In The Trenches_ Conversation with Les Trachtman

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SPEAKERS

Les Trachtman, Steve Divitkos

S Steve Divitkos 00:00

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L Les Trachtman 04:11

Thank you. Glad to be here.

S Steve Divitkos 04:15

This is one conversation that I've really been looking forward to before we hit record. I was telling you that I don't think I've ever come across a book that is more directly applicable to my experience as an incoming CEO, and for that reason, among others, I am super excited to dive into our conversation today. So that's just what I want to do, is dive right in. So maybe we can just begin with a little bit of table setting for those listeners who might not be familiar with your specific story, maybe you can just walk us through the arc of your career, including what you're doing to including what you're doing today.

L Les Trachtman 04:46

Sure, I started out like most people do in my career, working through corporate ladders, mostly small business, which was of most interest to me. Turned out that by happenstance, I got involved in a tech company as my first company, and along the way, the company got acquired. And I thought that was the coolest thing in the world, that you could work for a relative short period of time and then get some kind of a payday. And my payday was minimal from that company, but it still made an impact on me that it was more than just a salary to get done. So with that, I formed an opinion that I wanted to be a CEO someday. I wanted to run my own show and but knew I had to pay some corporate dues before I got there. So worked my way through a few different opportunities and about, probably, I guess, two thirds of the way through my career, had my first opportunity to become a CEO. And in becoming a CEO, I was invited to replace the existing CEO who happened to be the son of the founder and the woman who was chairman of the board at that time. So I ran into a unique set of circumstances, or at least at that time, I thought it was pretty unique set of circumstances, of having to work in an environment where the person who I was replacing was still in the business, and my boss happened to be his mother, and that was well, as I wrote about in my book, that was a bit compromising altogether. And I wasn't quite prepared for the nuances that would come up from that. But with that said, work through those that was not my finest moment, I would say. But I learned a lot from it, and ended up being a glutton for punishment and doing it five additional times after that, just serially in a row. So I replaced the founder five different times after that, including where I am today, which this one was a purchase from a founder. I think, similar to some of your background, and it's been a different experience, because I hopefully by this time in my career, I've learned from some of those experiences of at least what not to do, if not what to do.

S Steve Divitkos 07:14

So the name of the book that we're going to reference constantly today is called Don't F It Up. How founders and their successors can avoid the cliches that inhibit growth. Let's start with just like the the catalyst for the idea of writing the book like What compelled you to write it? Why did you think that this was a collection of ideas that needed to be shared with the world?

L Les Trachtman 07:36

Yeah, so traveling through that process that I went through, including the first one that I just talked about, it was a really trying process. It was something that they don't teach you in business school. It was something that you don't learn as you're going through your normal career progression. I sort of got thrown into it, but I got induced to join it, and it was and it was unique, and it was different, and it was really hard. And doing it a few more times, what I realized is it's unique, it's frustrating, and it was something that because I had done it wrong so much, just admittedly, I learned a lot, and I thought it was time to take the experiences that I had and turn that into wisdom that others could use.

S Steve Divitkos 08:23

Yeah, so I mean, a lot of the questions that we're going to review today are directly applicable to my experience navigating the transition as a new and, in my case, inexperienced CEO, replacing the founder, which I understand is also consistent with your experience. So you know, in retrospect, as I look back on the first six months of my tenure as a new CEO, I've personally found that properly managing that relationship with my seller was among my most important tasks. Like maybe my most important task, and the reason why I say that is because I was mindful of this idea that, like a non functioning relationship between he and I, or, heaven forbid, a toxic relationship between he and I had the potential to damage the company more than customers leaving or employees quitting or anything like that. So I guess the first question to you is like, do you agree with this? Do you agree that this is among the most important tasks that a new CEO ought to be mindful of in their first six months. Or do you think that I'm overstating the importance of managing that relationship?

L Les Trachtman 09:26

You know, I think being a CEO, especially for the first time, is really hard. It's a hard job, and it's not something that that comes naturally to, I would say, most people. But with that said, the taking over for somebody who was running that entity, before you got there, they've built a set of, I'll call them ruts. They built a set of ruts that are really hard to navigate around. So understanding where those are, understanding why they're there, and having a Sherpa, or perhaps even a mentor, if you've got that kind of relationship with the founder who can help you avoid, you know, capsizing while you're going through those, those that path is, is really helpful, but even perhaps, why you're asking the question. Even more important is, if there's not a good relationship and there's some devious intent on the part of the your predecessor that'll kill you. And predecessors are often reluctant to give up the range, or, in my book, I call it the handlebars, and while they don't necessarily purposefully want the company to fail, they often look at you as the you know, how could this person do a better job than me? And it's not the most comfortable place to be if you're a founder. To give founders a lot of credit, they do the magic, as far as I'm concerned, right? I've never founded a company because I'm not smart enough. And so I take over from them and help them to to scale and get it to the place that it needs to be. But they know all of the places where there, where those ruts exist, and if, if they want to say, hey, yeah, go down that path. That's a good place to go, and that's the rut, then, you know you're going to run into trouble. So I think it is, you know, is it the most important? Maybe. It's certainly a very important part of what you do.

S Steve Divitkos 11:38

I guess the importance of it, at least in part, is related to just how central is this founder to the day to day operations of the company, right? So we invest in small businesses, and almost by definition, small businesses have concentration of some variety. It could be customer concentration, it could be supplier and in this case, relevant to our conversation today, it could be key person concentration. I guess I'm going to ask you the question. Then I'll give you the why behind the question. So the question is, before you buy the company, how do you tease out exactly just how important this person is to day to day operations? And the reason why I ask that is because, in my experience as an investor, if you were to believe these selling founders, everyone spends six months a year in Florida. Everyone golfs four times a week. Nobody knows the name of any other customers. They tend to really undersell their day to day operational importance. And of course, it's almost never true. So how do you tease that out, if you can tease it out at all, before you're inside the guts of the company?

L Les Trachtman 12:40

Yeah, yeah. It's good question. A lot of it is the the status of the person as a celebrity amongst their employees and perhaps even in the industry, so that the bigger the persona of the founder, the more difficult it's going to be to replace them. And I've replaced some that have been extraordinarily large personas, and found that it's really hard to fit into their shoes. If your employees are looking for that, as opposed to me, you're going to be grossly disappointed in that transition.

