Announcer (5s):

Welcome to the Maximize Business Value Podcast. This podcast is brought to you by Mastery Partners, where our mission is to equip business owners to maximize business value so they can transition their business on their terms. Our mission is born from the lessons we've learned from over 100 business transactions, which fuels our desire to share our experiences and wisdom so you can succeed. Now, here's your host, CEO Mastery Partners, Tom Bronson.

Tom Bronson (35s):

Hi, this is Tom Bronson and welcome to Maximize Business Value and Podcast for business owners who are passionate about building long-term sustainable value in their businesses. Now this episode is part of our series on exit planning books. Now most of the books have been written by certified exit planning advisors, but in this second to the last episode in this series, I'm gonna break that mode just a bit and for a good reason, I'd like to welcome our guest, Zane Torrance. He is partner and managing director at Founders Advisors and author of 17 Reasons Your Company Is Not Investment Grade and What to do about it.

Tom Bronson (1m 17s):

The book is Practical Advice from an Owner and an Investment Banker. And I first met Zane through biz owners, Ed, the nonprofit business education program and DFW that we've talked about in the past. And then again, I saw him at the Vistage Executive Summit in Dallas. Now Zane is in high demand because Founders Advisors is one of the best investment banking firms in the country, guaranteed now he's a dynamic speaker and we're lucky to have him here to share his wisdom. We're going to see how good I am at keeping him under control because for the first time I think we have somebody who has possibly more energy than I do on the podcast.

Tom Bronson (1m 57s):

So, so welcome to Maximize Business Values. I,

Zane Tarence (2m 1s):

Tom, thanks for the invitation. I'm looking forward to being with you. And yeah, if you can control me, what my wife's gonna hire you

Tom Bronson (2m 9s):

No doubt. Yeah, might pay better.

Zane Tarence (2m 12s):

Yeah, it will.

Tom Bronson (2m 14s):

If I can control you, I guarantee it'll pay well. All right, So tell us a little bit about your background, because you've had an interesting background and ultimately how you joined your partner, Dwayne, Dwayne Donner, right at Founder advisor. Founders Advisor.

Zane Tarence (2m 30s):
Yes. And, and thank you for asking about that. Cause you know, I think we're all biased by our backgrounds, Tom. And so I see the world probably based on my background, but I started my career with ibm, worked with IBM for 12 years and you know, I learned so much with, with Big Blue and I still bleed blue, working for a large company, multinational company, you know, just so, so grateful for, for my tenure there. I ended, my last job, I had four jobs with ibm and my last career three years was with IBM Global Services. And that's when I invented a product for one of our clients at IBM Global Services. And IBM ended up, long story short, funding my business and I, I left IBM and built a business and a product that they gave me.

Zane Tarence (3m 20s):
I invented the product for one of our clients in Memphis and they actually deeded that product over to me cuz it was theirs, cuz I worked for them. Right. It was their intellectual property and funded my business along with some other venture capitalists. And that was my foray into entrepreneurism. And so at 34 I left a really good job at ibm, started a business, and three years later I was introduced to an investment banker by my investors. And I was like, Wow, this is pretty cool. And they said, Zane, you're not a very good operator, but you know, you've built something, you got 50 employees, we'd have gotten a patent on web-based testing. And so that, that investment banker let us do a process. We sold our company to a publicly traded company out of Boston called Hoot Mifflin.

Zane Tarence (4m 4s):
Worked with them for a year and then started a venture capital model incubator. Once they really got going, I was excited that, okay, good, they bought a company that made a money. I was worried at first that they might not get their money's worth and they might have overpaid, but, but did that. And then that's when I was running my VC model incubator that Dwayne Donner asked me to be on his board of this boutique investment bank founders advisors, worked with him for three years. And then in 20 2007, we, we exited our VC fund. We were so glad we got the money back for our investors. And it was, it was not a five times return, but back in those days we got a venture capital fund back. And I was excited. And at that time, Dwayne said, You ought to come over to this platform, Zane, because you're a river guide, you've raised a lot of money, you've invested a lot of money, you're a river guide, and this could be a platform.

Zane Tarence (4m 52s):
And I said, Dwayne, I didn't go to Harvard, I didn't go to Yale or Princeton, You know, people are gonna laugh at me. And he said, No, you know, you, you've been on this journey a lot. So for the last, since 2007, how many years is that? 17 years. 16 years, Yes. Been on this platform and we built a bank together and I've now done in my practice that's technology and business services, about 98 institutional deals with entrepreneurs helping them either do a, a recap to take some chips off the table or sell their business to a strategic buyer. And so I love what I do and in my heart, as you mentioned in this book, I love the name of this podcast,

Maximizing Value.

Zane Tarence (5m 32s):
My Heart is to help entrepreneurs have certainty that they're building enterprise value and then at the right time, whatever the right time is at their season of life, to either transition that business to their family, their employees, or work with a financial or a strategic buyer to take some chips off the table. So that's my background. 56. Now I love doing this. You and I were talking, I eat, breathe and sleep deals and consulting with business owners to make sure they're ready.

