is an incredible platform to expose you to opportunities. All the reasons we want to grow a business, there's a lot of value there. If you're going to exit it for a number that doesn't get you to an appreciable next level, then you're sort of stuck in no man's land.

The specific example in my case, Pat ... I don't want to define everybody's lifestyle ladder for them, that's up for everyone's personal financial goals. I've asked a lot of people this question. It's like a fun cocktail party game. It's kind of like, "What's your number? What's your freedom line? What's the number you want to make in your life so that you can shelf financial questions for a lifetime?" It's an interesting question.



For me, I thought a low seven figure payday would get me to an appreciable next level, and the reality is that my life didn't change very much. I gave up a big asset in order to get to sort of this no man's land level that's not quite the level where I could do the sorts of things I thought I could, like maybe be an angel investor and make high-risk investments or maybe put aside a career for a while and do other things. I just didn't sit down and think about it in detail because people were waving around a lot of money in front of your face and it looks impressive.

Pat Flynn: There was like a disconnect in what you had expected to happen versus reality after the sale.

Dan Andrews: Here's the thing, Pat. It's like so easy, I'm talking about five minutes here, just to sit down with your partner, with your best friend, whoever, and just say, "Hey, let's take a look at it in detail. What is the reality of being an angel investor look like? Do you really want to be that? Is having x amount of money really going to open up doors?" For some people ... People, like you say ... If you're a real estate agent, if you're into the real estate game, getting a \$2 million to \$3 million payday could potentially be a complete lifechanger from how having that financial platform level I was talking about, which is 6K, or 6 figures, in savings.

Pat Flynn: Right.

Dan Andrews: Again, it's for everybody to figure out what that next level in their ladder is and whether or not selling out of your business is going to help get to you an appreciable next level. If not, you might consider holding on to it and taking advantage of the opportunities that it exposes you to.

Pat Flynn: Right. I can even imagine going through a thought experiment where I have this next level that I want to reach. I get an offer potentially for a sale, and I see that it doesn't get me there, so I know that internally, this isn't really going to make a big difference. Then I hold off, but then I see that that next level is actually not too far off, so I can either renegotiate that deal or work a little bit harder

or put things into place so that the valuation of the company is at that level, in which case then I would just know. I think what we're doing here is using the future essentially to remove the guesswork from any of this and to stop reacting and actually just start paying attention.

Dan Andrews: 100%. One of the things I said in the book is the professionals around you are going to have a lot of dialogue about whether or not it's a good deal, but at the end of the day, all that matters is whether or not it's a good deal for you. That's what we're looking for here.

Pat Flynn: What were you feeling when you sold and you were like, "Well, this didn't ... " What was going through your head?

Dan Andrews: It's an interesting thing because originally I called the book "The Devil's Advocate" because like this idea of exiting your business is one in the entrepreneurial space that's universally lauded. It's like the first line on your bio, "Exited for x amount or whatever." I didn't know what I felt, but I think in retrospect, I was sort of depressed about it, but I wasn't aware that I was depressed about it because it was this supposedly amazing thing. I just sort of drifted along, feeling a little bit off.

It wasn't until I started talking to people about this that I saw this whole world, this entire entrepreneurial conversation that's simply not being had.

Pat Flynn: You had mentioned earlier that you felt perhaps a little bit of regret. What was the change in ... I'm curious. What was the change in your daily life, and did that affect you in any way?

Dan Andrews: That's a good question. My daily life didn't actually change so much. It was more these soft values that I didn't think were that important because they were so general and large. Things like legacy. I know you talk about that on the podcast. It's an appealing concept, but it was never one that I like personally associated with. Things like service, community, identity ... We had a great team. We had so many great accomplishments. Those things were more meaningful

to me than I thought they were. It took me a long time to peel through all that.