Steve Divitkos 13:25

So speaking of this. So when I bought my company in 2013 I did indeed detect some key person risk with one of my founders, to his credit. I mean, he built a great business, and he was very important to the day to day operations of that business. And because I detected that key person risk, I thought it was very smart of me to structure a two year employment agreement, right, which is rather long in the grand scheme of things. But I said to myself, hey, clearly, this guy is important, so I want to maximize as much time as I can get to facilitate knowledge transfer, transition, key relationships for me to learn, etcetera. Fast forward. What ended up happening is, within nine to 12 months, like very respectfully, we mutually decided, hey, it's probably better if you transition out, I think. I would be happier as the buyer and they would be happier as the seller. So I guess the question is, how common is an experience that kind of rhymes like this in your experience?

Les Trachtman 14:24

I would say it's uncommon to give a foundera two year agreement.

Steve Divitkos 14:27

Yeah, that I'm aware of.

Les Trachtman 14:28

You might be unique in that. I think it's really common for the successor to to learn enough to have their own opinion, which might go counter to the founder pretty quickly, so within the first X number of months, and depending on the business and depending on what your background is, that x could be either smaller or larger. But it's not forever. And the in my experience. So the longer you keep the founder around, the harder it's going to be to insert yourself into the founder relationships with employees. They have established relationships, which is great, and they needed to have those. In fact, founders in general, because they're the ones that are fighting the wars in the trenches. They have a very tight respect relationship between their their key employees, their early key employees. So assuming that you're going to keep their really key employees, I know that's something you want to talk about as well, to insert yourself between the founder and those employees. The longer you coexist with the founder, the harder it's going to be for that to happen. So sometimes it's worth having less knowledge and less help from your founders, and I'll use the word get rid of them, or at least severing that formal relationship quicker than it is to keep them around longer.

S Steve Divitkos 16:04

What is your experience tell you in terms of the preferences of the sellers? And of course, we're dealing with human beings. So of course, everyone has different preferences, different situational dynamics, etcetera. What do the founders tend to prefer? Do they tend to prefer Hey, once the wire transfer hits my account, I'm off to a beach and I'm done the day after? Or do they tend to prefer Hey, this has been my baby for 30 years, I want to stick around for a year to make sure that it's in good hands? Can you just talk about, like, what seller preferences have kind of shaken out historically?

L Les Trachtman 16:37

Yeah. And I think my experience, I think, is consistent with what I've seen in the marketplace, and although founders are to some degree, they found companies so that they can be bought out, so they can have a capital event that occurs, oftentimes, the relationship with the company transcends. That is more important, ultimately to them. There's a professor, actually, where you went that you may have met, Norm Wasserman at Harvard.

S Steve Divitkos 17:06

Oh, yeah, I know Norm well, he's been a guest on this podcast.

L Les Trachtman 17:10

Okay, so he wrote the seminal work on rich versus king, or rich versus Royal, as it's now known today. And that's a really important distinction to make, and all too many founders care about the royal side, which is being in charge, then they care about the rich side. And you can't his premise, which I think is a really important one, is you can't be both.

S Steve Divitkos 17:34

Yeah, yeah, interesting. So, I mean, this is a borderline impossible question, because I imagine that it differs situation by situation, but all else being equal, and all else is never equal, but all else being equal, if you were to draft, like a one page transition or an employment agreement between an outgoing founder and an incoming rookie CEO, like what Terms and Conditions absolutely must be on there, and what terms and conditions absolutely must not be on there?

L

Les Trachtman 18:06

Yeah, that is. It's a really hard question. I agree with you, and it may even be an unfair question, because it is a dynamic between personalities that you have to figure out, yeah, but, but experientially, one that has tripped me up multiple times is having keeping the founder around to have a reporting relationship with anybody in the company. So oftentimes, I don't know if you experience this, but oftentimes you keep the founder around as the chief strategy officer, or something of that ilk. And whomever reports to that founder never has that relationship severed and doesn't really understand who's the decision maker, whether it's even clear or not, but who's the decision maker in that relationship? So I'd say first what your role is, making sure they understand exactly what their role is. And that role should not be a reporting relationship. It should be a relationship with you and directly to you and with you, but not with anybody else. That would be one that I would make sure it's very clear. The second one that I would make sure is very clear is this is the hard one, but your strong preference is for the founder not to have any one on one conversations with anybody who used to report to that founder, or maybe even anybody in the company, but one on one, conversations and and the reason for that turns out, at least in in my experience, is that founders are one, they have these established relationships. But two, there will be employees that no doubt will like to complain about you as the successor to the founder. No doubt that will happen. No matter how good you are, how nice you are or how nice you're not. They'll complain because it's not the same. And they will go to the founder to complain about you. The founder, it's a really hard conversation for the founder to represent you well in that conversation, not because they don't want to. And I had a founder that that did exactly this, which was they had a conversation with the with the employee, and they said, and they listened hard, and they said, Great, thank you for sharing that with me. And that was all they said. And the founder came to me and said, I did a good thing. Had this conversation, and here's the issue that came up, and I just wanted to share that with you. And the reality of what had happened is that employee had involved now the founder in their complaint. And that founder now knew it and owned it, and by receiving that, had actually empowered that employee to realize that that might have been an important thing for that employee to say and feel, which makes it more than it should have been. Realistically, that employee, if they have an issue with you, should have come to you and had that conversation. So it's an empowering thing that you can do naively as a founder. So I try to make sure that they don't have one on ones with any employees if they stick around. The reality is, and I think we'll talk about this a little bit more as we go forward, but the reality is, it's way better if you can possibly do it to remove the founder from the company, and if there is a relationship, that relationship is with you, and it's outside of the normal day to day of the company. They're your mentor, they're your advisor, they're your confidant, but they're not your employee, and they're not an employee of the company.

S Steve Divitkos 22:04

I'm glad you brought up the issue of clarity, because that's something that I always try to push people towards getting I once had a CEO. I've said this a million times on the pod, but I'll say it again. I once had a coach tell me like the root of all interpersonal disagreements is the difference between agreements and expectations, and I've never forgot that. So whenever possible, surface things from the subconscious level of expectations and surface them to the conscious level of agreements. So in that spirit, I try to get incoming CEOs to get incredibly specific on be clear with the founder or the departing founder, in this case, like, what is the role? What are they responsible for doing and not doing? Like, even as detailed as, how many hours per week do I expect you to work? Are you an employee? Are you a contractor? Are you in the office? Are you remote? Are you a full time employee that works 40 hours a week? Or do you just pick up the bat phone when I call you with a 911 question? Like, as detailed and as specific as I can, basically, just to avoid a situation where X months into the transition, the seller says, oh boy. Like, I didn't think I was going to be responsible for doing this.