Tom Bronson (6m 2s):
I love it. I love it. I love what you guys are doing. I know that there's some, some great friends that you've helped out, some friends of mine that you have helped out and done amazing deals for. I do have to, I didn't realize the IBM connection. I worked for IBM as well back now. Wow. I was a college intern. I worked in the card test unit back, if, if you remember, it would've been in the, it would've been in the mid eighties, eighties, early to mid eighties. And it was when the first time they were coming out with a dot matrix that had kind of a smooth printer.

Zane Tarence (6m 39s):
I know it well. And, and the pro printer, I've, I've loaded a lot of that, that paper with the little, you know, dots in it, you put it on little roller. I've done a lot of that. I started as an intern when I was at all. I started in 1985 and I was there until, until 1997. So I love ibm.

Tom Bronson (6m 57s):
I was terrible. The other thing that we have in common is something just a little bit different. You said your investor said, you know, if you're great at starting companies and you're a terrible operator, That's funny.

Zane Tarence (7m 6s):
That was me. But,

Tom Bronson (7m 8s):
But I discovered somewhere along the, the line that I'm a great ceo, but I'm a terrible employee and stuff, which is why I work for myself and have for all of these years. Right. And so, so let's jump into the book. I think it's a, it's an awesome book. 17 Reasons Your Company Is Not Investment Grade and What to do about it. By the way, our listeners know that I always put a link to this on our website, so this will be available on our website the day that this comes out. And of course it'll be there. Evergreen. What does for, for perhaps folks that are novice people ask me when I tell 'em that I'm interviewing you for this book, and they get all impressed, you know, that I've got you on my podcast.

Tom Bronson (7m 48s):

Oh, wow. And I, they say, but what is investment grade? So what does investment grade mean and why is that important and why should business owners be thinking about that?

Zane Tarence (7m 58s):
Great question. And Tom, investment grade in the investment banking world when we're dealing with public companies and commercial paper is, is is really a grading system. It's a formal, you know, your A, B, C, your AAA rated paper, Right? And private companies, I am barring that term to say, what do you have to be as a private company to get institutional private company investors? Whether that's family offices, venture capitalists, private equity groups, buyout firms or strategic buyers, publicly traded companies or large privates that wanna buy you. What do you have to be so that when they look at you, they'll say, You know what, this is a candidate for us as a publicly traded company to purchase.

Zane Tarence (8m 44s):
This is a candidate of a private equity fund that's managing Harvard's Endowment and Metropolitan Life Insurance allocation to private companies. They're saying, you know what, this is investment grade. So that's, that's what I'm saying, you want to be where you have options. And a lot of private companies, Tom, the reason I wrote the book think, oh, I'm investment grade, but they just can't cut the mustard. Right. Just, just like when I thought, you know, I was a regional tennis player when I was in high school, I thought I'd played around my little city, but I said, You don't think I'm a regional tennis player? Well, I went to the first regional tournament. I wish somebody had told me before that I wasn't a regional tennis player because these guys were playing a different game than I played.

Zane Tarence (9m 27s):
I couldn't even, their serve bounced and went over my head and I was like, I had never seen in my little country town in Alabama, a se that bounced over your head. Right. So I'm trying to help owners understand, please, please, please, before you start having these conversations and could be embarrassing, not make sure you're institutional ready.

Tom Bronson (9m 47s):
Yeah, I like that. So, so really it means institutional, but it really could be any buyer. So many small business owners think that, you know, their business is great, you know, it's throwing off a lot of cash for 'em, maybe That's right. Throw off a lot of cash. And so anybody will wanna buy, you know, they're, they hear these stories about people getting huge multiples and whatnot and so, but, but they don't really understand what is it that makes or what it is that makes a business attractive and transferable, As we say, you call it investment grade, that's what we call it, attractive and transferable. So you just gave a little bit on that, but why did you decide to write this book,

Zane Tarence (10m 28s):
Tom? It was the book that I wish I had had when I started as an entrepreneur. So I could have had a

roadmap of what does it look like, you know, to, to have the kind of company that, that people that understand private companies would be attracted to. I needed this, this information, and you look at it to start with and it's like, okay, this is so common sense. But Tom, I have found over and over that a lot of my owners, they, they just don't, they don't translate this common sense stuff about barriers to entry and recurring revenue and great financials that you can walk through, you know, easily understanding how you make and spend money.

Zane Tarence (11m 11s):
And, and, and I was frustrated because so many companies I was working with, there was a day when they were tremendously disappointed. They, they went out excited or took a meeting with a buyer and they honestly felt ashamed and unprepared. And I said, You know what? I'm gonna at least write something that can allow people in the privacy of their offices and their businesses to say, Hey, you know what? I'm gonna take this private assessment before I go get naked in front of the market and just, and just make sure I kind of know what to expect. So that's the reason I, I wrote it and Tom, I'll tell you this, I don't know anybody that, that has a wife that's had babies has probably read this book called What To Expect When You're Expecting, Like What?

Zane Tarence (11m 56s):
And the dads even read, I'm like, Okay, what do you expect? What's normal is, is my wife always gonna be this mean? No, no, I shouldn't say that. What do I expect? I kinda wrote this with like, for an entrepreneur, what do you expect to when you get in the room with an institutional investor that truly, and this can just be a competitor or a a business person around town or a commercial banker. Yeah. What are they looking at? Because we don't do this every day as business owners, right?