Pat Flynn: Yeah. That's interesting. Wow. Now I'm glad we're having this-

Dan Andrews: In the online business space, Pat, this happens all the time. What happens is someone comes in and says, "Look, jobs are an inefficient way to make a living." We all nod our heads. That's true. They're a horrible time and money investment, so let's start a business. You keep going down the path. The problem is, is that jobs do so much more for us, and let's use the word career, than just give us money. That's the thing-

Pat Flynn: Form friendships-

Dan Andrews: Yeah, and like a sense of service, a sense of identity, a sense of daily pride, a routine.

Pat Flynn: Routine, yeah.

Dan Andrews: The thing is you sell your business and what's like the first cliché imagine is that you're at some resort in Mexico. You're like, "I made it!"

Pat Flynn: Yeah. Now what?

Dan Andrews: It's like, "Where did you make it to? You could have gone there anyway."

Pat Flynn: Yeah. It's funny because one of the biggest struggles for entrepreneurs is getting back to where there is a schedule where they can start to finally start making sanity of their ... They're either overworking or underworking. They have no idea because there's no structure anymore, so that is interesting.

Dan Andrews: Absolutely.

Pat Flynn: Okay. Thought experiment one, I love it. Now we're getting to a point where I can make decisions based on future pacing and "what

life would be like if” kind of things. Where do we go from there?

Dan Andrews: Number two thought experiment is called The Mock Tax Rebate, featuring the Mediocre CEO Test.

Pat Flynn: Long title.

Dan Andrews: There needs to be a t-shirt that says “mediocre CEO” by the way.

Here’s the idea. The idea is as my business grew in scale, it becomes easier to lose sleep over it, as a founder, as a leader. You worry about bad things happening to it. We worried about all the money that we had in our product inventory. We worried about another global financial crisis, as many homeowners do. What happens if we go through like what we went through in 2007 again?

The one thing that many people don’t consider is that when you exit, you will go through a global financial crisis that’s focused specifically on your asset, which is that you’ll pay enormous taxes and professional fees. What I ask readers to do in this Mock Tax Rebate ... Again, you don’t need to read the book to do this stuff. Sit down with a piece of paper and say, “Look, I’m just going to give you back a fraction of what you’re going to pay if you sell this thing.” Calculate out quickly your broker fee, which is often close to 10%, factor in your tax rate that you’re going to pay on this, and say, “What could you do with this money in your business?”

Again, a lot of people think of their businesses as their job, and that’s part of the reason they want to sell them. It’s like, “Man, this thing’s getting old.” The moment you say, “I’m selling”, you’re thinking like an investor. Now we can step out of that role as the person who’s anxious, who’s working hard every day, and saying, “Hey, let’s have some fun with this thing. Here’s free money”, because you’re going to pay it anyway.

What are some things we could do? You could build a positive charity initiative off the platform of your business.

Pat Flynn: Right. I'm thinking how many schools in Ghana could you build-

Dan Andrews: There you go, if that's something you're into.

Pat Flynn: ... instead of like giving it to a broker, whoever.

Dan Andrews: 100%. The CEO you might say, "Well, that's a bad business move", but investor you can say, "Hey, we're going to lose 35-40% on the sale anyway, so how about we take a 20% hit so the founder can pursue their passion?" Who knows where that leads?

Pat Flynn: Wow. Mm-hmm (affirmative).

Dan Andrews: Okay. You could host these awesome retreats for your team. You know where you can go? You can march into your office or you say, "Hey, everybody's going remote." Whatever. Do the thing that's risky for three or six months and see where it leaves you.

One founder I spoke to said, very simply, "You know, I wish I just would have left for a month", because he was like, "I made that decision for a lifetime. Why on earth wouldn't I test it out for one month?" He said he got so much perspective in that first month after he exited his business he had worked for a decade on. He's like, "I didn't need it to sell anymore, I felt like. I could have gotten all that insight by just stepping away for a month."

