In The Trenches_ Conversation with John Ratliff

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Boulay, search fund ecosystem, quality of earnings, financial due diligence, tax services, outsourced accounting, John Ratliff, Apple Tree Answers, Dream On initiative, employee retention, scaling up methodology, M&A advisor, integration process, real seller, due diligence., CEO strategy, business risk, exit value, operational focus, entrepreneurial role, company governance, business flow, spiritual experience, breath work, leadership, ag tech, climate problem, business vision, personal development, risk mitigation.

SPEAKERS

Steve Divitkos, John Ratliff

S Steve Divitkos 00:00

This episode is brought to you by Boulay. Now for those of you who operate within the search fund ecosystem, you probably already know that Boulay is the standard when it comes to quality of earnings, reports, tax and audit services. But for those of you who are newer to the community, consider this. Over the past 20 years, Boulay has worked directly with hundreds of search funds from capital raise to exit, currently assisting over 150 funds in the search phase and another 125 in the operating phase. They work with searchers across the entirety of the ETA journey, from issuing K1s to your investors during the search phase all the way through to helping prepare your books for an exit at the conclusion of the operating phase. They are the industry leader in performing financial due diligence and creating QAV reports that your investors can rely on. They provide a full suite of tax services, both for your search fund and for the acquired company. They perform the annual audits required by most debt and equity investors, and they also perform outsourced accounting services, acting as a fractional bookkeeper and controller for those companies whose needs might not necessitate full time in house resources. In short, you can safely assume that these guys get it. They've grown up in the search fund ecosystem over the past 20 years, and they have the reputation to prove it, to learn more. Go to Boulaygroup.com that's B, O, U, L, A, Y, group.com. Hello everybody, and welcome to another episode of In the Trenches. I am your host, as always. Steve Divitkos, my guest today is John Ratliff, and if you care about culture, the nuances of scaling rapidly or M&A, this is an episode that you'll likely want to stick around for. John is a lifelong entrepreneur who founded a call center company called Apple Tree answers, which he scaled through 24 separate bolt on acquisitions, growing it by over 3,000% prior to selling to a strategic buyer in 2012 He then went on to become a partner at an investment bank, where he has advised on countless small business transactions. All told, he has sat in nearly every seat at the M&A table as a founder, buyer, seller and now advisor. This is a conversation that is packed with a lot of tactical insights. So expect to learn the following. First, a blueprint for how to scale a values driven culture that actually drives business results, including a wildly successful program launched by John called Dream On that dropped frontline turnover from 115% a year to just 18% a year. Also expect to learn hard won lessons from acquiring 24 companies, including what he did differently in deals 23 and 24 relative to deals one and 2. Third, a fresh way to think about leading people, intensive service companies, including how John stayed connected with over 650 employees across 24 locations. Expect to learn how he designed himself out of the day to day operations, spending just 15 to 20 hours a week inside of the business. And finally, based on his experience as an M&A advisor, expect to learn how to spot real sellers, how to navigate the notoriously tricky transition between incoming outgoing CEOs, and how to identify red flags and due diligence. With a few stories that will likely stick with you, this one is rich with real world experience delivered by somebody who's been deep in the trenches. No pun intended, of course. Before we dive into today's episode, though, allow me to conclude with my usual reminder that I am an active investor in search funds and the companies that they acquire through my fund, Mineola, search partners. So if you're looking to raise a search fund yourself, or if you're interested in investing alongside me within the search fund asset class, I'd welcome the opportunity to speak with you, but for now, I hope you enjoyed today's conversation with John Ratliff. You have had such a varied career, and so maybe the best place to start is for listeners who might not be familiar with your story. Maybe you could just start by walking us through the arc of your career, touching briefly on each of the major stops along the way.