Tom Bronson (12m 23s):
We don't. That's it. So many, so many folks just think that their business is, is great, right? Because it's providing for them and, and oh, there's no, you know, my buddy sold his business and blah, blah, blah. They don't think about how to value the business. They don't think about those things that need to be done. So what you're doing is same reason that I started Mastery Partners. I wish that there was somebody in this space who does what we do When I was starting out, you know, I've done a hundred transactions now, but, but I, man, you know what that means? It just means that I've made every freaking mistake possible through the book.

Tom Bronson (13m 3s):
I wish I'd had this book, you know, 20 years ago, right? And so, so, but of course you hadn't written it yet, so that would've been helpful. Let's jump in some of these 17 reasons. One of my favorites is reason number one, it's all about recurring revenue. Now, my little side story on that is I took a little software hardware business back at 2001, 2002 timeframe and converted it into a SAS business before anybody knew what SAS was. Right? You know, there was still, there was some software as a service, but very few. And there

was nobody in our space. We were in the restaurant retail point of sale space and we converted it into a SAS business.

Tom Bronson (13m 46s):
And when I bought that company, it was doing 4% recurring revenue. When I sold it, it was doing 80% recurring revenue.

Zane Tarence (13m 52s):
Wow.

Tom Bronson (13m 53s):
I know what recurring revenue means, right? And so, so, and in your presentations that I've seen you give, I've heard you say that not all revenue is created equally. Now you might be a hundred million business, but not all revenue is created equally. So why is that? And what should be done about it?

Zane Tarence (14m 13s):
Oh, I love this one. People tell me and they ask me or they ask me a lot saying, What's my company gonna trade for? Is it gonna be a multiple of my ebida, multiple of my revenue? Is it gonna be a multiple of my gross margin? You just ask the right question, Tom. No, it's going be a multiple of each weighted average of each of your revenue streams. So they look, if you have one time services, if you have a maintenance agreement, if you have a subscription, if you have something that you do, you know, once a year, they're gonna look at each of these revenue streams. And some of 'em are gonna gonna be worked a lot more than others.

Zane Tarence (14m 53s):
I mean, typically in the software companies I work with that have a services component, their best software revenue streams, the reoccurring subscription based services that are very high retention, those can trade at 10, 11 times revenue. And then the one time fees like training might trade for one times revenue. Right? Now you still need all those revenue streams because a good training for software is gonna determine how long that that client keeps your software if they have a, a healthy installation. So I want owners to understand that the recurring nature of the revenue is worth so much more. If, if it's, if it's dependable to an investor and they will pay up.

Zane Tarence (15m 34s):
And I always use this continuum, Tom, you've seen me, I draw the line one time, project based revenue is worth, it'll bitty bit because the buyers won't risk adjusted. Future cashflow, reoccurring revenue. You might not have a contract for it, it might not be a subscription, but you know it's gonna happen. Again, you just don't know when. But this recurring revenue that's set up like a rent payment, like a subscription boy, like a hosting service provider, they get giddy about that. And, and Tom, again, I wanna be clear in certain industries, even construction companies that you think, oh, they build buildings, they can only have one time.

No, no, no. They can have different maintenance contracts, different warranty programs, different service level agreements for service of the H V A C unit.

Zane Tarence (16m 19s):
Those revenue streams for a construction company that's used to trading at four times ebitda, those revenue streams trade at 12 times EBITDA in a construction company. So I don't want people to think I can't do this because, you know, I'm not tech, I'm a distributor or manufacturer or, or project based company. So great question. Recurring revenue is the cats me out.

Tom Bronson (16m 42s):
I, I argue all the time with business owners to say, Gosh, there's my business, there's no way to build recurring revenue. Eh, that's just bs. We, you just aren't looking hard enough to find ways to build recurring revenue. When I first did this in the point of sales space, nobody was doing a SAS model. Nobody. Right? And I converted not only our software, but also our hardware into a SAS model. So, so if you, if you think that it can't be done, you're just not looking hard enough. Now, sometimes it can be capital intensive. In our case it was pretty capital intensive Sure. To make that shift. But once we made that shift, I mean, now you're just pushing a button once a month.

Tom Bronson (17m 23s):
You know how easy I sleep at night when you push a button once a month and cover your overhead, right?

Zane Tarence (17m 28s):
Oh, oh. And, and, and Tom, I gotta double click on something you just said. You turn a hardware revenue, typically when you sell it within margins to a recurring revenue, you just probably eight times the value of that revenue stream, right? And also just, it makes the journey being an entrepreneur, as you said, I don't wake up every January praying, Oh lord, please send me some business. No, you've already got it in the bank, in the books, and now you can work on net new business. Yeah. So it, it is a game changer. So thank you for asking that one.

Tom Bronson (18m 1s):
Well, we had the, the next thing we're gonna talk about is scaling growth. And we were actually able to, you know, smart enough to figure out that once we got in the door with some recurring revenue, then we started looking for other things that our customers needed so that we could just stack on top of stack on top of stack. I

Zane Tarence (18m 20s):
Love it.