The mediocre CEO idea is simply this, which is very often it's the case that a business sale will return you three times your annual earnings, so you get three times net profit in your bank account, you pay all those taxes, and you lose the asset. Why not hire a general manager as CEO? Someone who's ambitious. Maybe they're not as good as you. Maybe they're mediocre. Immediately, mediocre CEO steps in and he loses half of your profits every year. Instead of three years, it'll take you six years to recover those profits, but think about all the advantages you could have there. You could still have the asset after six years. Maybe mediocre CEO gives you enough time to focus on those new projects you thought you would be interested in. Maybe instead you start tinkering around and find new

ways to improve the business.

Again, just thought experiments. Maybe for folks just getting started out, you could say, “What if I didn’t think of my business as my baby? What if I thought about it as an asset and I gave myself some latitude to run sort of exciting experiments?” The next steps in our business aren’t always so obvious to us. I’ve noticed for a lot of us that’s when things get rough is when we look down at our next year’s goals or plans and it feels like a lot more of the same. For many of us, we didn’t become entrepreneurs because we wanted to have what feels like a job.

Pat Flynn: Powerful. I really like that, especially the mediocre ... When you think about it that way, why not?

Dan Andrews: Here’s the thing, Pat. The reason we sold our business was because our number one guy came to us and quit. We were like, “Oh man. We can’t replace this guy. This is going to be horrible.”

Pat Flynn: Your number one team member?

Dan Andrews: Yeah. He had been there from the beginning. San Diego guy. He was great. It broke our hearts. We just felt like the time it would take to replace him, it was just heartbreaking to us. Ian was going to have to cancel his summer in Mexico. I was going to have to get on the long haul. In an extreme display of naivete, we said, “Hey, here’s a bonus for you to stick around for a few months. We’re going to put the business on the market.”

If I would have done just a small amount of research, I would have realized that if your business is worth over half a million dollars, you’re not going to sell it in a few months. It’s going to take you years to sell your business on average. The reality is that we had hired and fired a handful of people and trained replacements through that whole process. My point here is that hiring someone to run your business is a lot easier, and, in my experience, a lot more fun and satisfying, than selling it.



Pat Flynn: Wow. Okay. Thought experiment number three.

Dan Andrews: The Hidden Upsides. Are there hidden upsides in your business or platform that you might not be acknowledging? One of the reasons that people decide to sell is that they have three or four years of track record in business and they start to feel that they know what's going to happen. "I know what the next year's going to look like. It's going to be more of the same." I just think this is a fallacy. Even in the most boring businesses, your platform exposes you to so many opportunities.

In this chapter, I tell the story of my friend Brian who's one of the most successful people I've ever met in terms of business and wealth. He has this amazing ability to stay focused and interested and to use his business as a way to have fun, even though fundamentally it's kind of a boring business. It does the same thing. It distributes SCUBA products.

One day he's at like a cocktail party and he bumps into a supplier who's disappointed with his network of stores. They kind of cut a deal, but the guys like, "Look, if you want to distribute my dive watches to your stores in the Philippines, you're going to have to write me a \$25,000 check." Based on everything Brian had known from years of experience in business, he felt that he would never be able to recover that investment, but for the sake of the replacement and for other opportunities, he was willing to write that check.

What happened is that his purchases of dive computers in the next two years 12X. He exposed himself to, from a wealth perspective, a life-changing opportunity that he couldn't have predicted based on what he "knew" about his business.

In this chapter, I'm encouraging, or in this thought experiment rather, I'm just encouraging entrepreneurs to ... There's this glamorization of what's going to happen to you when you have cash and the experience of the exit, like you're going to all of a sudden be this amazing investor and mentor to people. The reality is that what's truly special is you, the entrepreneur. You've done something

unique. The investors, they're sort of painting up this cash position as this glorious position because they want to get your attention, because they need you. You're the scarce asset. The strange thing that I found is that time and commodity, or time and cash, while there's nobody that doesn't want more, they're commodities. Your business and the opportunities that it exposes you to, that's truly unique. Those interactions can be explosive.

