Announcer (3s):

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 was 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 of Mastery Partners, Tom Bronson.

Tom Bronson (35s):

Hi, this is Tom Bronson, and welcome to Maximize Business Value, a podcast for business owners who are passionate about building long-term sustainable value in your business. This podcast is part of our series, highlighting some of the educational opportunities coming up at the Business Transitions Summit. The Business Transition Summit is our event that will be held on May 2nd, 2023, and it's for business owners to begin thinking about and preparing for their ideal transition. You know, every business on the planet will eventually transition, some by default, some by design.

Tom Bronson (1m 16s):

This is an opportunity to come and learn to, to design your ideal exit strategy. Registration is open now at Business Transitions Summit, that's transitions with an s business transitions summit.com. Did you know that 83% of attempted business transactions fail to reach the finish line? That's that sales that is transitions to the next generation. It's transitions to esop. 83% of attempted transitions fail to reach the the closing table. That's right. Only 17% of attempted transactions actually reach the finish line.

Tom Bronson (2m 1s):

We call those owners that achieve that, the 17% club, and we've done a couple of series on this podcast highlighting their stories. At the upcoming Business Transition Summit, we're gonna have several successfully exited owners tell their stories in a live version of tales from the 17% club. So today we're going to give you highlights from that podcast series with a compilation of the answers to the question, what did you learn going through the process? Now I'm certain there's gonna be some great stories that you're gonna hear, and of course, if you'd like more on each speaker, you can find the entire series wherever you get your maximized business value podcasts.

Tom Bronson (2m 47s):

So relax and enjoy this compilation of tales from the 17% club.

3 (2m 54s):

Ah, man, there, there are a lot of funny

Tom Bronson (2m 57s):

Moments. Mind you, we have a, we have a, we have

3 (2m 59s):

A time limit. So, well, you know, it, it's funny, it, and it's not some of the probably the big aha things that, you know, some people talk about. For me, it was the little mechanics that, that were really, really interesting. So for instance, at at the end of the, the due diligence process, you know, you're, you're coming down to figuring out what all the numbers are. And again, the, the number below the big number is really where the important parts are. But you're running a business and it's operating, so how do you know what the final numbers are? Right? And so I am freaking out as we're coming to the end of the days and remind you, I, I'm the guy on, on the, on the company side.

3 (3m 41s):

How am I gonna get all these numbers to line up perfectly? And I'm completely losing my mind until my attorney finally says to me, I don't understand what you're losing your mind over. There's a 90 day grace period here where we're actually gonna true the numbers up. And, you know, that'll all flush itself out. So that was a really nice thing that someone could have told me upfront. And then the other thing was, we in our deal, you know, we, we needed to set up an entity to, to be able to, to transfer the money and then disperse it to our shareholders. Well, no one told me that, right? And so as we're coming down to the, to the end, my attorney says to me, Hey, what's the e i n number for the entity that you, you formed?

3 (4m 27s):

And I'm like, what entity? Right? Like, so those were some of the like goofy things that I was like, boy, that would be nice if someone had like a, a a punch list for, for the owners to be able to say, Hey, by the way, in the next whatever few months, just form an entity so we can, we can do all of this stuff, right? And then making sure you find a bank that can actually wire out to your, to your shareholders, like, just, just those things were, were a big aha. I think the other thing was, a lot of times when you're getting ready to sell your business, I, I, I think there's some folks out there that like to kind of preach the fear of, you know, how are you gonna create a sim and tell the right story?

3 (5m 11s):

And, and, you know, what is, what does the documents look like that you need to share? And the reality of it is, it, it doesn't have to be as, as laborious and a huge document that everybody said it needed to be. I, I found that a really, something a little bigger than an executive summary is what wet the beak of the serious buyers? And then we start going through, you know, what I would say that, that pre o I process of getting them what they uniquely wanted to see in order to see if it was gonna fit with what they wanted to buy. So this whole idea of going through an exercise of creating a massive book was another thing that I realized was, was a farce, at least for,

4 (5m 57s):

That's

5 (5m 58s):

A big wow. I have to be honest with you. And we have a time limit, by the way. Yeah. I wasn't prepared for that question, to be honest with you. What did I learn? What I learned was this is a very emotional process. And they say, Nicole has got a lot of experience in residential real estate, and I've learned a lot through her on this. And they, she says that selling or buying a house, you know, is, is an emotional buy. It's an emotional transaction and it makes sense, right? It's probably the largest transaction of most people and the biggest asset and whatnot. And you're gonna live there for a long time. So buying and selling a business is very emotional. And, and mo some people are either emotional or logical on the scale.