Tom Bronson (18m 21s):

And, and next thing you know, this guy who was paying us $300 a month is now paying us a thousand dollars a month, but has a whole bunch of other services. And guess what that does? It makes the clients very, very sticky to go somewhere. So let's talk about growth and scale. Let's stack 'em kind of separately. First, what is scale?

Zane Tarence (18m 43s):
Great. When, when we talk about this in the concept of a company, when people say investors, can this company really scale what they're looking at at different levels of maturity of a company? There's different unit economics at play. Scale is really the concept. And, and by the way, investors love that word. That is their fa one of their favorite words. That's when you can grow the business because you have such good systems, such good processes, good people, you're running a business based on best practices and the scale allows you to grow. But guess what? Expand your gross margins. So every time you grow a million dollars in revenue, you don't have to hire a hundred people, 50 people, 10 people.

Zane Tarence (19m 26s):
You have systems, processes, technology, best practices that allow you to grow that top line, but guess what's happening to you? Gross margin. It's expanding because of, of how you're running your business. When investors see the ability to expand gross margins over time, while growing revenue, Tom, they take out their, they take out their wallet.

Tom Bronson (19m 48s):
Oh gosh. Yeah. So, so now let's talk by the other side. So growth and scale, of course growth for growth's sake is, is not a great deal. If you can get that scale where your margins are improving. Now that's something, and we measure those with our clients and go, Hey, why's your top line growing at, you know, 15% and your bottom line is only growing at 4%? I don't know. That's, that's problem, right? So, and they don't think about, Oh man, I thought I was growing. Now I do always say that one of my favorite axioms is a growing company is always, always, always worth more than a flat or declining company. I can think of one exception to that. And that would be if a company is flat in a declining market that demonstrates growth in their space.

Tom Bronson (20m 35s):
Sorry, that would be one, one place where I would say that that doesn't work. But why Zane is growth so important?

Zane Tarence (20m 43s):
Yes. If you are growing it, it it, it shows that you have some level of product or service market fit. The marketplace is voting that, Wow, I like this. This is working, I'm winning. I'm, I'm winning against my competitors. So growth is what allows investors to see over time my hurdle rates, my return models. If I could keep building in growth, this baby is going to be an amazing return on investment. So you gotta grow

and healthy things grow. Tom, and you mentioned it, even if, if you, one of the best outcomes we ever had selling a business was in 2009, we, that business contracted 19%.

Zane Tarence (21m 28s):
In 2008, we sold 'em for one of the best multiples we ever have in our life with a value added distributor. We sold 'em for a crazy multiple. But guess what had happened? Their industry had gone down 51%. So you always compare yourself, you only have to grow faster than your cohort. So what you said is right, but let me tell you, if you're growing slower than your market or your competitors as an investor, I look at it and say, somebody's taking market share from you. Right? So, so I want to know that you're growing because that's the sign of a healthy business against your market. It means people are choosing you over your competitors. But please make sure you're not bragging about a growth rate.

Zane Tarence (22m 10s):
Hey, I'm growing 20% and then your industry is growing 40% a year. Cause then you're like, I'm pretty slow.

Tom Bronson (22m 18s):
Hmm. Yeah. Kinda the tallest midget in the room, right?

Zane Tarence (22m 21s):
So, Exactly. Exactly. There

Tom Bronson (22m 23s):
We go. All right. So we need to take a quick break here. We're talking with Za Torrance. Let's take a quick break. We'll be back in 30 seconds.

Announcer (22m 32s):
Every business will eventually transition some internally to employees and managers and some externally to third party buyers. Mastery partners equips business owners to maximize business value so they can transition their businesses on their terms using our four step process. We start with a snapshot of where your business is today, then we help you understand where you want to be and design a custom strategy to get you there. Next. We help you execute that strategy with the assistance of our amazing resource network. And ultimately you'll be able to transition your business on your terms. What are you waiting for? More time, more revenue. If you want to maximize your business value, it takes time.

Announcer (23m 14s):
Now is that time? Get started today by checking us out at www.masterypartners.comoremailusatinfomasterypartners.com to learn.

Tom Bronson (23m 26s):

We're back with Zain Torr and we're having a great time because we're talking about his book 17 Reasons Your Company Is Not Investment Grade and What to do about It. Now, we're not gonna give away all 17 reasons here. There's a couple more though that I want to talk about. Reason 13 is about having proper financials, specifically your company's financials are not buttoned up and or you cannot relate them to your business model. Now, you know, financial statements so many times in small businesses I go in and one of the first questions we ask is, Tell us about your financial statements. I wanna see 'em, I wanna understand, can I dissect them without any description, right?

Tom Bronson (24m 10s):
Of what's going on? And, and I see so many times business owners are running their business using cash basis as opposed to an accrual basis. So it, it just, that's no way to run a business. Pay your taxes if you want to on a cash basis. But, so there's my little editorial on that. That's right. Run your business on an accrual basis. I don't care what size you are, but what does it mean that your financials are not buttoned up and you can't relate them to your business model? And why is that important to value?