I walk up to some networking party, and I'm like just the next guy who has a couple bucks in his bank account, that's actually a much rarer situation to be than Brian was in, the guy who had 16 stores in the Philippines. Now all of a sudden his interactions can take that next step of, "How can your platform interact with my platform and we can both win?" I think that's like an ace up the sleeve that every entrepreneur has. Everyone has that. That's your platform. That's what you built. It's easy to start to devalue it after you've been around it for year after year. You're like, "What's this old thing?"

Pat Flynn: Yeah. The opportunities, it's hard because you don't know that they're there all the time, but ... I'm imagining, for example, if I were to sell SPI. SPI comes with content and a certain number of traffic. I have customers and what not. Those things are there, but SPI has given me so many opportunities to meet amazing people who are now able to help me with some of my legacy goals related to education and school. It's allowed me to travel to places I would have never traveled before. It's allowed me to become more confident as a communicator. It has allowed all those intangible things that are actually like the really fun things, not that I don't-

Dan Andrews: 100%. I think that everyone that's followed you has noticed that you weigh those more than most public entrepreneurs, because of the way you've driven your brand. You actually take pains, like every product that you launch, you always situate it in, "This is actually bigger for me than the transactional value of this product." That is the fun stuff.

By the way, the best things in life, sorry to break it to everybody who wants to go out and make a bunch of money, you can't buy them.

You can't buy respect from people. You can't buy self-confidence. I don't want to get in the woods about that stuff. Everybody's not here to be like a life guru. I don't know how to live a good life necessarily. I'm just saying that's up to everyone to decide, but if someone puts a pile of money on your desk, it's not going to get easier to find the good stuff.

Pat Flynn: Right. The classic examples are the people who win the lottery and then their lives just go to crap because of ... Essentially, money just amplifies more of who you are and the kind of person you are. I think deep down those roots have to be there in serving and what not to ... Anyway, yeah, you're right. We can-

Dan Andrews: Here's an interesting question, Pat. If we were to go back to the first thought experiment, there's this idea that Jason Cohen from A Smart Bear, founder of WP Engine, has. He calls it the freedom line. That's the number at which you could shelve financial responsibilities for a lifetime. This is an interesting question because it encapsulates a lot more than just your consumption habits. It encapsulates the level of responsibility you're taking for your families health, for those around you's futures, their educations, all those sort of things.

If someone came along and gave you that number for SPI, that number might put you in a legitimate bind. Is there any number that someone could put on your desk that would compel you to walk?

Pat Flynn: No.

Dan Andrews: Yeah.

Pat Flynn: I mean, maybe. People are like, "Really, Pat? If somebody offered you a billion dollars ... " Maybe-

Dan Andrews: We'd have to think about it.

Pat Flynn: Yeah. I'm imagining all that I can do to help even more people with that kind of cash influx, but-

Dan Andrews: Exactly.

Pat Flynn: Even at like ... I am so happy with where I'm at and how things are. I'm way beyond the freedom line at this point. A huge influx of cash isn't going to change my life.

Dan Andrews: Yep.

Pat Flynn: In that ladder you talked about, I'm pretty up high on the ladder I know. I've worked definitely hard to get here, but I also can extend the ladder for other people, not just myself too. That plays a role-

Dan Andrews: That's fascinating.

Pat Flynn: ... that plays a role as well. As far as for me in my life and cash, it wouldn't change anything. Life would remain the same. I wouldn't get a different house. I wouldn't buy a different car. I wouldn't get different clothes or-

Dan Andrews: Again, you're amplifying this idea that this is not linear. The idea that you're pointing to this number that's almost ... It's almost a little bit awkward to say that number, but it might very well be the case that that makes all the sense in the world. A lot of people are jumping from \$100,000 in the bank to \$10 million. That's the jump that a lot of people indicate in terms of what they value and what would be the next level for them. Again, Pat, when I met you just a handful of years ago, we were all sitting down at day number one.