L Les Trachtman 23:13

Yes, I think that's mean. That is the root of all evil in my experience as well, is a missed expectation, and every employee wants to know who's their boss, who breaks the tie when there's a disagreement and then, what do I get paid for my role? Founders are no different, although they're really good at, at that navigation thing to infiltrate the organization. And they, by nature, they create a bunch of this clarity. It's not a word, but that's what I'm trying to get at. They create that in the organization, because they've got that legacy of decision making, and often still will make decisions without trying to undermine the CEO, but they'll make decisions because it's obvious to them and that's a role that stuff. So yes, got to get the clarity, and you got to build the clear lines of demarcation for where they can and can't go and with whom they do that.

S Steve Divitkos 24:24

So when an incoming and an outgoing CEO are putting together this transition plan, they're putting this plan together with limited information. So the buyer might say something to the effect of, hey, I think I'm going to want you around, and need you around, and I think you're going to be helpful to me, but I kind of don't really know how it's going to go. And the seller might say, Hey, I think I want to stick around and make sure that this company is on stable footing. But I also kind of don't really know how this is going to go. So in light of that lack of information, what I've seen in the past, that I always thought was interesting was what I'll call like a mutual renewal option. So we'll say something to the effect of, here's our transition agreement, and after month, I'm just going to make up a number. After month four, we can renew for another four months, as long as we both agree that this ought to continue for another four months, but if one of us disagrees, then it's over. Have you ever experienced something like that?

L Les Trachtman 25:18

I have actually, I guess it's this company, or at least the early stages of this company. Yeah, we had a founder and and he was great. And as I said, this is my sixth time doing it, so by this time, I at least know some ideas about what's good and what's bad and what works and what doesn't work. And in that case, he was a technical founder. Happens a lot in the tech business where the founder is technical and I'm somewhat technical, but I'm not that. I'm not the coder that's going to come in to do the work. And he was, and it was very clear that the existing code was going to need his help to some degree to start out with, no matter what we did going forward. So we did hire him and actually put him under consulting agreement. And I think the consulting agreement was three months. It was a relatively short period of time, and I don't think it had any auto renewal in it at all. But at the end of three months, and I just looked at that the other day, some of the old documentation, we actually renewed it twice after that night. It may have been just for one month periods of time after that, and at the end of that second renewal period, we parted ways. And one, I got what I needed, which was enough technology transfer that other people could know where his the proverbial bodies were buried in his code. And then two that, he felt like he left it on a good legacy. And at that time, he still owned some stock in the company, which is, that's another question, I guess, that maybe we can deal with at some point, is there incentive for that founder, for you to succeed? And he had incentive for me to succeed at that time. Later, I ended up buying out his stock, and he and it was for more money than he originally sold the company on a capital value basis, but we parted his friends and the company's done well since he's departed, and we've gone in different directions than he would have taken us and we're still friends, so that worked out okay.

S Steve Divitkos 27:24

The only thing that I like about that mutual renewal option idea is it gives everybody a graceful off ramp in case it doesn't work out as planned. So for example, just to illustrate the opposite, let's say I bought your business less and I signed you up for a 12 month employment agreement. But in month three, it was clear to you or clear to me, that this was not working. You know, you'd either have to, quote, unquote, quit on me, or I'd have to get rid of you. Feels a little less elegant than an agreed upon checkpoint where one of us can kind of gracefully exit as initially agreed upon.

L Les Trachtman 27:59

Yeah, and what I would say is this is not just a play on words, but graceful is really important for the rest of the employees, right? They want to know that the founder was treated appropriately on the way out. They cared about the person. They likely were hired by that person, in many cases, small businesses. This was, you know, some of those employees first job, and they didn't know any more than than just this founder as their boss. So they don't want the founder to walk away angry and think that you're a bad person because you did that to them.

S Steve Divitkos 28:31

Yeah, totally agree. Talk to us about so I get this question all the time, and I think I still have, like, recurring nightmares from this experience. Talk to us about that first day as a new incoming CEO. Often, there's like an all hands meeting where you announce the change. Often it's the buyer and the seller, kind of presenting a united front. In that all hands meeting, if you think that's a good idea, maybe you don't, what are you sure to say? What are you sure to not say? And how do you respond to questions where employees are desperately seeking clarity on things that you just can't yet give them clarity on?

L Les Trachtman 29:07

Yeah, it's a really interesting question, and I'm sorry you're having nightmares about it. I guess maybe perhaps I'm your shrink mouth in this podcast, but I've had them go both ways, and I would truthfully say that the time I did it first I did it, or maybe second I did it best, and the time I did it later, I did it worse, or at least had worse outcome. So let me peel it back a little bit, it's actually a second time wasn't the first, but I had an all hands meeting. So this is a company that I joined, succeeded the CEO. The CEO and I had a very good relationship. It turned out that we maintained that really good relationship for years afterwards, he said, recently passed away, unfortunately, at too young an age, but in that very first meeting, I had the entire company, and I think there were probably 25 employees at the time, if I got that right. And we didn't have a conference room that had enough room for 25 employees, so we did it in the reception area, because that was the biggest open area that we had. And I didn't have a whole prepared speech or anything like that, but I said, Look, this is who I am, and I'm different than the founder's name was I said, I'm different than Mike, and I'm going to make different decisions than Mike made, and I'm probably not going to be as comfortable a CEO for you as Mike was. Because Mike was a really teddy bear of a guy, benevolent, hired a lot of people that he knew, or people that knew people that he knew, and was extraordinary, I mean, extraordinary entrepreneur. He did this three times or four times as a founder, and was successful in everyone, even in businesses that I thought were silly businesses to do, and I told him that, and he said, No, I got this and he succeeded. So we're in that meeting, and I remember the receptionist, and her name is Cora, and I'm still friends with Cora today. Cora turns to me in the middle of the meeting in front of everybody, and she says, What if we liked it better before? Now, I wasn't prepared for that question. Maybe I should have been, but she asked that question, and it was, it was actually a really important question, because she was just saying, what other people were feeling? What if we liked it better before? What is our choice at that point? And I had to, you know, backpedal a little bit, at least in my head, and say, I think that it's going to that what you have today that might make you comfortable is going to be replaced by other things that might be valuable to you. Like bigger opportunities or expanded roles or financial growth, and those things may happen under my watch that would not necessarily have happened under the founders watch, and that's going to be the difference. So it's a trade off, but I have come up with a saying since that point that I think I probably use more times than I should have, and that's when there's a transition like this. And assuming that you're the, well actually, either if you're the founder handing off the reins or you're the successor coming in, I would say the same thing, which is to every employee, I'd say, give it a chance. So don't prejudge whether this is going to be good or bad for you. Give it a chance, and then once you've given it a chance, vote with your feet. Don't stay and complain. And that's the worst thing that can happen, right? If somebody sticks around and just, you know, creates a cancer within the organization by saying, you know that CEO Les is, you know, really a bad guy.