J

John Ratliff 04:16

So I kind of knew, you know, I was that kid when you ask a 10 year old, what do you want to be when you grow up? It wasn't firemen, policemen, it was none of that. I didn't know the word entrepreneur as a 10 year old, but I knew that I was probably going to, you know, own and operate companies from an early, early age. And I was the kid cutting lawns and paper routes and getting other kids to do the papers and all those things. And I begrudgingly went to college, but I was excited to get a business degree in college, and quickly realized that my University of Delaware marketing and finance degree really wasn't much about business. It was, you know, you got a $50 million budget needed to launch a new brand of tie, and I think I had the perfect class for that, but they really didn't teach. I graduated college in 1992 just to give you my age, but entrepreneurship wasn't taught back then, so, but I knew that's what I wanted to do, and I got out of school, took the summer off, and my parents were kind of like, Hey, are you going to do anything, you know, with your life? You're just going to keep screwing around here. And so I took a commission only sales job with a wireless phone store, and same thing. And five to six months, realized that, hey, I think I can do this better on my own then working for somebody else. So actually, back when this was possible, convinced the wireless carrier to give me a license to open my own stores. Opened my first one, I think I was 23 and then opened the second one. And actually the guy that I worked for right out of college approached me soon thereafter and said, Hey, would you think about selling this company that you started, to us? So I sold my first company probably 36 months after it started, back to the guy that I worked for originally, and then I needed something to do. A friend of mine had a relationship with a provider for call center equipment. I didn't know anything about the call center world, but he and the provider talked me into starting a little, tiny answering service call center from scratch. In hindsight, that was a really smart move at the time, and for the next seven years, it did not look like a very smart move. It was seven years of torture. I started a 24/7 365 day a year business with no employees, which you can do the math on that. I didn't get a lot of sleep, but I don't think I remember most of 1997 because we couldn't. And when by the way, when I say we, I'm going to say we a lot today. That means most of the time me, but, you know, we couldn't afford employees and, every once in a while, I'd get someone to come in for four to six hours so I could get some sleep. But finally, started to get some traction with that business after a few years, built it. It took about seven years to get to a million in revenue. And then I had a friend of mine who he was a CPA, kind of fractional CFO said, Hey, have you ever thought about buying other companies? And ironically, we didn't have any cash, and no way were we going to be able to buy other companies. But he had a bank relationship with a really progressive lender, and that lender actually bought into our thesis. And so we bought our first company in 2003 and then did 24 more acquisitions between '03 and 2011, grew the business 3,000% through that period, actually probably about 30 200% and sold the company in 2012 to a strategic buyer. So from there I'd build, obviously, a lot of buy side M&A experience. And then when we sold the strategic we had used an investment bank. I was heavily involved in the process, because I had M and A experience on the buy side, and so much involved that when the transaction was done and I was done my transition time with the buyer, I ended up a partner at that investment bank and probably directly worked on 30 or 40 transactions, assisted on probably over 100 more, and really developed a sense ofM&A from that. And interestingly, you know, I've sat other than the attorney seat. I've sat at essentially every seat at the M&A table, you know, founder, entrepreneur, investment banker, buyer, seller. So really have gotten a decent sense for, you know, what goes into really successful transactions, how to facilitate successful transactions. And I think all of those things collectively have kind of guided my philosophy around, you know, business in general, transactions in particular.

S Steve Divitkos 09:26

You know, it's funny, before we hit record, I mentioned to you that one of my challenges in coming up with a lift a list of questions is trying to distill such a multi faceted career into a dozen or so questions. But I did my best, and I managed to distill it down further into three categories, and that's what I'd love to cover with you today. So I'd like to start with the idea of culture, building and maintaining a healthy and vibrant one. We'll then move on to the challenges of scaling largely unseen from the outside, looking in, at least in my experience. And then we'll conclude with M&A. Something that I know is near and dear to your heart. But let's start with culture and the call center business that you founded was called Apple Tree Answers. You founded that in 1995 over time, you developed a program called the dream on initiative, which really improved retention and morale. And that's putting it lightly, so I guess at just a high level. I'd love for you to tell us more about that program, and maybe what the CEOs listening to this might learn from your experience in rolling it out.