Pat Flynn: Yeah. I was in survival mode.

Dan Andrews: If anyone thinks this conversation isn't relevant to them, think again because the journey that we're on is a long ball journey, and this is where you're headed. These are the sorts of judgments that you're making.

Pat Flynn: Yeah. This is so great. I'm so thankful that you are coming here to share this stuff so that we can all be just a ... have a little bit more ammunition for what's coming next, because obviously-

Dan Andrews: Learn from my mistakes, Pat.

Pat Flynn: Okay. We talked about three thought experiments. You got a couple more for us?

Dan Andrews: I do. Two more. Number four is called The Cash Conundrum. This is the idea of what will you do with all of your cash. Since you want to cash out, it might make sense to start to identify the behavior of your cash and the types of investments you intend to make before you spend a couple years investing in an exit process.

One of the things I've noticed, Pat, is that cash piles behave so much differently than cash flows. Cash piles are very ... They're vulnerable to the elements. They're vulnerable to taxes. They're vulnerable to professional services, your cousin who has a startup idea, medical emergencies, anything that comes up. That cash pile's just sitting right there waiting to contribute to whatever needs from it.

Pat Flynn: Right, right.

Dan Andrews: On the other hand, you have these cash flows that are dynamic. You can sort of put ideas into them or you can evolve them to change to market conditions, and they can continue to spin off capital in your direction on a month to month basis. Just like not all business models are created equal, would you rather make \$3500 a month selling ebooks or \$15,000 a month selling done for you podcasting services? For me, I would choose the ebook route and then build that business up and have stuff on the back end of the ebook. It makes so much sense to me. For everybody, their values are going to be different. Their skills are going to be different.

There was this great book, "Rich Dad Poor Dad", which I know you're familiar with. In the book, there's this definition of financial freedom, which is when your income from passive investments is higher than your monthly expenses. I know a lot of us think about our online businesses this way. You might have a really good lifestyle. You're working from 8:00 to 2:00 pm. You're making,

let's say, \$6000 a month, and you're expenses are \$4000. You're putting \$2000 in the bank and you've got all these opportunities, all these things we've talked about throughout the episode, opportunities you can do things with that asset.

If you were to put that \$6000 a month business on the web and sell it for an industry-standard rate, you would get \$216,000 in your bank account, which would then get taxed, you'd have to pay brokerage fees, and you'd have to sit it in that bank account. By the way, that's if your business is established and has many years of track record. We're not talking about something you cooked up in the last couple years on Amazon.

Pat Flynn: Right.

Dan Andrews: Now all of a sudden you're staring at the \$216,000 that's been eroded by all the maybe financial, all the things we talked about, and you're like, "Oh man. I gotta get back to work." You start to look back at the \$6000 that was coming in every month and it was dynamic and flexible and other people could work on it. You're like, "Man, that looked pretty good. That looked pretty good in retrospect."

Again, something to think about. How will you invest your cash? Do you have a specific plan for your cash pile? Because otherwise, they're very vulnerable, and investing is a very different skill set than the one that most of us have been investing in over the past many years, which is entrepreneurship.

Pat Flynn: Mm-hmm (affirmative). Yeah. That's huge. That begins to get into, wow, like how do I know which one's the right one?

Dan Andrews: Look, I definitely didn't write a book full of answers, Pat, for the clear reason that I have no idea what I'm talking about. I'm at just simply asking the questions.

Pat Flynn: Yeah, which are important questions to ask.



Dan Andrews: Yeah. I think they're tough to come up with the answers. It's no wonder so many people get this stuff wrong, because it's not like you have a lot of chances to practice. This is a one-off thing.

Pat Flynn: Now is this particular thought experiment something that is on the scale of pretty painful for you, or is this more just in your research you've determined that this is something to worry about? Are you in a cash conundrum?