So I think that first meeting can be defining from that point of view. I would say the thing that you really need to do as an incoming CEO in any of these situations is you got to be really, really honest. So one, tell them who you are. You know, this is who I am, and this is how I think, or how I make decisions, at least generally, and then second, say, and I don't understand this business as well as you do, because you don't. And so you're what you're saying to the employees is that you're going to rely upon them to help you, and you're asking for help. And I write about it in my book. But one of the most powerful things anybody can do in life, not just in business, is ask somebody else for help. And it doesn't sound intuitively correct, but it ends up being that way you. Think about it, right? I ask you for help. That means I must have some high regard for you that you might be able to help, and I am appreciating that you might do that. So for you to to hear me ask for help, you might be honored that somebody asked you for that help. So there's that really nice relationship that occurs when that happens that's not intuitive, but it's really powerful, and it's something every new CEO should do.

S Steve Divitkos 34:16

Very much consistent with my experience, a lot of your book talks about the emotional complexity of succession. There's like the commercial complexity, but a lot of your book, I think rightly so, focuses on the emotional aspects of the transition. And I think you went as far as mentioning that it is this emotional component that's actually the most frequent reason why these types of transitions fail. So reflecting back on my experience, not to put words in the mouths of my founders, but I think they probably underestimated how hard it would be to watch somebody else make changes to what used to be their business, even minor changes. I don't know that to be true, but I suspect it to be true, and I think I underestimated the emotional goal of just keeping my sellers constantly informed, constantly placated. So can you just speak to like, how common this dynamic is, and more specifically, like, is there anything that an incoming CEO can do to mitigate against these challenges?

L Les Trachtman 35:17

There's a communicate, communicate, communicate component to that right, which is, don't, don't surprise your founder with changes that you make. And let me go all the way to the core of the analogy, which is, this is somebody's baby. It may be inanimate, but it's their baby, and and they they burst it, and they raised it through the hard times, and they and they endured a lot of hardship with this baby. And you come in and you're the adoptive parent, and when you say, you know, I'm going to now, have you do or have you learned this way, as opposed to this way? They look at that and say, Well, that isn't what I thought, and that's my baby. Do I really want that to happen? I've got one really good anecdote for that, and just to show you how how emotional it can be, I became CEO of a company, and it had a, what I considered to be a silly name. And the name was, it was an acronym, and acronyms are really hard from a marketing point of view. They're hard to to gain any traction with. So this wasn't the very first thing I did. So it wasn't I came in and said, I don't like the name of your baby, but, but ultimately I decided that the company had to be renamed. And I did communicate, at least, I thought I did communicate with the founder sufficiently. And told them that I was going through this process and and I was going to bring in a consultant to try to help us and we test out a few things. And anyway, went down the path, perhaps I didn't communicate as well, but we had this really cool opportunity. I'm a big baseball fan and and we had a good portion of our operation in San Francisco, and a relationship with the San Francisco Giants charitable organization called the junior giants. And we donated a bunch of money to the junior giants to go out on the field. And this was when it was called Peck Bell at that time. Now called, I think, AT&T Stadium out in San Francisco. So the real stadium, beautiful stadium, maybe one of the nice stadiums in the world in terms of baseball, and we were about to go out. And the idea that I had was we would announce the new name of the company at that event, because we had brought in some of our customers. So the founder and I, he, by the way, we got baseball uniforms with the giants on it, and he was number one, and I was number two. Really important, by the way. And it showed you know, what the pecking order was. And I thought that was appropriate. Anyway, the two of us, arm in arm, came out through the dugout onto the field, and I pointed up to the scoreboard. This is an enormous scoreboard a professional baseball team, and there was our new name, and this founder turns to me and said, I don't think we can change the name right at that moment. Yeah, so it's emotional and, and ultimately, by the way, it turned out to be a good name, and he ultimately liked it a lot. But that was a situation that we had. It's just emotional, and I'm changing the name of his baby.

S Steve Divitkos 38:53

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L Les Trachtman 40:47

Yeah, and this is probably not a one size fits all answer either. I'm not good at too much formality to communication, but with a founder, you have to have some regular cadence of of communication, and it's one on one, communication with the founder, with nobody else around when you do it, and it's likely gotta involve the why component of what you're doing. Not the What component, but the why component. Because founders, I mean generally, founders are very smart people, very intuitive, even if they're not smart and they probably have a really good perspective about a lot of the things that you're doing. It doesn't mean they get their way, but when you share the why, they can then ask the questions about the Have you considered this, and have you considered that. If you've got a good founder and you're explaining to them your decision making and the why, then they feel like, at worst, they feel like they're part of the decision that you're making, or at least they've been consulted about it. And at best, maybe they give you some information that helps you make a better decision. Yeah, and that's gold.

S

Steve Divitkos 42:02

Interesting. So focus on the why, not the what. Speaking of like the nature of founders, you mentioned that they tend to be very intuitive, often very intelligent. One concept from your book that I really liked was this idea that founders succeed by breaking rules, but successors succeed by adding rules, or at least adding discipline more broadly. So I'd love if you could just riff on that idea a bit for us, because I thought it was super interesting.