5 (6m 41s):

I'm very emotional. Nicole's very logical. So what I learned is that to really stick to the facts, you know what I mean? And, and you know, I sometimes would come across as, don't confuse me with the facts, but in this case, the facts are really, really important to stick with the facts, to stay non-emotional and to not go into it with a what's in it for me? What's in it going into it was, how do I transfer loyalty? How do I transfer value to the buyer to make them successful? Because if the buyer's successful, the seller will be successful. I have a mentor who says, I go into every 50 50 partnership delivering 90%.

5 (7m 25s):

And I like that mentality. I like that thought process because the, the buyers feel that energy. They feel that you want to make this a win for them. And I think too many sellers go into this incredibly self-serving, and that's okay. And I think that's fine. We have to be taken care of in the transaction. But at the same time, this is something that your value's gonna come after the sale in most cases, either at closing or sometime in the future after the sale. So going into it, looking at the numbers and if things go wrong, they come out of it looking at the people. And I just wanna make sure that the people involved in the transaction is, is very standup people and that, that, that, that, that is building that relationship for success post-transaction.

4 (8m 12s):

So I think I was pretty vol, pretty naive and you know, bit vulnerable just cuz we were so unsophisticated going through this. And, you know, looking back, I, I think we put way too much at risk in, you know, kind of like how we structured the deal and just trusted, you know, that it would all work out. And unfortunately when we, the way that we exited the business, of course we hadn't l o the first time that we did not sign how this company was going to manage. It was there was going to be someone, you know, at their company who was gonna be managing a book of business. So we felt very comfortable in that first l o i with who would be managing that book of business.

4 (8m 54s):

And I felt like we got, got to know them fairly well. When we went back to the company, that person was not available. They already had enough, they already had a lot of business. So there was another person brought to the table who would be managing that portfolio of accounts. And you know, our success was gonna be tied to the success, you know, of continued, you know, performance of, of the company. Unfortunately, this was a, it was a, it was a bad match for our clients. I, I'll just say that this person, you know, was highly successful, you know, really good person, just not necessarily, you know, the best match, you know, for our particular clients and kind of how Mike and I dealt with them.

4 (9m 37s):
So with that there, you know, there were some unexpected things that, you know, that we, that we dealt with and we ended up working through it along, you know, with them to transition to someone else who, you know, then was able to kind of stabilize that. But that was the, you know, that, that was, that was tough to go through. And looking back, you know, I would've probably protected, you know, maybe protected ourselves a little bit more and, and not put so much, you know, on the line with it. So that was a big,

7 (10m 5s):
That was interesting. A couple things I learned a little bit about myself and about could, could I make those kinds of decisions? You know, I've been used to making decisions and running the company and I'm pretty comfortable with those. This was a major decision. This was like, you know, I, I haven't had the advantage you have of, of buying and selling a ton of companies. This was my company, the one company I'd founded that I'm selling. So it, it, it really was a psychological process I went through. Then the other thing was just, I got Ena really kind of enamored with the process itself and just all the way things fell into place, the bumps in the road and all those things.

7 (10m 48s):
And it, I, I see why you do what you do. Cuz this is really a fascinating thing when you, when you transition a business and particularly when it comes out on the other side and it's good, you know, and, and it's successful in, in that more people create more wealth, more people have more opportunities and and so on. So that's, that's always a good thing, I think. So that part of it was really cool. The angst of going through it, it's probably not as cool. So,

6 (11m 21s):
Oh wow. Well, I guess first of all, it was a realm. I never, myself, and I, I, I can't speak for Pat as well, imagined ourselves being in, I mean, you now you're dealing with high rollers and, and you know, a lot of egos, but a lot of excitement. You know, people would say to us that we're looking at us, so what are you gonna do with your millions? Right? Well, pat and I I hadn't thought about that, right? And you find, you find, you go, you go into a dimension of your own psyche that maybe you don't roam in or haven't roamed in, and you discover things about yourself.

6 (12m 2s):
Obviously I discovered as did Pat, that, you know, our egos hurt the company. You know, obviously at the same time we, we, we found that we were capable of more than we ever imagined. I mean, when, when we

came up with act at that breakfast, you know, conceived it at that moment, we had no idea how it was gonna change the world. I mean, it really did change the world. It created today a multi, I think the latest number I heard Tom was 44 billion annual revenue by all of the CRM companies combined. I mean, talking Salesforce and God knows, sugar, crm, blah, blah, blah, blah.