Zane Tarence (24m 45s):
Wow. And so many business owners wanna skip over this, Tom. Oh, I'm doing, because a lot of us as entrepreneurs, we view it's all about tax avoidance, right? My CPA handles that. No, your financials or your record and your only as good as your record says you are. So we can talk and bloviate about our wonderful, you know, customer experience and product and revenues. But if you really look at your financials and you've done what you said, gap, which is really a matching principle, What's your revenue in a period against your expenses in that period? So we can truly see the health of the business.

Zane Tarence (25m 27s):
And by the way, that's the only way an institutional buyer ever buys a business. If you're cash, they're gonna move you to what they think your gap would be. They're only gonna buy you based on gap. So it's so much better if you set the table and you run your company, as Tom said, from a gap perspective. So here's what I always tell my buyers, actually have this on my desk, Tom, to answer your question, listen to this. A set of organized, accurate, and believable financial statements will have more influence on a buyer than anything you will ever say do or promise. They're gonna look at those financials and your mastery over those with your cfo.

Zane Tarence (26m 9s):
Or if you just have a controller, they wanna know, you know, how to make and spend money. That gives them so much comfort that they can be very aggressive in their modeling because they say, these folks have an accurate picture of what's going on. And let me tell you this, these second, a real buyer that's gonna pay you a real, you know, investment premium or outsize value. The second they get confused about your financials, they say, Hey, you know, thanks a lot, I appreciate it, but, but we're gonna back off because a confused mind around your financials always says no. So financials are critical.

Zane Tarence (26m 49s):
Having the right financial team critical and it's the only way you can even decide how to invest in your business to make it grow if you don't have a good model. And understand, if I hire two sales reps, what's that gonna do to my ebitda? If you don't truly have that modeled out, then we're flying a plane without, without any, without any instruments or visualization.

Tom Bronson (27m 11s):
Oh, there you go, that's a perfect analogy. Flying out without any instruments. And so many times too, business owners, I'll ask 'em how, how frequently do you look at your financials? And they'll say, Oh, you know, what's a quarter? Sometimes it's once a year, you know, at tax time. And I'm like, you can't manage your business if you're not looking at your financials, you know, by the 15th every month.

Zane Tarence (27m 34s):
Amen. Amen.

Tom Bronson (27m 36s):
And you learn so much. You know, there's so many, I I take nothing away from a business owner for building a great business, right? But, but so many times they, they're, they'll even admit, you know, I'm just not good at the financial stuff. I get that. But you need to surround yourself with people who are good at that. And you need to educate yourself. The, the more you look at your financials, the the better you will understand them and the faster you'll be able to make decisions. If you look at a financial statement at the end of the quarter, there's nothing you can do to impact the outcome. If you look at it by the 15th, then there's something you can do before the next two weeks are out to impact the outcome.

Tom Bronson (28m 21s):
Yeah. And, and again, so many times I hear, well it's just too complicated. There's no way our team can can do that. And so I always tell the same story. When I sold my last company Grandberry, we had three different operating units. One in restaurant, one in retail, one in wine, separate businesses. We had 17 acquisitions that we did underneath that. And we were still running financial statements so that we could look at them by the acquisition, right? Cause we're tracking those acquisitions for years. And by our business unit. Our, our CFO gave us draft statements by the fifth every month.

Tom Bronson (29m 5s):
And we had to turn general managers and myself and our executive team would turn in our questions by the seventh. And we had, we had full complete financials by the eighth. And by the way, we're running a middle market company and in our giant finance department we had four people. So you can do it. It's all about process. It's all about making sure that you've got the right people in place. It's making sure that you've got, that your team is following process. There's no reason you can't be looking at your financials faster than,

than you currently do. And so I'll get, I,

Zane Tarence (29m 43s):
I agree. Hey, and, and Tom, can I make one other point with a lot of my clients? Say, Hey, I just can't afford what a CFO truly costs. Or even a controller got a bookkeeper, fractional CFOs, I have seen so many. If you can find a right solid fractional CFO that understands your space, they can be worth their waiting goal. Cuz they can just work a day or two a month, help you get organized and it's unbelievable. Then you can implement that with your bookkeepers and your controllers. So find ways to get this kind of talent in your business though. One of the first things an institutional buyer does when they buy a company is they put the right CFO in that seat. That's the first thing. And they're the best investors in the world. And private companies, that's what they do. And also right now we're asking a lot of our clients and companies to do scenario planning.

Zane Tarence (30m 27s):
What if you get in a bad, you know, this weird market we're in, just like in Covid, if you don't have your financials button up enough in a model to do scenario planning, like in my business, what if interest rates go up another point and a half? Well that means m and a's not happening very much. We kind of figure that out. What does that mean for our business? Because we don't wanna have to start laying off people. I see so many entrepreneurs that don't have the financials in place to do the proper planning and they're caught flat footed and they lose. So in their business, sometimes they go out of business because they didn't have that foundation of proper financial process,

Tom Bronson (31m 4s):
Right? That foundation and they don't react fast enough, right? Coming and you don't react fast enough. You know, the small, small business, sometimes it's too slow to make decisions. It kind of takes me to one of my favorite axioms, it's unrelated to this, but I, I've got a client that, that was having a serious issue with a senior person and said, you know, I just, I, I don't know that they're gonna make it here and all I said, you know, do you know the best time for a CEO to make a change in a, in a position? He said, What's that? And I said, The first time you think about it, you never, you're never gonna change your mind on that.