L

Les Trachtman 42:27

Yeah, I don't want to get too structured in that, because I don't think that necessarily successors have to do everything by the book. So I don't want to say it's, you know, you're a successor is just a ritualistic leader. I don't think that's true. But with that said, typically, and probably, if it's done at the right time, a successor is more focused on scaling than they are on MVP or developing the original concept. And that original concept requires the, as I said, the magic, and in the imagination that's probably beyond what you need to be as a successor, or certainly beyond my capability as a successor. But you're at a point where you now need to scale the organization. And scaling the organization requires that you have much more discipline, much more specificity in terms of roles. In fact, much more special specialty roles than you had before and and I think that's a major difference. So when I came into, just about every organization that came in, they had sold product, and they, in fact, many cases, they had generated a bunch of revenue. But to get to the next level, we had to figure out how to be much more efficient in delivery of the resources that we had to grow. We had to grow at an expanded rate. Right? If you're growing it, if you're selling one and you're growing at 10% that's just point one. But if you're selling 100 and you're growing at 10% you've got to sell 10 more, and so on, so the mathematics of that requires that you think differently. In fact, I was just in a discussion the other day, and somebody was saying, what, you know, if I were a venture capitalist, I'd be asking you, how you can grow your organization at three times as fast as you're growing it today, not just you know, twice as fast and and how would you go about doing that? And those are good questions and difficult questions to answer, and that's what a success, or typically a success of to a founder, would has to think about. So it does require discipline. It does require structure. Does require people that have jobs, that that don't necessarily bleed over into the do everything like like many entrepreneurs entrepreneurial organizations require.

S

Steve Divitkos 44:48

So earlier in the discussion, we talked about this idea of founders rolling equity, which basically just means they own a piece of the go forward business. So my experience is that when founder I mean not always, of course, but often, when founders roll equity, they often request a board seat. I have my own opinions on this, but I'd be curious to hear your take on how should buyers think about the pros and cons of giving a board seat to a selling founder.

L Les Trachtman 45:19

So I can tell you that I've done it both ways. I have a very strong preference one way versus the other, but sometimes it works out either way. Yeah, but that's a bad answer to the what should I do? But the headline of my answer says, No way do I want a founder on my board. That's my head answer, too, and and the short answer for that is, realistically, the board is the boss of the CEO. So I just took a founder who used to run the company, and I said, Okay, now you've either invited me or sold your company to me, or whatever that is, and now I'm in charge, and then I take you and put you in charge of me. Does not make any sense, and it's an undue influence on others in the company. You know what the founders should be doing, or what the successor should be doing, is this, this and this and that could be very influential. In fact, boards that I've experienced often unduly rely upon information from the founder to justify decisions that they want to make. And it's not necessarily always right. In fact, many times it's not right. And so I try to divide the two up. And you've seen, or most of your viewers have probably seen, in the in the popular business press, not necessarily founders, although sometimes they are who are replaced, fit on the board and then rebound into their CEO jobs. And the reason they're apt to rebound to the CEO jobs is because they're sitting one seat away from the CEO's job, and they're saying, No, it could be done better. Could be done better. Could be done better, and it's the incumbent issue, right? It's always easier to attack the incumbent, and so the former CEO sitting on the board, purposely or not, attacks the incumbent, and is the natural person to go back into that seat. It's never good for the company, for the founder to crack and there's been studies that have been done about that. And as a board member, you just have too much information, too much proximity to CEO role. Not good. I've done it where there has been a founder on the board, and he was great. So yeah.

S Steve Divitkos 47:38

I mean, there's exceptions to I think every everything that we've discussed today, I would agree that in certain circumstances, it can work out fantastically well. But I also agree with you in that I strongly prefer that the seller does not sit on the board. And in addition to what you just said, another reason why I don't love that idea is you want your board meeting to be a place where you can openly discuss problems, opportunities, things that need to be fixed, etcetera. I mean, it strikes me as a very uncomfortable dynamic to say, hey, we need to replace our head of sales. We need to replace our CTO. We need to kill this product because it's unprofitable, etcetera, all the numerous changes a new CEO may choose to make fixing the problems that were created by the person who's still sitting in the room. I mean, that just strikes me as an incredibly unhealthy, uncomfortable dynamic at the board level.

L Les Trachtman 48:33

Yeah, and in most of the situations, well, I shouldn't say most, in some of the situations that I was successor, the board told the founder CEO that they needed to hire a successor. Just so happened, the board was populated with many of the investors of the company, and had control enough to do that. And so exactly that situation, which was, why would you hire me to perpetuate exactly what that last CEO did. You hired me because there was a problem, because otherwise you wouldn't have hired me, and now I have to fix that problem with with the guy who caused the problem sitting next to me in a board meeting. Yeah, it is uncomfortable. It's just generally wrong. Doesn't work.

S Steve Divitkos 49:17

What's been your experience with founders rolling equity because, like, the academic argument is, hey, this is a good thing. The founder has skin in the game. They have an incentive to be helpful, etcetera. That makes sense to me. But I've always had this question of, like, the dollar amount of the role versus the percentage. So let me tell you what I mean. If we have a 45 year old seller who gets a million dollars in cash in his bank account and rolls $3 million into the new post close entity. Okay, that strikes me as a situation where, yes, this person is sufficiently incented to make sure that the new the company going forward is as successful as possible. But let's take the idea of a 70 year old seller. Let's say that she runs a big business, and she gets 50 million in her pocket at closing, and she rolls another 30 million. Again, intellectually, you would say, hey, 30 million is a big role. It's a big percentage. But from a more like, I don't know, common sense, intuitive perspective, this 70 year old just got 40 million bucks in her bank account. She probably doesn't care. I mean, maybe she's thinking about this as a call option, but she's probably not as incented as our first example of that 40 year old who only got a million. Like, can you just talk to that idea and how effective roles are in your experience?

L Les Trachtman 50:37

Yeah, there's actually two ways to think about this, or at least I think about this, or at least I think about it two different ways. So one, the more money a founder takes, let's just assume there's going to be a reinvestment, some kind of role by the founder. The more money the founder takes off the table, the less pressure there is on you to perform, from their perspective. I call that the pressure relief valve in my book, I think. And that's a big deal, because oftentimes founders, I mean it is their source of virtually all their wealth at the time that they sell the company, yeah, so making sure they've got sufficient wealth and that they're not putting pressure on the last dollar that you're now managing for them is helpful to your relationship with that founder. At the same time, it could be tough. It could be throwaway money, just like you said, which is okay, I'm going to prove that founder wrong, and it's only a million dollars that I'm risking. I'm okay with that, because I'll have proven them wrong and by analogy, proofing myself right? So I think you got to be a little bit careful with that. With that said, I have done it in the past where I've been succeeded. So I wasn't the founder, but I've been succeeded in my role. I felt very strongly that the new regime coming in was going to succeed, and I wanted to invest with them. There's a vernacular that we used to use in the venture capital business, but I won't use the vernacular. But I'll say it's money that I want to make sure I place some bet on so I don't look completely stupid for having taken all my money out.