J John Ratliff 10:29

Yeah, so, and let's take, actually, a little bit of a step back from Dream on, and I'm happy to share kind of at length about that. But it's when you when you really dive into being a founder entrepreneur, and you really think about, especially if you're going to have teams, and particularly big teams, people are waking up every single day to show up at your place, whether that's virtual or physical, to take your entrepreneurial dream and vision and thesis and bring it to life in the world. And you know, there's a lot of debate. Is it customer first employee second? Is it stakeholders first and customer second, and employees third. And that's been debated ad nauseum, I would say I am in the camp of, if you don't create a compelling place for your team to show up every day and do the best work of their life, stakeholders and customers are not going to matter. And interestingly, I think a lot of companies spend a ton of money on kind of marketing, brand awareness, PR, externally, to get their customers to hold their brand in a certain regard or with a certain set of feelings, and then neglect the responsibility or the opportunity to have their in house team fall in love with The brand. And you get a misaligned customer experience. So I believe really, really strongly, and maybe someday someone will talk me out of it. But it's hasn't happened yet that the first priority of the entrepreneur is to get a team that's in love with the brand and in love with the mission. And can't think of waking up every day and doing anything else, and that starts with a mindset. And everyone always asks, well, what are the tactics? You know? How do I build a great culture? What do I do? And my advice and my caution to any entrepreneur contemplating that question is, get the mindset right first. And the mindset is and we added it was on every desk at Apple Tree, if you had one person or more that reported to you, you had a thing on your desk that said, what can we do today to make the employee experience better than it was yesterday? And that was our mindset. And everything we did was aligned around the employee, and then the customer outcomes and the stakeholder outcomes followed from there. And when we started, and we were by no means perfect. You know, I alluded to, it took us seven years to get to a million in revenue. It took us seven more to figure out the culture side. We really only had the culture side right, probably for the last five years we own the company, but it was that shift in waking up every day, and what can we do to make the employee experience better than it was yesterday? We took our frontline turnover from 115% down to 18% there's all the obvious economic advantages there, and there are many. There's the customer advantages. There's many. But and if that was the only sentence I uttered today, which company would you rather work for? The one with 115% frontline employee turnover, the one with 18%? It's just a better way, in my opinion, to run a business. And I think I can think of lots of examples of companies with mediocre culture that have been successful, and I can think of lots of examples of companies with mediocre culture that have failed. It's really hard to find an example of a company with like out of this world, great culture that's failed, so why not stack the deck in your favor and take on the responsibility to create a great place to come to work. Now I could give you 1000s of tactics, and we could fill 10 podcasts with exactly how to do it, but you shouldn't try any of that until you've got it in your mind that it's your privilege and your responsibility to build a place that people are absolutely on fire about. That they love to show up, they feel like they're part of. Something bigger than themselves. And then once you've got that down, the tactics tend to fall into place. So Dream On, that you alluded to is one of our quote, unquote, tactics, but it really came from a place of we have to be better. And when we started Dream On, we were in the 115% turnover camp. Now interestingly, we were 115% turnover with our hourly employees, and at the time, we had about 400 of those. And we were about 3% turnover with our salaried employees. We had about 100 of those. So again, I want to ask, What kind of place was that to come to work every day? We had, I mean, that is the ultimate example of the have and have not approach to how to run a business. So you've got one group of people that are elated to be there managing a group of people that are absolutely miserable, and you can imagine the stories that would come out of that. So we knew we needed to address it. We're a scaling up methodology company, and I'll talk about that when we get to the scaling up session. But part of scaling up is you have quarterly themes where you pick a priority for the quarter. You go really deep on it. It was, I think, second or third quarter of 08. So we came back quarterly theme time, and I brought my executive team together. It was about 12 or 13 of us that would get together to do our planning every quarter. And I said, Hey, we we have to get really serious about this turnover problem. Like this is unacceptable to me. I don't like coming to work and the Have and Have Not approach and like, it's just not working for me. So in the brainstorming process to figure out our priority for the quarter, one of the groups said, you know, I love the Make a Wish charity model. What if we had the Make a Wish charity model? But we did it for our team in house, and that literally turned into what became the Dream On program.Andit's a long and winding road story. I'll give you kind of the highlights of it, but essentially, Dream On was the opportunity for every employee, salaried and hourly, to submit a dream that they wanted to see fulfilled in their lives or for their family, or in many cases, people starting to submit dreams for each other, which was an unbelievable unanticipated knock on effect. And this wasn't the Dream Manager Program, the book by Matthew Kelly, where you help your employees with financial planning and those types of things. This was like, if you could wave a magic wand and make something happen, what would you want? And so we launched stream on, I think it was Q3 or Q2 of 08 and, you know, we had 3% turnover in that room that launched Dream On, 3% turnover at the hourly employee level. We were incredibly excited about it. We thought it was really innovative and interesting. And