Tom Bronson (31m 45s):
And, and the longer you drag it on, if you've got the wrong person in finance, man, go make a change. Find a fractional person. I love fractional CFOs. I know so many of 'em around. And so if you're looking for something like that, let me know and I'll be happy to, to help you find something that's for our audience. So reason number six may be a little bit harder to grasp than some of these other things. We're kind of given some concrete examples. Six is your company's culture does not attract the right people. So what? Right? But corporate culture is a bit intangible. So how can it impact whether or not your company is investment grade?

Zane Tarence (32m 24s):

Tom, I used to say five or six years ago, I would've poo-pooed this a little bit. Culture, culture, let's just go work on our product or service, deliver wow outcomes to our clients and then everybody wins. Our client wins. We win as a business, people make a lot of money. But you, you know what? That, that is false. I can document with the data, I can show you that a healthy, that's the word culture will get you in most industries a turn and a half more on ebitda. If you're EBIDA trade, if you're revenue traded like a SaaS company or a a managed service provider, probably another turn of revenue. Here's why. Institutional investors know that exceptional people create exceptional results when they invest or buy a private company.

Zane Tarence (33m 11s):

They're investing in a team that has a set of processes operate in a great market with a good product or service. They are buying teams. We call it aqua hires, acquisition hires. The strategic deals we've done recently with Amazon, with Caterpillar, with Aramark. They bought little small private companies. Guess what they wanted? They wanted the talent. Now if you don't have the right environment to attract and retain a players for your industry at your size, you are not gonna be able to have an A plus team. And so you have to figure out what these A players want. And there's data out there. They tell us what they want.

Zane Tarence (33m 51s):

They want flexibility, they want learning opportunities, they want career advancement, they want fair compensation. You don't have to overpay 'em, you just have to pay 'em fair. They want the ability to participate in the upside. They want some type of, you know, profits, interest, some way to get paid what they're worth. They want respect, they want good tone. They, they, they want great leadership. They want a vision. They wanna feel like they're making a difference in the world. These things are highly documented. If you have that environment and I can look at your data and see if you have that, there's some wonderful surveys to see, see how your turnover is compared to your industry. See, have you ever had an A player that was unbelievable that left you, but then guess what?

Zane Tarence (34m 32s):

Two years later they called and they wanted to come back to work for you. If you have that situation, you clap, you do a back flip, you document it. Cuz if you're ever ready to raise capital or do a deal, if you can show that that is absolute data that you were the best culture this a player left thinking, oh the grass is green on the other side, then they call you saying, Hey Tom, I made a mistake, can I come back? So that is the key investors bet on the jockey, not the horse. If you can have a, have an environment that you can attract higher and retain for longer a players, you will attract an outsized value of was.

Tom Bronson (35m 12s):

I love that. I'll tell you what, I did make a mistake in that regard years ago. Now that you put it that way. I, I like that when someone leaves and comes back. I had had an a player leave me one time, probably 15 years ago. And you know, on his last day we sat down, we were talking and I looked at him and I and I said, You'll be back. You'll be back. Cuz I, in my mind, in my mind I was thinking, you're not gonna find what you got here.

Zane Tarence (35m 41s):
Come on

Tom Bronson (35m 42s):
And so don't do it. I just said, you'll be back and fast forward, you know, a year down the road he's disenchanted, he leaves there, then he goes through a series of these dead end jobs until finally one day. And I'm, and I'm thinking cuz I, we knew people, you know, people in the company were still friends with. And I'm like, why the hell isn't he calling me?

Zane Tarence (36m 4s):
Exactly.

Tom Bronson (36m 6s):
So, so one day outta the blue, he calls me and says, Hey, let's go to lunch. And we go to lunch and, and, and he said, you know, I, I'd like to come back. And I said, What took you so long? And, and he said, What you said to me? And I said, How do you mean? And he said, When you told me I'd be back, I thought you meant that I was going to fail. I said, no, I meant you weren't gonna find what you got here.

Zane Tarence (36m 30s):
Oh wow.

Tom Bronson (36m 32s):
So, so I have been careful about saying that ever since you'll be back because I don't think you're gonna find what you're looking for.

Zane Tarence (36m 39s):
Exactly. And most of us as entrepreneurs that know we have something special and our companies and our team, we know that intrinsically, just like my wife wants to lead me, I'm like, baby, they ain't no you, you will be back. You don't know what you got. Right? But, but the times I've been most discouraged as a, as an entrepreneurs, when an A player came and said, hey, saying I found another opportunity or I'm gonna move whatever. Now I look at that and I start right there loving them saying, How can I help you in your current career? Because if I can get them back, the ones that are A players, it's the difference maker. And remember, a players aren't 10%, 30% better than B players, they're 10 times better. Okay? So get 'em back.