6 (12m 46s):
There's over less number I heard, and I'm sure it's, it's more than that was there are over 1200 CRM companies in the world today. Now most of them are obscure, a lot of them are specialized, but, but in aggregate there is 44 billion in revenue. And they all point back to act that the act was the catalyst. Are you kidding? I was raised a blue collar kid in Chicago, in the rough part of town. If anybody's familiar Chicago, I'm talking South shore, you don't wanna go to South Shore right now, okay, for fear of your life. That's where I grew up. I was beat up as a kid, as a four-year-old, I had a switch blade pulled on me. No joke. Okay. Oh man. So, and Pat was also raised in a tough part of East St.

6 (13m 27s):
Louis. We, we were poor kids. My dad was a blue collar worker. I'm the first kid in my family to get a college education. And so, you know, you, you only think so high. I, I'll never forget. So I went through IBM sales training six months before we were given our territory. Here's one of, they taught us so many lessons. I I alluded earlier to the fact that many of the principles they taught us, and they were principle focused, not technique focused. Yes, they taught us the sales process, but their focus was on principles. And, and those principles have done me well in my life. So here's one of 'em, I'm, I'll never forget the first day of class they asked us, so we were, the way IBM organized back then in the mainframe era, everybody hired across America in that calendar month, constituted the class.

6 (14m 17s):
And often for the next six months, we were going to live together for weeks on end up in Rochester, Boca Raton, Atlanta to do do our classwork in front of the instructors, et cetera. Okay? First day of sales training, they said, so there are two kinds of salespeople. There's jack asses and, and there's wild stallions. And this is what they said. Now imagine you're sitting there, we're we're, we all have a job finding, we're excited to work for ibm, you know, and, and they say, we don't hire jack asses. They can carry a heavy workload, but you gotta kick 'em in behind to get them to do the job all the time.

6 (14m 58s):
We don't like them. We only hired wild stallions. And all of you in this room here are wild stallions. Now, again, this is an impressionable young man, right? Wow. I had never pictured myself a wild stallion. But when you think wild stallion, it conjures up, you know, being in the open prairie, running wild is a herd, right? And nobody can corral you and you're independent and fierce and determined. So not so they say, but, but by the end of the six months, you're no longer gonna be wild stallions. You're gonna be thoroughbred racehorses. Oh my gosh. They took us in the matter of a minute, from nothing, a baseline to a, a wild stallion

to then way up in the, you know, stratosphere to a thoroughbred.

6 (15m 43s):
So in our minds, they taught us you've got to think higher than how you otherwise would see yourself. I say that to say that's what happened with act again, you know, our ego and everything, but the success, the, the, the hard work, the effort, the passion, it, it showed us that we had a deeper reservoir than we knew existed in us. But you don't go to that reservoir until you're faced with that opportunity or need, or even if it's desperation. I e that breakfast, we were desperate, but we still tried to go down and see is there anything more, is there any further step we can take?

6 (16m 24s):
And, and obviously we didn't come up with one, but that mentor, thank God said, think go to a breakfast and see if he can come up with something. We hadn't thought of that. So, so you realize you're not capable of reali of seeing everything on your own. You desperately need mentorship. You need wisdom from people who are, who have gone before you. And it, and you know, not necessarily all of them can give you good advice, but you've gotta be willing to seek that advice and not think that you can figure it all out on your own, you know? No, the, there was a, I'll never forget one day, pat and I, this is probably in, in later of 87 or early 88, we were having lunch together and, and we both just started commenting.

6 (17m 7s):
We were probably at that point up to 30 people in the company and he said, man, we're we're responsible for 30 people's livelihoods. Their, their car payments, their mortgages, they're, they're being paid by by the job we created for them. Could you believe it? You know, it's like self discovery, right? But you understood, we understood we're responsible for these people and how we treated our people was very important, right? And, you know, maybe later we can get to how did they respond to when we told them we sold the company because it broke their heart, because of how they were treated and the opportunities that a fast-growing company provide somebody who, if they had gone to a big corporation, would've taken them years, if ever to work up the corporate ladder when, you know, a, a successful company, jobs emerge because need arises and somebody's gotta fill it.