Dan Andrews: Yeah. I would say that because it's not all that useful to me. I don't know what to do with it. I don't know what to do with all this ... I don't have the skill set for it. Yeah, I could buy mutual funds or I could buy, I guess, real estate or something, but I can't really make like ... If I make high-risk internet business investments, I could easily flush it down the toilet.

I look back to my business. Remember I was worried about that inventory in California? I was like, "So much of my cash is tied up in inventory." Pat, it returned me 20% year over year. I can't find an investment like that anywhere. The very thing I was worried about, that I feared, that investment that I had in that inventory turns out to be a no brainer in retrospect. Just another way to think about it. It's one of those things where you look at the other side of the fence and the grass looks greener.

Pat Flynn: Of course. Thank you again for being vulnerable and honest here with us. I think it's so important because-

Dan Andrews: Sure. I haven't even got to the most vulnerable part yet, Pat. You're-

Pat Flynn: I was going to say, is this thought experiment number ... You saved the best for last?

Dan Andrews: I saved the best for last. This is the moment when it's like flip off the episode, cool yourself down, because it's about to get real.

Pat Flynn: Okay.

Dan Andrews: Have you ever heard of this thing called the Peter Principle?

Pat Flynn: No.

Dan Andrews: The Peter Principle is this idea that in any organization, people get promoted to the level of their own incompetence, which explains pretty clearly why your last boss, you didn't like him very much. For entrepreneurs, think of it like this. If you're good at running a six figure business, you're very likely to proceed to the next level and run a seven figure business and so on, until at some point you get to a level at which you've sort of topped out in terms of your ability to be successful. This very often happens in corporate America.

What I've noticed in the entrepreneurial space ... I'll just tell my particular story. I knew we were at like \$3.5 million in revenue, and I knew the next meaningful level for our business was to get to \$10 million. I would look at the to-dos on my day to day, and I'd be like, "Man, I don't really want to go to another trade show. I don't really want to like manage this team." It's just like all the grumbling that I think a lot of us can relate to. I was bored. I was sick and tired of it. I felt like I knew what was around every corner.

This was me being incompetent. This was me being at the top level of my experience. I didn't know what to do, so I defaulted back on all the stuff I had done before, and I was bored by it. Someone who had some experience running a \$10 million business or \$100 million business would come to me and say, "Are you crazy?! You think you're going to get to there by how you got to here? You can't just keep going to trade shows, man. You're going to get the same results."

I didn't have an open mind to that stuff. I thought I knew everything about my business. I thought I was the expert. That arrogance that I had was, I think, a manifestation of this Peter Principle, of like my own impotence rationalizing itself as, strangely enough, expertise and boredom.

Pat Flynn: That's so interesting. What, in retrospect, did you wish you did

instead?

Dan Andrews: I wish I would have fun a lot of these mind-opening thought experiences we talked about earlier, like I would have loved to have brought in new leadership into the business and worked with them and cultivated a culture instead of maybe grinding it out day to day. One of the pieces of advice I heard Seth Godin give a woman who had this same problem ... She's like, "Hey, I have a \$10 million business. I want to get to \$100 million." He said, "Well, hire somebody to run your business and go work for a \$100 million business. See how it operates." Apparently, as the story goes, this worked out for her and she was able to achieve her goals.

What I love about this is I believe entrepreneurship is a know-how. It's like riding a bike. It's not something you can read about and then do. Of course, reading about it can inspire you to do things, but it's an experience. It's like you know how to be an entrepreneur. The way you learn it is by doing it. I love this piece of advice he gave because it's like, "Hey, go actually do work that expands what you're capable of. Stretch yourself."

My last boss, my business mentor, did this for me. I remember he put me in charge of his business, and he used to stack papers so high on my desk. I would say, "This is impossible." He would look at me and say, "We got to get it done", but I learned. I learned through that experience. I think when I was in my own business, Pat, I wasn't willing to push myself that hard. It is what it is. That's a shame.