Zane Tarence (37m 21s):
I'm working right now on my alumni, you know, that leave our bank because they want to go on the buy side

and work for private equity. I, we start working as a coach. Our A players, we support 'em stay in touch with our alumni. But buddy we're always saying, when you get ready to come back to Birmingham or Dallas, you gimme a call. Cause you proved it. I got a place for you. And I'm telling you investors love that. So,

Tom Bronson (37m 44s):
Yep. I wish that I'd worded it that way for, for this guy. By the way, tell the tape on that is when I sold that company, he still works in management for that company. So, so he was, he was absolutely an A player and one that I didn't wanna lose, but ultimately got back. Let's just do one more outta the book because I really want everyone to buy the book and of course we'll have it on the website. Reason 17 is the market process is not in your plan. Now I talk to many business owners who think that their business will sell quickly, sort of like a real estate deal because they've never done this before. They think they're gonna stick a sign in the front yard, a bunch of offers are gonna come in, they're gonna be off, you know, sipping margaritas, you know, in Tahiti or whatever in a couple of weeks.

Tom Bronson (38m 31s):
What do you mean by the market process is not in your plan?

Zane Tarence (38m 36s):
Wow, there is a way that successful private companies are bought and sold. There's a methodology and it typically, the data shows a planned exit, Tom, working with somebody like you three years before you're even thinking about it, right? Ads and then doing a process, not just an exit. Somebody emails me and says, Hey, I wanna buy your business for a good multiple. Don't do that. You need to have a competitive auction confidentially where you are underwritten, you have a beautiful set of financials, a roadmap, a growth strategy, a plan, and then you do buyer's research to know who are the companies that would be absolute idiots not to buy us if they knew what I was really doing we're the missing piece of their puzzle.

Zane Tarence (39m 27s):
What growth equity fund would not say, Oh my goodness, this is a platform company that I need. But if you don't run a process, typically the research shows you leave 30% of your value on the table. So if you were a 50 million company in a process, you would leave 15 million of enterprise value on the table. If you say, I'm gonna roll my own. So please get a little information, tons of it out there. Tom's got it, I've got it. We'll share with you what is a true market process to create a confidential competitive auction so that you know the market has spoken to the value of your business. Most owners we work with Tom don't even understand the international buyers.

Zane Tarence (40m 9s):
20% of our deals the last two years and the US have been purchased by a cross-border buyer. They paid more than any US buyer why they needed this US presence. Also, sometimes the exchange rates were working for us. And so please, please, please, one buyer is no buyer. When you get ready to transfer this

value, as you mentioned, your company is only worth what a willing buyer is willing to pay. And you do not know that unless you run a structured process, making sure you're telling the right message about your company to the right buyers at the right time with the right focus and interview. So sorry, I believe in a process.

Zane Tarence (40m 49s):
Oh, and let me give you one more just bit of evidence. Private equity investors, people that buy private companies and they work 'em, grow 'em, get 'em better, sell 'em again in five years for five times return on invested cash. They always do a market process when they exit their businesses, they never just say, Oh, there's a buyer, let's sell it. They're the best investors in the world. They used to be investment bankers like me that do these pro they know how to do it. They always wanna make sure that the market has spoken and they do this process. And so please, as a business owner, if you love your family, if, if you love your team, please do a structured process when you're ready to exit.

Tom Bronson (41m 29s):
Yes. Yeah. Yeah. I love that saying that's something that David Hammer says all the time, and I know you know David through biz owner's, Ed

Zane Tarence (41m 37s):
Absolutely love David.

Tom Bronson (41m 38s):
It's, you know, one buyer is no buyers, right? And I, I get calls all the time, Oh, I got somebody that called me and wants to buy my company. If you're breathing and you own a business and if you're not getting three of those calls a week, I'll be surprised.

Zane Tarence (41m 55s):
Exactly. And, and, and they're saying they'll buy your business when they don't even know your numbers. They want to get you started so they can get leverage over you and say, ah, you know, we said we'd pay you eight times even. Duh Tom, the more we're looking at it, you got all these problems we might can do three times, they're just gonna work you. If you don't have a competitive process, you've got zero leverage. Zero.

Tom Bronson (42m 17s):
Yeah. Well, I, I used to love it when I, when in my last company I'd get buyers or I'd get people, you know, all the time. And by the way, my rule is I'll talk to anybody, right? I'll just talk to anybody. And so someone would call my office, Okay, we've been following your company for a long time, we're really interested. I said, Oh really? Then tell me what you know about my company.

Zane Tarence (42m 39s):

Oh, that's good, Tom.

Tom Bronson (42m 42s):
Silence, right? Oh, you've been following us really closely, haven't you?

Zane Tarence (42m 49s):
Hey Tom, I love that. I'm gonna give that to some of my clients. If you don't mind, I'll please, I'll, I'll send you a royalty. Right?

Tom Bronson (42m 56s):
Oh look, my rule on that is if somebody says something that I love so much, I give them credit the first time, then I own it.

Zane Tarence (43m 4s):
Hey, I like that. I like

Tom Bronson (43m 5s):
That. Same deal. Same deal for you. Right? Before we go, tell us a little bit more about why Founders Advisors is different and how they drive value for their clients toward their ideal exit.