6 (17m 58s):
And a lot of times people say, I'm interested in that, or I can do that. Can I take, can I have it? Sure. Right? And, and you, we saw people nurture and we nurture them. We saw them grow because of it. We saw, we met people who were had Ill motive towards, I'm talking one in one particular investor perspective. Investor was an extremely savvy man. I mean, he was, he, his talk was like silk. He was that smooth. And he was an ex-partner at, I think it was Arthur Young before Ernst and Winnie bought them and they merged, you know, Ernston or whatever it is,

8 (18m 38s):

Ernston Young now

6 (18m 38s):
You were Ernst Young. Yeah. And, and, and he was one of the guys that said, so what are you gonna do with all your millions? And and you know, he wanted an answer from Pat and me and we, well, I don't know, maybe I'll buy a boat, I'll buy a new car. I have a used car right away. But, but he, we, we, he set up a whole meeting tom, of a lot of experts and these were recognized experts in the industry that he brought into town. And we had an all day meeting with him and he did wanna buy the company. And we discovered, fortunately that day, he was basically going to kill the company and he was gonna get rid of Pat and me. He was going to change everything. And fortunately, we all recognized it and we literally walked out on an all day meeting where he brought people in from across the country.

6 (19m 25s):
And as funny as it sounds, I, I won't reveal his name, but a couple years later in Business Week magazine, there was an article about him being a fraud and how he had deceived companies. And so, you know, you get a little harder or hardened in realizing you've gotta talk to money people, but be careful because they've, they know you, they've got what you want and it can be sweet talk and you can be seduced and fooled. And so we, we grew, we, we, we, you know, matured in a lot of ways because we were thrown in the battlefield.

8 (20m 1s):
I, so the short answer is everything, right? Like everything about diving in and not knowing anything, the one advantage was I got to learn everything firsthand. Again, it didn't help from a sustaining business standpoint, but some things that really jump out that I guess have guided me over the past, I can't believe now I can say 23 years. So one is quality wins, right? That people really, really responded to the quality of the publication. We weren't, our, our goal was if somebody would read about a fort le buff volleyball player, right? And you think, what's Fort Lo Buffet? Some high school and volleyball's actually a big sport out there. We didn't want them to read and go, yeah, I know all this stuff about them. We wanted to read it even the most diehard fan and say, I didn't know that about that kid.

8 (20m 44s):
That's unbelievable. Like, that's a great story. And people really, really respond to that enthusiastically. And again, we have people who are huge supportive of, of ours, huge promoters. Also niche marketing works, right? Just the fact that we were a sports magazine just for Erie County, Pennsylvania, right? Everybody in Erie County who cared about sports, they were more than happy to, to consume it. Also learned, touched on it before, like delegation is required, not just preferred and not just some delegation, but as thorough delegation as you can. And you referred to the whole series we've put together through the RSPA delegate or Die, if anybody wants that, I think you can find it if you just Google it or go to go rspa.org, search for delegator die.

8 (21m 25s):
But delegation is absolutely required. You need to be really, really strong at it. I think I also learned resourcefulness because I had no resources. I had to just figure it out on my own right? And I wasn't relying on all these other services or somebody else to come in and, and do something for me. You know, there's some countries that have a year of mandatory military service. I remember as going through this, I thought, you know what the United States should have is a year of mandatory self-employment, right? Where things aren't just coming to you. I need this, I deserve this, I should get this. It's, you go earn it. And that's what I felt like, I didn't like the feeling of every day going to the mailbox and being like, please be money. Please be money. Please be money.

8 (22m 5s):
But talk about a driving force and making me realize that might not be there. I've gotta make sure I'm running this thing lean and mean. I, I also learned from a sales standpoint, cuz I was not a trained salesperson, I still don't consider myself necessarily a trained salesperson, but I was just going in there naturally looking for a fit. I wasn't forcing one, right? Like, don't be a BS person when you're, when you're trying to sell. And I'd say the last thing that that, you know, carries over and I've tried to do this in, in everything that I've done is we had, for the sports magazine, we, you know, we didn't know it at the time, but I end up calling it after working at Jameson Publishing, called it an evangelism statement, right? Like not just what you do, but what is your cause behind what you do.

8 (22m 48s):
And our tagline for the sports magazine was because Eerie sports are more than just a box score, which was a backhanded slap at the eerie times because they were, at that point, they had a bunch of, you know, quite frankly people who didn't really invest in the local community and they were just ripping stories off the Associated Press. They were just running box scores, right? And so that was our shot at them and to show people what we really were doing. And through the magazine people saw our love for Eerie sports and like I said, it elevated them, it elevated the sports, it elevated the kids and they were really sad to see it go. But I can even say years later, Tom, and we're talking, like you said, 23 years later, I still have people who say, oh man, I missed that magazine.