Pat Flynn: Here's the other question. Why weren't you satisfied at three? Why did you feel like you had to go to 10?

Dan Andrews: It wasn't ... That's a great question too. I didn't have clarity on it. That's all. I didn't have this dialogue. One of the reasons we thought to get to 10 is that's when businesses become an acquisition target for institutional money. There's a backdrop to all this, which is businesses between half a million dollars and about \$10 million, and that \$10 million is going down as technology changes, but they're pretty hard to sell, relatively speaking, because you got to have

cash investors. Whereas when you get to a larger scale, all of a sudden brands are interested in you, institutional investors, private equity firms, things like that.

Pat Flynn: Got it.

Dan Andrews: Getting to 10 was a chance for us to have a truly life-changing amount of wealth on our hands, so that's one goal, but it's not the only one. We enjoyed running our business. We had cool products. We had a cool, quirky team, sort of very much in our image, not the average people working at a California ecommerce business. I don't know, Pat. I don't know exactly.

Pat Flynn: The reason I'm asking this question is because we, and I don't know if this is just human nature, but we ... Everybody wants to grow. Nobody has ... I've never spoken to anybody who has said, "Yeah. I make this much, and that's cool, and I continue to stay there." We all want more. I don't know if maybe that's the problem, or maybe ... I don't know. I'm just kind of thinking out loud here.

Dan Andrews: I've met people that ... It's interesting.

Pat Flynn: Have you see one before?

Dan Andrews: I've met people that don't want more. Yeah. I've met people in the wild who don't want more. They're a rare animal. A lot of times, people will nominally want more, but they're not willing to actually sacrifice what it would take to get more.

Pat Flynn: 100% agree, yes.

Dan Andrews: This brings me to a few other dirty secrets that I wrote down.

Pat Flynn: Okay.

Dan Andrews: One of the things, Pat, when I first met you, me and you were total hustlers, man. You were a hustler, man. You'd come in with the eye of the tiger. You were working hard.

Pat Flynn: I was.

Dan Andrews: So was I. We all related to each other in that. We were also in our 20s and had relatively few responsibilities. Now I know your level of responsibility has changed dramatically. Now you got a family. You got interests. All this stuff that when we were in our-

Pat Flynn: I have to like vacuum the house now.

Dan Andrews: Exactly. When we were in our 20s, we were like, "I got to do this thing." What happens to entrepreneurs is both they look back with rose-colored glasses at this time period in building their business and they forget how much energy it took them. I worked two shifts a day for four years. I can't do that now. I got too many other responsibilities. I'm not motivated in the same way I was.

Part of that ... The reason we make that miscalculation is sometimes we can conflate too much the success of our business with how good of an entrepreneur we are. This is going to be different in every case, and I don't know ... I'm not the person to judge this, but we've all seen online people that have sold their businesses with big future plans, and then pretty much nothing happens. That was their one shot because they had the energy, they had the dedication, they had the vision or the timing or the luck. Who knows?

I remember talking to DHH, the founder of Basecamp about this. He's like, "I don't want to be in my 20s again. I don't want to work like that again. Who knows if I would ever hit it again in the way ... " I don't know how to answer that question, but it's certainly something to consider about. Are you over conflating that success that you hit on? If I look back at my track record alone, I've probably launched like, I don't know, 50-60 projects with the hopes of them being a business. Right now, I have one. I have one business. Exactly one out of 60. You're signing yourself up to go through that process again if you haven't hit that freedom line where you're either in a resort in Mexico or you're a professional philanthropist.

Pat Flynn: Man, this has been eye-opening conversation, especially helpful for me as I continue to obviously grow the business I have, but also I like starting new things. I like experimenting. All these are questions I have never really considered in that way. I hope that all of you listening are encouraged by this, not deflated by it. I think we should all just know this is a thing. Dan's opened it up, and I'd love to continue this discussion in the comments section on the blog. I'll give you the show notes link in just a moment, but Dan, thank you so much for coming on here. Any final piece of advice for everybody listening, now that you've known what they've listened to? What should they do from here? You gave us these thought experiments, which are fantastic, but what's one thing we could do to better position ourselves for a happier future?