Zane Tarence (43m 16s):
Thank you for letting me answer that great question. I have a lot of amazing competitors and, and I tell my prospects it might not be us, but but please have somebody, you know, on your side of the table. We're different. I think because we are about relationships. We, we love the transaction, but Tom, as you and I are talking, we want to be involved with owners way before they ever transact. That's where we make our money. And, and believe me, you know, we're, we have a healthy self-interest cuz we know if we serve and add value all along the way, they'll come a time when an owner's ready to transact. Maybe they'll call us because of the value add we've given in our understanding of them also industry specialty.

Zane Tarence (43m 58s):
We have 11 sectors that we specialize in with private companies between about 20 million in enterprise value and 200 million. That's our sweet spot. So we're right below the Wall Street banks and we have deep, deep subject matter expertise in the deals we do. And so I think that makes a huge difference. And I also think we're not just ready to talk to you when you're ready to do a deal. We want to add value and have an ecosystem like you that really, really helps them build value.

Tom Bronson (44m 28s):
That's it. And that's what it's all about. And, and folks, let me, me just tell you, I, I can give you examples of the work that founders has done and it'll just blow you away. If you want to hear those, just call me. You

know, my cell phone number, It's right there on the website. So one will ask business question here. This podcast is all about maximizing business value. So Zane, from all your experience, from all your working with companies, from being an entrepreneur yourself and helping others now, what is the one most important thing you recommend business owners do to build value in their businesses?

Zane Tarence (45m 2s):
Wow, you're gonna force me to put it on a billboard. One, I I would say, if I could just put one thing on a billboard right now, obsess over your product slash service market fit, obsess over your product market fit. Do you have an amazing market? Know who that market is for, you know, that ideal customer? Write it down, put it on your whiteboard and then you obsess every day. How can I make my product or service fit that need where they have a wow outcome? If you do that simple thing, Tom, you will build incredible market value.

Zane Tarence (45m 46s):
So product market fit and my buddy market and a big investor that did Netscape, he says this too. It's the number one thing, product market fit. I think we sometimes lose focus on being the very best at what we do for our very best niche market. Do that and you will attract a players, you'll attract investor, you'll have customers and guess what? You'll have really good ebitda.

Tom Bronson (46m 10s):
Yep. Yeah. Narrow it down. Narrow it down. I love that. That's the first time I've heard that answer in 135 podcasts. So wow. Love it when we hear new things. Now, just cuz this has been a great podcast, doesn't mean I'm gonna let you off the hook. Zane, you get a bonus question and your bonus question is, what personality trait has gotten you into the most trouble through the years? Oh,

Zane Tarence (46m 35s):
Okay.

Tom Bronson (46m 35s):
I might have a couple of guesses, but

Zane Tarence (46m 37s):
Yeah, I, I got a lot. But, but I'll give you two real quick. My wife's where I've been in the most trouble, my, I dunno if it's personality or character flaw interrupting. I know you're not gonna believe that sometimes I think I'm this deep listener. I pray every day, Lord, help me ask more questions and shut up. Especially to my wife. I interrupt and after 35 years, it has caused me a lot of pain and a couple of things thrown at me.

Tom Bronson (47m 6s):
I love that. I, I have been accused wrongfully, but you know, people are not paying attention to my needs.

Zane Tarence (47m 15s):
Exactly.

Tom Bronson (47m 17s):
How can our viewers and listeners get in touch with you?

Zane Tarence (47m 19s):
Hey, they can just, Zane, z a n e Birmingham, you type that in. Google goes to our website, founders ib.com. My emails there, everything's there. And I've, I've, I've got a lot of stuff written about me. Hopefully you'll find something good. So just Zane Birmingham and, and you can find me or founders ib.com.

Tom Bronson (47m 38s):
Awesome. Awesome. Look, thank you Zane. You've been a great guest and great information for our audience. Thanks for coming on the ride with us today.

Zane Tarence (47m 47s):
Tom, thank you for all you do for business owners. I appreciate you brother.

Tom Bronson (47m 51s):
You can find Zane Torrance founders IB like investment bank founders ib.com or on LinkedIn. Of course, you can always reach out to me and I will be happy to make a warm introduction. In fact, we'll have a link of course on our website this week so you can buy the book and it'll stay on the website, not just this week. It'll stay there so you can go buy the book and, and start taking action on the 17 reasons Your business is not investment grade. This is the Maximized Business value podcast where we give practical advice to business owners on how to build long-term sustainable value in your business. Be sure to tune in each each week and follow us wherever you found this podcast.

Tom Bronson (48m 33s):
So until next time, I'm Tom Bronson reminding you that just because you have a good business does not mean that you have a transferable business. So get the book and start working on making your business investment grade while you maximize business value.

1 (48m 54s):
Thank

Announcer (48m 55s):
You for tuning into the Maximized Business Value podcast with Tom Bronson. This podcast is brought to you by Mastery Partners, where our mission is to equip business owners to maximize business value so they can

transition on their terms, learn more on how to build long-term sustainable business value and get free value building tools by visiting our website, www.masterypartners.com. That's master with a y mastery partners.com. Check it out.

Tom Bronson (49m 40s):
That was perfect. I wouldn't make any changes.