8 (23m 29s):
Do you think any chance you'll bring it back? And I'm thinking, oh my gosh, how do you even remember it? Right? But people, oh, I have this issue. I remember when so-and-so was in there. And, and, and that was great. And so when we, since we were evangelists for the, our community that we had our niche audience audience, they turned out being evangelists for us. So we came out one time and this, this will be funny where, you know, I would just get worn out. And so the August issue, I was like, can we just mail it in sometime? And so instead of me doing all sorts of interviews, we ended up doing some whole research project. And it was actually my mom who led the research project and we did the top 50 high school athletes in Eerie history. We ranked them one through 50, then we had on a big honorable mention list.

8 (24m 11s):
And so, you know, when you're doing a top 50 list, you're gonna leave somebody off, right? Or it's not gonna be in the, the right order. But it's a really, really good list. And again, the eerie times was really lazy and just ripping stories, you know, off the, off the wire service. Well I remember it was a Sunday morning, I'm sleeping in, I get a phone call, did you see the times? Did you see Dennis Mah Husky's column? I'm like, no. And they're like, he totally ripped your issue. And Tom, he was so harsh, you know, how can they accept congratulations and they have egg all over their face. But again, they weren't covering local sports, they weren't giving it its due credit. They cover games, they'd never do feature stories, which is all what we did. I didn't have to say anything. Talk radio for the next two weeks.

8 (24m 52s):
TV sports broadcasters are like, who does the eerie times think they are? This magazine is awesome and that issue was great and Tom, all the issues are gone. I'm getting all these phone calls like, can you bring more, can you bring more? I'm like, I don't have anymore. Right? And so as one of those things again that I really taught is if you really fight on somebody's behalf and really fight for them, not expecting some immediate thing in return when you're down, you get knocked backwards, man, they will come to your defense. Remember that was, it was really, really fun. You know, it was almost contentious kind of thing. And you know, our next issue, we got to take a shot back at the E times. But, you know, that was a really, again, a very instructive for me. And that's part of what you can see. You and I have worked together in a lot of things.

8 (25m 32s):
I'm really passionate about small business owners and recurring revenue and things like that. And when I do something or I need something, they'll jump right away cuz they really see us fighting for them. So if your business can somehow get to the point where your customers really see you fighting on their behalf, not just selling 'em something that's gonna benefit you when, when you need it,

9 (25m 52s):
Well, quite simply, you can never, ever be over prepared. And even when you think you are prepared, you are probably not. And the other thing that's really important, or it was to me was to have a good support system outside of work. I I was all in 150% and it was nice to have those outside of work support me.

Tom Bronson (26m 20s):
Well, if I could borrow from my good friend who I recently heard on a podcast, everything, You know, as I said earlier, it was really kinda like being, getting an MBA in, in business transitions in m and as or in m and a transactions. And, and I learned so many important things. I want maybe, maybe I can just tick off a few of these. One of them, I, if you've ever seen the movie Glen Gary, Glen Ross, it's like one of my favorite movies about sales. It's the w Alec Baldwin plays the, the big slick, you know, sales VP who comes in to give the

motivational speech and it's b c always be selling b ABC always be selling, right?

Tom Bronson (27m 8s):
And it's, it's like the worst mo And in fact, my, I had it on the other day, it was, I was flipping channels and it came on and my wife walked through it. It was right at that scene. And she goes, what is this? I says, Glen Gary Glenn Ross. I mean it's like the greatest sales movie of all time and along with Boiler Room and, and a few others. But she sits down and she's not paying attention, but she's hearing what's going on. And it's right at this time when it's the guy, he's going through this motivational speech, she looks at me and says, is that supposed to be motivational? And I said, I said, I said, that's the beauty of this film. We used to show that to sales managers to teach them how not to be right.

Tom Bronson (27m 51s):
So abc, but I, but I borrowed that, that ABC and I changed it to a b r. Always be ready. You never know, like us, we were just combining our business together. And you never know when an opportunity is gonna come across your door. Now, I hear from business owners all the time, oh, I get calls every day. Yes, if you're breathing, if, if you are listed on any business websites, if you get any notoriety, every private equity, every business broker, every investment banker is gonna be calling you.

Tom Bronson (28m 31s):
So you're gonna get calls every day. It doesn't mean that you've got a real buyer on the other end of the line. We just happened to have a real buyer that, that knocked on our door and, and walked through and, and we got lucky, right? And, but we were nowhere near ready. We knew that there were things I would've stomped the gas pedal at the very beginning if I really thought we were gonna have an exit in a year. I thought we had three or four or five years to build the business, take it public, and, and then, you know, gone about our happy way. But a real deal fell in our lap. And, and so a a real lesson that I learned was be ready in advance.