S Steve Divitkos 52:23

Yeah, yeah, schmuck insurance.

L Les Trachtman 52:26

Schmuck money. That's exactly right. That's what we used to call it. So I'm glad you used the word, but yeah, so there's a there's a lot to be said for that. But you have to be you'd have to have the maturity. I don't know if it's age is the maturity, but you'd have to have maturity of that person to make that work.

S Steve Divitkos 52:44

So by no fault of their own, outgoing, selling founders often don't really know, in their heart of hearts ready, whether they are ready to seed control. They probably kind of convince themselves that they're ready, but thinking about it and experiencing it are two very, very different things. So in light of that, are there any like early signs that a buyer should watch out for that a founder isn't yet ready to cede control, despite their best intentions and despite what they're telling you, and is there any way to ascertain this before we actually buy their company.

L Les Trachtman 53:26

Yeah, so there, there are some, there are some good signs. And there is at least one way. It's not foolproof, but one way to ascertain whether this could be a problem or not. And the first question that I ask is, do they have a hobby? Because most founders, many founders, spend 100% of their time focused on the business. And if they do, it's hard to go cold turkey from that. It's all that I do. I don't have anything else. I might have a family that I spend some time with, but it's all consuming. So if they have a hobby, and I don't mean that, you know, that they make pottery in the backyard, I mean, do they spend time on something else that could engage them in a way that's meaningful for them if they're no longer running the show? And so you can actually find that out from early conversations if they do. And I would say most founders don't have that hobby. So you know, if you find one that has a hobby, then maybe you got a lucky one, and you're in good shape. In terms of indicia, I'll call it early on indicia, as you're going through, maybe you're going through the process of buying the company and you're trying to figure that out. It's all about, to me, it's all about micromanaging. So do they have a true structure where they have employees that they permit to make decisions? Important decisions without consulting them. And if they don't, then it turns out it's really hard for them to give up anything related to the company at that point. They want to be in every decision. They want to be looking at it. They're paying too much attention to it. So it's that micromanaging relationship thing, if you can tease that out early on, that'll tell you whether they're going to be more problems as you go forward.

S Steve Divitkos 55:28

So if they built a management team, they've given some autonomy and decision making authority to that management team. There's at least some historical evidence that they're willing to cede control, and we can base, you know, our opinion of their their willingness to seed control moving forward on that historical evidence, is that kind of one way to?

L Les Trachtman 55:47

It is some, so realistically, when you distribute out decision making, delegation, as everybody calls it, when you're willing to do that, that's at least a crumb. That's something that you're giving up, so you're not totality on it now, and the more you do that, perhaps even, the more structure there is so that maybe there's maybe decision making is two levels away from you. If that's the case, then that becomes more comfortable. I think it becomes more comfortable for the founder to fit into a different role, and it could make your job a little bit easier.

S Steve Divitkos 56:23

So I want to talk about the speed with which a new incoming CEO ought to operate with or at so in our community, there is advice which I think has a lot of wisdom and a lot of experience behind it that suggests that new CEOs should probably diagnose before they prescribe, particularly in their first six months or so. And I think this is generally quite good counsel, but taken to its extreme, it might be counterproductive. I can certainly see problems with successors moving too quickly, but I guess I can also see problems with successors moving too slowly. So can you just talk about how new CEOs can balance this tension between being thoughtful and deliberate on one hand, but also being careful to avoid acting too late or too slowly on the other hand?

L Les Trachtman 57:15

Yeah, so the acting too late or too slowly on on in the second case that you talked about depends upon how big, how massive that brick wall is that you're running into. So if you come in as a successor to a founder, and you've diagnosed that, you're going to be hitting this wall, and it's going to be very destructive, then you probably need to make decisions and have an opinion more quickly than perhaps you would if that wall wasn't imminently going to be in your way. In general, what I would say is, let's just assume there's no crisis that's coming up that you were hired for, although, again, depending upon what the situation is that You're coming in as a successor, even as a buyer to a company, it could be dire. You could have to be doing something really quickly, because the company is running out of money, or something like that. So you might have to make some decisions in a, I call it a suboptimal timeframe. But I have a strong prejudice, similar to the strong prejudice I had as a board, whether you keep a founder on a board, I have a strong prejudice that says, listen first. Make sure that you let down your hair to some of the key employees, and make sure they know that you don't have the answers to start out with, and that they're willing to help you learn to get to that point and listen hard. It's not easy as a successor to come in and get people to trust you enough for them to tell you the truth. And there's some methodology that you could put in place to make that happen. But you want to hear what's really going on, not what you think is going on, not what's on the surface, what's really going on. And that takes some time to learn, to understand, to discern where the informal channels of communication actually occur, perhaps even where real decision making happens.

S

Steve Divitkos 59:08

I would totally agree with that. That was consistent with my experience. So I'm very much in the like, diagnose before you prescribe camp and like, don't do too much too quickly. One of the reasons why is because I often say like, you're going to learn more about your business and you're business in your first month running it than in the 12 months of diligence that preceded your purchase. So for sure, you just don't know enough to make good decisions yet. The only caveat, for lack of a better way to put it, is you're buying a real business with real problems, real bottlenecks, real opportunities, and whether, like these problems will not wait to present themselves until you are ready to handle them. They're just going to present themselves. And that was one of the reasons why I thought it was so important to maintain a constructive relationship with my seller, because he could help me make decisions in months one, two and three that I still felt utterly unqualified to make.