Dan Andrews: Absolutely. Leave that part of your space ... These thought experiments are designed to open up that investor side of your brain, which is yeah, you're the founder, yeah, you're passionate, yeah, you're growing your baby, but on the other hand, it's also an asset in your portfolio. Leave space in your week to think about your asset that way. It can free you up to do interesting things on the entrepreneurial side as well. That's number one.

Number two is a lot of people start to think about selling when they're getting bored, they're getting anxious, or bad things are happening. What I encourage everyone to do is to, if you do decide to sell or start to explore it, dive into it with the same enthusiasm that you had when you started your first business. It can be an exciting process. If you don't, every time, Pat, that I didn't have my eye on the ball for this process because I was disengaged, I've paid for it on the back end. That's just life. Had I been able to go back, I wish I just would have had a lot more fun with it and got more engaged with the process. I think I would have been more satisfied in the long run. Honestly, Pat, writing this book has been a really cathartic experience.

Pat Flynn: Thank you for writing it. Where can people go and grab it?

Dan Andrews: Yeah. You can just Google "Before the Exit" by Dan Andrews. On



my website, I have a book resources page, so it's [tropicalmba.com/bookresources](http://tropicalmba.com/bookresources). You don't even really need to read the book if you get the gist of what I'm saying, but you can listen to interviews of the woman who bought our business, our initial thoughts after selling it. We have a bunch of audios that you can listen to. If you're deep in this process, I highly recommend you check out all these audios we have up there for free. Just go check it out.

Pat Flynn: Cool, man. We'll have all the links on the show notes page. Dan, thank you so much for coming on and opening up for us and allowing us to consider these really important questions for our future. I can't thank you enough.

Dan Andrews: My pleasure, Pat. By the way, a 100% open invite anytime you're willing to come by the Tropical MBA podcast. Please do so.

Pat Flynn: Oh, dude. Yeah. Absolutely. We'll figure it out.

Dan Andrews: Awesome. Ciao.

Pat Flynn: Thanks, man. Alright. I hope you enjoyed that interview with Dan Andrews from [tropicalmba.com](http://tropicalmba.com) and author of "Before the Exit: Thought Experiments for Entrepreneurs". Thought experiments are one of my favorite things to do. I'm so glad more people are using this as a tool to help us entrepreneurs out there, so great job, Dan. Thank you, and I appreciate you coming on and being honest and vulnerable through what you've been going through so that we can all benefit from that. I appreciate you for that.

Go ahead and check out the book. Again, it's called "Before the Exit". You can find it on Amazon or at the show notes, obviously, at [smartpassiveincome.com/session329](http://smartpassiveincome.com/session329). One more time, that's [smartpassiveincome.com/session329](http://smartpassiveincome.com/session329).

Before you go, before you listen to the next episode here or go back into the archive and find something else relevant to you, I want to let you know that I have been doing a lot of live trainings recently, webinars and free trainings, to help you in your business



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in various ways. If you go to [smartpassiveincome.com/live](http://smartpassiveincome.com/live), you can see when I will be doing those trainings next. You can also see where I might be speaking on stage as well, but I am enjoying the process of helping you live and in person because I can answer your questions, I can collect feedback from you, and you can kind of get direction from me right then and there. If you want to check out how to start a podcast or how to do affiliate marketing or how to start your business from scratch, all those kinds of things, just head on over to [smartpassiveincome.com/live](http://smartpassiveincome.com/live), register and sign up for the next one, and I will see you there.

Cheers. Thanks so much. I look forward to serving you in the next episode of the Smart Passive Income Podcast. Bye.

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