Tom Bronson (29m 16s):
Document your processes. You know, we had processes at our various businesses, but we'd never taken the time to really consolidate and think about what were best practices. Benchmark yourself against others in the industry and understand what best practices are and create the best in class processes in your business so that that can, can be an attractive, that can be one of those intangibles we were talking about before the break, that that could make the business more valuable. It really gave me a clear understanding of the value of corporate records.

Tom Bronson (29m 56s):
Corporate records. So that would be thing number three, the corporate records, because you know, that's something that sits on the shelf. I've got a corporate record book over here on the shelf. And, and those are things that are easy to overlook. You're not recording all the things, you're not putting in all your resolutions. And by the way, if you have bank debt or a line of credit, you have a corporate resolution that belongs in your

book. Those are simple things, you know, get those corporate records in order because somebody's gonna read them the way that the, the attorney from Austin and Bird did. Another important thing I learned was understand the buyer's motivation. I never really thought about that. I knew about the seller's motivation.

Tom Bronson (30m 37s):
I wanted cash, right? I, I want to sell this business and I want cash and I want to move on about my business. But, but really diving in, because we didn't at the beginning understand the buyer's motivation and, and we didn't understand that until the, the stock price plummeted. And then I understood how they were valuing businesses and what their motivation was. And that would've been a big driver for me at the very beginning. If I could, if I, if I've defined my exit strategy, which we had and understand the buyer's motivation, that's a big lesson that I learned.

Tom Bronson (31m 18s):
And, you know, a lot of these things are, are things that we do in our assessment today. You know, we've created that, and I'll talk about that in a minute. But it's the things that, that are kind of outta sight outta mind that you don't think about. That every business doesn't, you know, well every business has processes, but are they documented, right? Yes. Are they best in class? Have you benchmarked them? Do you know how you perform against your industry? You know, are you ready? Are you really, or have you got these things in order? These are the things that, that, the lessons that I learned that we've tried to really capture and consolidate into one of our products, which is called the Transition Readiness Assessment. And it's all the lessons that I've learned.

Tom Bronson (31m 58s):
So literally that assessment is 500 questions and, and many of those I learned during this transaction. So we could sit here for hours and I could just tick off all of those things for you. How's that?

8 (32m 10s):
That might be another podcast question number one,

10 (32m 14s):
An awful lot. You know, whenever, whenever you're anything's complex by its very nature, you learn all kinds of things that would, I have done things after I learned all this stuff the same way I did. Yeah, I would've, but what I learned was substantial. One is exactly the degree of regulatory control that you have to deal with. So once again, especially in our situation where we were actually making large contributions to the ESOP plant, nobody does that anymore. So the IRS and the Department of Labor think that that's weird. So they wanna know why valuations are always Well, yeah, I mean, you know, realistically, you know, we were, we were trying to really get, get value out of it and also pay off some of the shareholders earlier.

10 (33m 7s):

Well, the only, only way to pay them off is to pay off the debt, release the shares, and then you can, you know, pay off the, the people you're trying to retire. But besides that, we, we went through all this regulatory control, been audited by everybody and you know, it's just the, it's part of the game I guess. But one of the things I really learned is it gave me a lot of perspective on the difference between well-run private companies and public companies. Well run private companies. We sit there as part of the valuation of the every year, year has come up with five year forward-looking projections.

10 (33m 47s):
What is the plan? So we spend the whole year coming up with what are our strategic initiatives going to be? How are we going to increase the value? Because in order for anything to be exciting to the employees, the share price has to increase every year. Well, obviously when you do a transaction and you take on debt because you are, because you know, you're, you're paying out the founders, your valuation drops the day after the transaction, sometimes substantially because you've taken on this additional debt. So going forward a year, what are you going to do to the organization to make sure that you have an increase in the valuation even though you have taken on this additional debt.

10 (34m 32s):
And so you've become really focused on operational results. But unlike a public company that's worried about quarterly returns, I've always thought that you need to look at long-term increases in value. So you have to balance how you're going to pull off those strategic initiatives in order to drive corporate value, but also figure out how to increase that annual share valuation to keep your employees excited. I mean, if you ever take a hit to share price, all those things that you thought you were getting from an esop, all of a sudden employees go, oh my god, the world's coming to an end. And you know it, they don't get it. The employees are not entrepreneurs.

10 (35m 14s):
We can't look at an employee and say, why don't you think like I do? Well, we're the weird ones, not them. They're normal. We're weird and we're, you know, we don't worry about risk. We gamble everything every day, which is usually why Vegas is not very attractive to us, but we're gambling everything we have every single day of existence. They couldn't do that in a heartbeat. So you need to not, you need to make sure that they, you, you appreciate how they think and what's important to them. And don't try to say, well, it's not important to me. Well, it's important to them. And really what's ma It's all about your employees. Anyway. I'm very much into the servant leadership concept.