L

Les Trachtman 1:00:01

So let me give you a quick anecdote on that, because it's very near and dear to me. One of the first businesses that I took over as successor was just before the year 2000 and I came in. It was really early in my tenure, and great relationship with the founder. And I went to the founder, and I said, Any issues in the code with Y2K that we should be worried about? And he said, Absolutely not. We took care of all of that. And I said, okay, and then I did a quick look at the code myself. I'm not a coder, but I'm smart enough technically to actually read some code. And I read the code, and it was very clear that that was not true, but that that's what people had told them. And so I went to the programming team, and I said, Is this going to be a problem? And they said what they had told the founder, no, it's not gonna be a problem. I said, let's run some scenarios on it, and we ran scenarios on it, and it turned out that it wouldn't quite blow up, but that it wasn't prepared for the year 2000 turnover. For those of you in the audience that don't remember Y2K, that was a big deal. We may be overreacted to that, but that was a big deal. There was some things that didn't work. Well, it turned out that we had not only been wrong about the Y2K preparedness of the product, but we had actually sent the note to all of our big clients tell them, Don't worry about it. We got this under control, and I had the unique distinction of having to go back to those clients. And it was really early in my tenure, but I had to make this decision that I went back to the clients myself and said, mea culpa. We told you it was okay and it's not. And, by the way, you need to pass the fixer and so, that had to happen otherwise, you know, we were running into that big, thick wall called Y2K and the last thing we needed was, these were large brokerage houses that were using the software. I did not need them to wake up on January 1 and find out that their software didn't work.

S Steve Divitkos 1:02:07

Yeah, earlier in our conversation, you alluded to employee turnover, and that's where I want to go next. I see this all the time, both voluntary turnover and involuntary, meaning sometimes the new CEO wants to replace people that they've inherited. Other times, existing employees self select out of the quote, unquote, new company. So I see both all the time. Can you just talk to us about how common turnover is in your experience? Why it happens in the first like, six to 12 months? And also, like, how should CEOs consider normal amounts of turnover versus too much turnover?

L Les Trachtman 1:02:46

Yeah, so I have an analogy that I've created, whether it's red or not, or whether it's appropriate or not. I don't know but I've used two different animals for this analogy. I'll use the lobster for this one because it's more appropriate. The other one is the snake. But lobsters don't grow beyond the size of their shell. In fact, the way they grow is they molt, they discard their shell, and then they grow a new one as they get bigger. I use that analogy to describe employees in companies that are growing in that the employees not necessarily the shell, but the employees don't always grow at the same speed as the company. And so a founder, who may have been very successful at a smaller size, probably had a team that fit that the size of that nutshell at that point, and but to grow, they may not be the right people going forward. So you got to be willing to discard the shell at some point. You've got to be willing to discard some of those employees. Some will be savvy enough to self select and say, This isn't for me. I wasn't born for this kind of a role. And I'm going to go off and find another company who's similarly situated to what this was before you got here, and I'm going to go there, and some won't, and you'll have to do that. The the speed of that is, I would call it debatable. So I've been criticized for doing it too slowly, and I've been criticized for doing it too quickly. What I would say is you've got to be empathetic and considerate that the founder put these people in place, and if you're taking over for that founder, it likely means that you think there's some value to the entity that they built. So you don't want to just throw it away without consideration. You want to know the intimates of is this person capable of getting to the next level? What's their value proposition, etcetera? And then you need to make sure that employees who help the company get to where it is are rewarded for that, not. That they're discarded as being bad. And as I like to say, just because the company is not right for you at this point doesn't mean you're bad as an employee. So you've got to weigh all that from a timing point of view, and then you definitely got to treat it correctly in the company, because the walls have ears in these companies, right? If you terminate somebody, everybody's going to know about it, and they're going to all form their own opinions as to, you know, you decided to come in and you didn't like? What's the old anecdote? Right? New CEO comes in, gets rid of the whole management team, brings in their own. If you're thought of as doing that callously, that's not a good thing for you as you go forward and it's great if you can find some members of the team that were reporting to the founder who do have that growth capability. Boy, keep them and nurture them as much as you can, because that's a great statement for the company. Great statement for you, and it gives other people hope in the company that they can grow along with you.

S Steve Divitkos 1:05:57

What have you learned about employees, like leaving the company after a transition. The reason why I asked this is because recently, I had a CEO call me, and he's doing fantastic. In spite of that fantastic performance, he's been experiencing a lot of turnover, notably people leaving, not him, you know, getting rid of them. And I said, Look, this is normal. This happened to me. This happens to everybody. Don't lose too much sleep over it. And he kind of said, well, how much is too much? And I'm not sure that I had a great answer for him. So like, what is your experience taught you about employees voluntarily departing?

L Les Trachtman 1:06:34

Yeah, I think again, there's no number that it gets in this threshold, you're in trouble. But I think I go back to the why again, I think you have to understand, and maybe this is through exit interviews. Maybe this is through a good, good HR department that perhaps has a has a good ear to the ground, understanding what's going on. But if people are leaving for some for some specific reason that's that's critical to the way you're running things, then you probably should know about that. And maybe that is too much turnover. If there's something that you're doing that could be remedied, that would, you know, enable them to stay longer. So understanding why of their voluntary departure is probably most important. And again, making sure you understand the back channel communication, what's the informal communication channels within the company where you can really learn what's going on. I think some of that, having your ear tuned to that can help you understand whether this is you know too much, or an appropriate amount, and there's always going to be turnover with a new CEO. There just is, it's different.

S Steve Divitkos 1:07:49

Yeah. Do you have, like a framework or a structure or even, like a rule of thumb for determining which employees a new CEO should coach versus reposition versus replace?

L Les Trachtman 1:08:00

I don't have a rule book for this one that's that's cut and dry, but generally, what I found is the employees who are most apt to grow are the ones who don't think they have the answer to every question that you ask them. They're the ones who are little more self effacing, who are expressing a desire to learn, not necessarily from you, but possibly from some new experiences that the company will go through as it grows. But the ones who are at a board member that that used to describe it as too cool to school, the one where you go up to and say, I'd like to learn more about your department as the new CEO. And they go, oh, yeah, I'm glad you asked me. You need to know this, this, this, this, and this, this, this, this is how it runs. That person is very likely not the right person to stick around. And that's, you know, as good a rule of thumb as I have.

S Steve Divitkos 1:08:56

interesting, so interesting. I've talked about this a lot on the pod in the past. This idea of imposter syndrome something that I felt a lot as a new CEO, and something that, frankly, like I still feel today. I think most successful people tend to feel this pretty frequently, but specific to this idea of a new CEO, I know that a lot of new CEOs struggle with imposter syndrome. And they basically feel like they don't fully like own the CEO seat for sometimes months, maybe sometimes years. Like in my case, I remember telling a mentor of mine that probably took me a good two years for it to feel like it was finally like my company as opposed to like my seller's company. So in your experience, is there, I mean, A, can you just speak to how common this is or is not, and B, is there anything that accelerates that mindset shift from inheritor to actual leader of the company?