so we do a big marketing push to our our team, and a week goes by, I'm all excited to see all the dream submissions that are going to come in, and literally 500 employees, not one dream submission. So obviously, I do what all good entrepreneurs do. I start yelling at the IT group that clearly the email address must be broken, so why don't we have any dream submissions? It's your fault. It which was not, it's fault. We had that level of distrust among the hourly employees. Salaried employees were happy, but that, you know, they looked at this program as something we did for the hourly group, even though they were eligible, so they didn't submit. And not a single one of the hourly employees put a dream submission in which, in hindsight, is shocking and hilarious and embarrassing and all the things. So we did what you do when these things happen. We did another big push, and we said, hey, you know, don't forget, Dream On this quarter. It's our theme. And so about three more days go by, and finally we get our first submission. And we had a committee. It was me, my sister in law, ran our HR group. By the way, we banned the term HR. Was the employee experience department, but what you would traditionally think of is HR and my executive assistant, the three of us were the ones that were the secret committee to decide which dreams would get granted. And we get a dream submission from one of our employees in St Louis, and through a sequence of kind of bad events and unfortunate circumstance and a terrible ex husband, she had found herself homeless, living in a truck with two kids. And first off, if you want to be humbled as a founder entrepreneur, find out one of the people that is in your care, basically, is homeless, which I'll never forget that moment. But second, great, we've got our first dream submission we might have granted. I want to go to the moon if we could have at that point, because we're trying to get the program going. But what an easy one to step in and kind of, you know, kind of take on. And we didn't do much. We helped her find an apartment. I talked to the landlord. I said, Listen, I'm not going to co sign, but I'll guarantee her rent for the first year if you need us to all even prepaid for the first year, and she can pay us back. We bought some furniture, like we did what any reasonable group of human beings would do, and we put her in a hotel for two days while we got it together. 48 hours later, she moved into her apartment. And so the one problem we were all excited, you know, this is great. We granted our first dream. The problem we had was we set the program up so it was totally confidential. Like, here we have this amazing story to tell, but we set the program up so it was totally confidential. And so we said to her, hey, you know, here's what we're doing, and blah, blah, blah, we get it all done. We said, it's totally confidential. We're not going to tell anyone that we did this. And she said, not tell anyone. I'm telling anyone that would listen like this is the most amazing thing that's ever happened. So sure enough, the story goes viral inside our company. You know, everyone kind of gets on board. Two days later, we get another one, an almost identical bad ex husband, same thing, kids, homeless. We do that again. Fortunately, we probably granted over 300 total in the life of this program. They were the only two ever that were homeless employees, but they were the first two which really created kind of that humility moment for us. But we went on to grant and the and the program took off, obviously, as you can imagine. From there, we went on to grant well over 300 somewhere shy of 400. We actually stopped keeping track of the cost. We stopped keeping track our only KPI was, how many can we grant this month? Because the benefits of the program were so vast that we could have spent any amount of money and it would have been the right money to spend. Turnover went from 115 to 18%. Now there were lots of other activities and lots of other things we did, but I believe dream on was the number one driver of that. But that wasn't even the best benefit. The best benefit was we developed a level of empathy for our team that didn't exist. It wasn't even, it wasn't even a concept before dream on and the humility of some of the submissions, I mean, they were, you know, I need four new tires for my car. Or I got married, and we were both working two jobs, and we never took a honeymoon, and that was 11 years ago, and we'd love to take our first honeymoon. And my daughter's in the Navy, and I can't afford to bring her home for Christmas. I mean, it was like, eye opening the kind of stuff, and we would have paid every employee we had $100,000 a year, but the economics don't work in the call center world like that. We paid it top of market. But there's limits to what you can do, and you know, it ends up creating circumstances for people that are really tough to navigate. And if we were able to just take a little bit of pressure off here or there, do something that, you know, kind of modified their day, it also gave the management team an unbelievable, unbelievable level of empathy the frontline people felt more cared for. Salaried employees felt more ownership around the employee experience. And I look back on that and and listen, we did all kinds of cool stuff. And if we have more time, I can tell you, you know, dozens of amazing stories about dream on and what we did we, you know, we actually had someone, we feel like we may have played a role in saving their life, actually, multiple times that happened. But more than anything, it just brought us all together, as it wasn't us versus them anymore. It was we and we were, you know, we had customers to serve and everything else. But it really was an amazing program, and I talk about Dream On a lot. I get to keynote on it here and there, and I kind of, I've laid it out. And I was just at an event two weeks ago, and three different people came up to me at the event today. You would never know this, but I heard you talk about Dream On, we implemented it, and I didn't believe it could be half as good as you said it would be, and it's actually better than you said it would be. You have to have somebody come up to me and say, Hey, we tried, but it didn't really work. So that was kind of the, and we did a lot of other things around culture. We got really, really serious about employee culture, but Dream On was kind of the anchor tenant.