10 (35m 55s):
You know, basically I may have 250 employees, which basically means I got 250 people that are evaluating me every single day. And that drives my participation and desire to have impact. And so, you know, unlike public companies, just pay attention to what am I gonna do strategically to increase that share price. And it's really a, it forces good planning where you might not have done it otherwise,

11 (36m 28s):
Trust, but verify would be one, a great Ronald Reagan quote. It really is. And you know, I would've engaged legal counsel sooner. I would've had a document on, on my exit that sort of specified my exit because actually I was a, a contractor for the company on a project in Arkansas that they wanted me to finish up for, you know, the balance of the year. And so we just didn't, I just didn't write all that stuff out very well. And so that was, that was a problem. But, you know, live and learn, I was all in back when I was a lot younger and trust but

12 (37m 12s):
Verify, I learned that access are never on your timing. The, you know, neither exit was, was really planned or, or timed from a, from a long term standpoint. I believe that that preparation for an exit is, is vital. Now we'll say that in the, the case of, of both exits, we kept a very, very clean set of books. A as you might imagine, we, our business was well organized, wasn't necessarily well documented, but everybody that was involved in the business knew their jobs.

12 (37m 56s):
And we had a lot of employees that had been with us for a long time. And that's, that can be a help because they, they know their jobs. That can also hurt you a little bit because that means you're probably near the top of the, the pay scales in, in those particular duties. We didn't operate businesses with a lot of debt, neither business carried debt. And you've got a lot of flexibility when you operate with great liquidity. And not every business does that. A lot of business owners feel like the greater the leverage, the better your return and don't really know the risk that they're taking with that level of leverage

13 (38m 51s):
Plan years in advance for what your business will be like when you do want to make a transaction. Because it doesn't just help you e even if you're just gonna take on more debt. The the professional lenders that we spoke with had the same questions and everything needs to be organized and the way they want to see it. So if I, if I had listened to probably everything that I was told six years ago, we probably would've hired a private equity group from a consulting fee to come in and say, Hey, if we wanna sell one day, what do you wanna see? How should this loo look like? If we wanna raise money to, to grow the business, what do we need to do to check the boxes on what you look for in the industry?

13 (39m 33s):
And, and I think they're happy to do it because it helps them learn about the industry and gives 'em an idea on what the pulse is. And they establish a relationship early. Because at the end of the day, they, they do wanna work with people they wanna work with. And if they believe in your business and you, then they would love to be at the top of the list when you do go to make a transaction. And, and then I think organizing your data around those requests, we would probably would've made the due diligence process that much

easier. And I, I think every day Chad and I were emailing each other at four 30 in the morning and at 10:00 PM at night, because that was the only time we had to work on, on the, the project.

13 (40m 14s):
And if, if we had set up the reports the proper way in the e r P system four years ago or two years ago, I guess when we installed it, most of that stuff would've been a click of the button export and send it to 'em. And it would've been very easy. Instead we were matching up reports from two or three different ERPs and trying to marry 'em together. And so I think just having the data organized the way they want to see it on the front end makes everything quicker and less stressful for you because you're questioning everything that you go to look up. Do you just, is this the way they want to see it? Or am I doing something wrong?

7 (40m 56s):
I guess just from a, it's all about a story, you know, from, if if anything, you're telling a story and you're telling a story about your business and that could be a five year, 10 year, 20 year type story. And fortunately we had always kind of documented an annual plan, a plan that consists of a sales forecast, you know, financial and operational metrics also also talked about what we did right? And what we did wrong. So there was, there was those key things that, that you kind of talked about when you, when we slipped or the business went down at, at one in 2010, it went down significantly.

7 (41m 36s):
And what did we do to turn the business around to get the business to go back up? So that story fortunately was being put together every year just because the process and the plan was not put together every year by the CFO was put together by, by pretty much the whole company or every employee had an op, had had a, a, a role in the development of the annual plan. So if anything, I learned you're telling a story and that story is being told and if it, there's bumps in it or there's, I don't knows or there's, well, I think that's the way we did it.

7 (42m 16s):
Heck, I can't remember that was five years ago and I just, you, you've, you've moved the conversation in the negotiating process to a very just there and you're not, you've gotta bring that history and that story and that consistency and then the ups and downs to the negotiating table and said, no, i i this forecast or what you are buying and what we think we're gonna do has the data to support it. So the value is what the future shows.