L Les Trachtman 1:09:49

So, yeah, it's really common. And I happens to me all the time, and I sit on your podcast and feel like I'm an imposter, telling your audience all the things that they should be doing. I mean, who am I to do that. I failed enough times doing this. Yeah, it kind of kind of feels odd to me, but they actually think that that thought process the imposter syndrome, or I'm not prepared to be the CEO of this company, or I'm not the real CEO. I think that's really positive, I guess, a really positive, emotional feeling. I view it as I call it seek. When I'm in that mode where I don't know, I don't know if I'm the right person. I know if I have the right answers, I go into seek mode. I try to find answers, and that galvanizes me to do a better job than I would if I thought I knew the answer. So if I was comfortable in my seat as a CEO. So I think being uncomfortable is a positive, not a negative. And I think perhaps never, perhaps you'll never be comfortable that you're the optimal person for that seat, and that you were always, you know, intended to be the CEO of this company. I just don't think it's a bad thing to to at least have that little, you know, Jiminy Cricket on your shoulder saying, Are you the right one? Are you the right one? And then I've gone through some some, some really interesting peer group type of situations as a CEO and one of the things that I've learned there is the best question you could ask yourself almost at any time in being a CEO of a company, is, if somebody were going to fire me today, why would they fire me? What am I doing wrong? And always be looking for the What are you doing wrong and what are you missing? And I think that causes you to be better at what you do.

S Steve Divitkos 1:11:34

So interesting. So I had a similar experience with imposter syndrome, and again, someone who still experiences it today. One thing that I've done that I found to be helpful is almost reframing imposter syndrome. So I used to think it's like a bad thing. Oh, this is an emotion that's uncomfortable. I want it to go away. Now I kind of embrace it as evidence that I am pushing towards my highest and best self. And I now kind of think like, hey, if I'm not feeling imposter syndrome, then I'm clearly staying within my comfort zone. I'm not taking enough risk, and I'm not pushing towards what I'm probably capable of doing. So in a way, I almost welcome it now as evidence that, like, hey, at least I'm swinging for the fences here.

L Les Trachtman 1:12:16

And you know, you see swinging some fences. I think it's great. So there are, there are lots and lots of actors, actress professional athletes, who, when asked, Are you nervous? Say yes, all the time. And I think that's the same thing, which is I don't know if I'm good enough to do this, so therefore I'm going to buckle down and try to study more or do a better job at preparing myself. So yeah, I like that.

S Steve Divitkos 1:12:44

Les, this has been such an interesting conversation. As we look to land the plane here. I'd like to conclude with the question that I like to ask everybody, and that question is, what is the most meaningful lesson that you've learned over the past 12 months across any domain of your life?

L Les Trachtman 1:13:03

It's funny that you ask the question, but it's a question I have the answer to right away, and it's patience. I'm an impatient person. I think that's part of the product of why I've been successful, because I'm always pushing for getting something done, getting it done more quickly, and all of that. And what I've learned over time is, although I can try to move things quickly, I really have to be patient and realize that I have to bring others along with my mindset, with the knowledge and understanding of what they need to do to in order to really get the job done. And I think a little bit of that happens in life is as well, not just in business. One of the things I've done in the last, say, 10 years is I've taken up sailing, and sailing is one of those things that really teaches you to be patient, because you can't change the wind, so you've gotta figure out how to make the best of it, and sometimes you just sit be calmed. And if you want to win the race, you gotta endure that until the wind picks back up again and you can do it. And it's frustrating, and it's not part of my nature, but it makes me probably a better person. Definitely made me a better manager by being that.

S Steve Divitkos 1:14:26

Were there any examples, recent examples, examples from earlier in your life where you got bit by being impatient that really kind of like crystallized this lesson for you?

L Les Trachtman 1:14:37

Oh yeah, reaction, even in the very first scenario that I had where I became a successor, it was the the mother and the son who I replaced, the motherboard member or the founder and the Son, her son that I replaced. Some things happened where it appeared that even post me being hired, she was still relying on her son to drive certain functions of the company that clearly I thought should have been in my domain. So I did the thing that we've all since learned never to do, which is I pinned out an email to her and sent it to her. That email actually was used by norm Wasserman as an example of what not to do when you're a successor in a founder based organization. Yeah, he wrote a case on that and used that. And that's a that's just, I mean, it's an obvious example. That's a perfect example of impatience. I probably could have not just thought the situation through, but I probably could have worked my way through that. What does that mean? And it probably had no impact on me really, but I was impatient to get the job done and impatient to get the communication right, impatient to take over the role of the CEO and elbow out the son. And it wasn't a good scene.

S Steve Divitkos 1:15:56

Yeah, it's funny. You mentioned a CEO peer group a couple of minutes ago, and I was part of EO, The Entrepreneurs Organization for like seven years or so when I was running my company. And an example just came to mind of a peer of mine who also got bit by impatience and learned the virtues of patience. So in his case, he had an employee quit on him, and what does a type A overachiever, solution oriented person, do? That day you're on the phone with a recruiter saying, here's the job description, here's the timing, I want to replace this person. But he kind of caught himself and he said, You know what I'm going to do this time? I'm just going to purposely do nothing for two weeks. So he did that. He purposely just did nothing. And it killed him, right? It killed him to do nothing. And at the end of that two weeks, he said, You know what I learned? I didn't need to replace that person. So it's just a, you know, I don't know kind of how or why that came to mind. But it's just another example of like, sometimes you have to fight this urge to like fix, fix, fix, fix fix, because sometimes if you just kind of sit there and purposely do nothing, you'll learn something that you probably didn't know.

L Les Trachtman 1:17:08

I think it's great, and I think a lot of CEOs are Type A personalities like I am, and I think probably we all could learn to have a little more patience and probably find some better solutions than than just acting on things.

S

Steve Divitkos 1:17:24

Yeah. Les, what a treat it was to speak with you. Again, as I said in the outset, you know, I operate in a very specific part of the world, acquisition entrepreneurs buying small businesses while it's growing, it still remains rather small, and there are only so many books that are directly applicable to my experience, this was one of them. So if anyone hasn't checked out the book, I would certainly recommend that they do. And Les, thank you so much for joining us today. Really appreciate your time.

L

Les Trachtman 1:17:53

My pleasure, Steve, thanks for having me.