S Steve Divitkos 25:00

I mean, it's easy to see how incredibly powerful a program like that can be, I guess, as a former operator, though, I can also see how it might be ripe with unintended consequences. So can you just talk to the idea of unintended consequences, whether within the context of Dream On or some other well meaning cultural initiative that backfired. I'm just wondering if you could riff on that and tell us what you learned from it.

J John Ratliff 25:25

Yeah, I get this question every single time I talk about Dream On, and you know, one of the things I say, it's, it sounds like it was too good to be true, and in many cases, maybe it was too good to be true, but we had a couple of rules around dream on that that eliminated a lot of the unintended consequences. One of the rules was we never say no. We will only say yes or not yet. So every dream that got submitted, none got rejected. We would grant as many as we could eventually, but the ones we couldn't grant, we might put on the shelf or table or have a conversation with the employee and say, Hey, we understand this was your dream. We're doing the best we can. We may not be able to do that, but we can try this. So it wasn't a, you kind of got a binary decision when you submit it. Two was, it wasn't a rewards program, so it didn't go to the best employees. It didn't go the only criteria was, you had to be in good standing with us. So if you were on some version of final warning, which I still think is a terrible way to run a business, but we did it. If you were on like if you were on your way out, you tended not to be eligible. Otherwise, it wasn't a merit based program. It was really we would read them. If we could do it, we would do it. One of the interesting things that came out of it as entrepreneurs, we tend to have networks and access that we take for granted and don't think anything about but when we start to tell these stories about Dream On. And other entrepreneurs that would come up to me and say, Hey, I heard you talk about the honeymoon thing. I own a resort in Mexico. I will give you five separate weeks there. If you want to grant dreams and send people here, just buy their tickets. We'll take care of it. Like we have, entrepreneurs love to help other entrepreneurs we had. We had one kid whose dream was to have lunch with the software engineer that wrote Sim City, the game Sim City, I'm in YPO, and we were able to network our way to him and get the kid to go to lunch with the Sim City founder. Like we take for granted the worlds that we live in and we have access to stuff that that other people don't. So that's one piece of it, but here's what I'll say about the unintended consequences. And I think this applies across the board, with culture, so many companies and we were the most guilty of this, all of their HR systems, their employee handbooks, their policies, their procedures, everything is aligned around the bottom 10% of their people. Trying to control the behavior of the bad actor, bottom 10% and then they literally, I see 140 page employee handbooks, and 120 of them are dedicated to All the things you can't do, won't do, shouldn't do. Here's how you're going to get in trouble if you do this or that. And all you do with all that stuff is subconsciously tell a players that you tolerate C player behavior, and you tolerate BS, and you write it down and put it in handbooks and all the things. So when you do any culture initiative at all anything. You have to realize it's for your top 80%, and your bottom 20% are going to figure out how to game the system, how to screw you, how to be bad actors, how to take advantage, all the things. Who cares? Who cares, if I could get the 80% high potential people to be better and be more