14 (42m 46s):
Oh man. Yeah. I I would say that's, that's kind of endless, right? So, you know, it was the, for me it was the first time to, to go through the process altogether. So, you know, you think about learning about the investment banking process, learning about how PEs work, learning about, you know, just everything involved in due diligence and, and all that sort of thing. You know, one of the things I would thoroughly recommend, there's a little book called the Private Equity Playbook written by a guy named Adam Coffee.

14 (43m 27s):
It's like 110 pages or something, super easy read. And that was just one of those, one of those things that I picked up in the process and it just, man, I want to know what I'm about to get into the more I actually know who the players are, where they fit, you know, cuz one of the things that you find out with PE and, and, and investment bankers is the director is actually higher level than the vice president. And I, it's like this flip title thing that's outside of normal business stuff. So you get this managing director and that's all different. So, you know, part of that you need to know that private equity playbook helps with is just understanding really who's the boss.

14 (44m 13s):
You know, cuz you may have a, like in the case of you get these unsolicited calls from PE groups and things like that. Well they have this really great sounding title. Well, they, they're not the boss, right? Oh, I need to go talk to, to, to my director or whatever like that, that, and you're like, wait a minute, isn't that, doesn't that fit differently? Well, no, that's actually the person above. And so that's certainly one of the things that I learned really from taking those calls. But in addition, you know, when they said, Hey, let me bring in this person, your story's interesting. Now we moved from an uninterested to an actual, Hey, I'm gonna put you on the list.

14 (44m 53s):
And they were on the list when the IB asked about our, you know, who we thought we might sell to. I was able to go back. I, I actually had kept a list of everybody who'd called me what those conversations were, who those contacts were. And I sent them to the investment banker to make sure that they were on the list and I kind of scored 'em and stuff like that.

Tom Bronson (45m 14s):
So, wow. Yeah, there's, there's really a couple things that, that I learned. Number one, don't shortcut the process. Right? You know, I, I felt like I've done this so many times, you know, with a hundred transactions in my rear view mirror, I knew better, right? I, I should have been more intentional about the setup from the beginning. We should have been more intentional about roles and responsibilities, but we were such good friends that we felt like it would fall into place. And that's just, that is a formula for disaster.

Tom Bronson (45m 56s):
So that's number one, be intentional about how it's set up from the beginning. And by the way, it's not too late. If you're in a 50 50 partnership today and you're still getting along, take time to, to write down right. And to, and to get out of one another. What are the roles and responsibilities? So that, and why do you write agreements like that? You, you don't write agreements to govern what you're doing. You write agreements because what happens in the event of a failure, right? And so Correct.

7 (46m 24s):

Well, and you're, and you're, and it's even I think, more important to do it when everybody's happy and getting along, whether it's before you start the process or if you're in the middle and things are going well, that's a great time to, to, I think, define all those things. So in the event that circumstances change and like the economy changes or another external factor happens, health, whatever, that you've got all that stuff in place Yep. Ready to go.

Tom Bronson (46m 51s):
Yeah. I mean, thank goodness that I didn't, that, that it wasn't that something happened to me or Right. Because, you know, if if something had happened to, to one or the other of us, then, then that would've been, we were completely unprepared for that. So, so be more intentional about the setup. I'm, I'm just not a big fan of 50 50 partnership. Somebody has to be in charge. Somebody has to call the shots. And when you disagree, somebody has to break the disagreement. So, so I say even if you're in a 50 50, who gets to call the shots? Who has last say there? And, and I guess the third thing is that, as I alluded to in the first half of this podcast, the fastest way to ruin a very close, long-term friendship and relationship is to go into business together.

Tom Bronson (47m 47s):
Yeah. Yeah. I never thought that that was gonna happen to me.

7 (47m 51s):
Oh, well, and I think everybody's that way. It sounds like the perfect deal.

Tom Bronson (47m 55s):
I hope you really enjoyed this compilation. What wisdom from a bunch of business owners who have already transitioned their business. And if you did enjoy this, then why not register today for the Business Transition Summit while it's fresh on your mind, early bird discounting pricing cont is about to expire soon. So go register today. 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 week and subscribe to our channel so that you'll never miss a single episode.

Tom Bronson (48m 37s):
So until next time, I'm Tom Bronson reminding you to register today for the Business Transitions summit@businesstransitionssummit.com, so you can maximize business value.

1 (48m 55s):
Thank

Announcer (48m 56s):
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Tom Bronson (49m 30s):
That was perfect. I wouldn't make any changes on.