aligned and more loyal and dedicated and feel more part of something bigger than themselves, the 20% eventually, in great cultures get rejected. Great cultures spit out bad actors. So we didn't care. We just didn't care about the unintended consequences, and we never once had a Why did you grant their dream and not mine? Never. It just didn't happen. And that's why I bring up, I'm yet to have somebody come up to me and say, Well, we tried it and it was a failure. And here's why. No one ever said, and I always ask. I go, did you follow the rules we laid out? And I went, Yeah, exactly. And I always said, did anyone ever, like feel jealous or resentful? And every once while someone goes, Yeah, we had one or two people, but they're not with us anymore. Quite frankly, they needed to go anyway. If somebody is jealous or resentful that somebody else on the team have, like, their lifelong dream. Granted, they're probably not a great fit for your company anyway. So some of the unintended consequences are, you get rid of your kind of bad actor employees.

S Steve Divitkos 30:13

Just an incredibly interesting way to think about it, this that I've never contemplated myself, this idea of, like, designing policies, procedures, whatever you want to call them, for the Top X percent, not the bottom Y percent, because that is the natural inclination. Oh, that's such an interesting way to think about it. Maybe if we could transition to scaling, and we'll link it to culture, because the two are linked inextricably. And I guess I can share with you that one of my stranger experiences during my later years as a CEO, was walking past a new employee in the hall and having trouble recalling their name. And I know many other CEOs have felt something similar, and for me, it was once our company hit, I don't know, north of 70 or 75 employees, or somewhere in that general ballpark. So the question for you is like, what have you learned about maintaining this intimate, personal culture as headcount rises? Like, are there any concrete practices that we can use to preserve that general spirit at, let's say, 200 employees, that probably weren't necessary at like 20 employees?

J John Ratliff 31:17

Yeah. So you know my number one, I think driver of that for us, we were 650 when we sold about 150 salary, 500 hourly. And we were spread out across 24 locations all around the US, one in Puerto Rico, but the rest were continental US, and we committed to do at least one, and in most cases, it was two. And in a lot of cases, four times a year, a town hall meeting with every single employee in the company. 650 of them had an opportunity to be in at least one town hall a year with me, our COO, our CFO, and actually my executive assistant. And fortunately, we had, I'm a pilot, and we had a company airplane that I would fly. We would get in that airplane on Monday morning in Wilmington, Delaware, and literally, by Friday, we would probably have hosted all around the US 20 town halls, and then we'd do it again the next week. So in about a 10 day stretch, we would be able to touch every single employee in the company, and the way the town hall worked, we would go in. We'd kind of give a State of the Union. Hey, here's what's going on. Here's what we're thinking about. Here's what we're excited about, here's what we're worried about, here's a couple of the things that we've done to make your experience better. Like, you really should look at your culture initiatives through a marketing lens. Like, if employees don't know what's happening behind the scenes on their behalf, then they're not going to know. So is our chance to, you know, hey, we we bought all new headsets. We did this. We upgraded all the keyboards across the, so just State of the Union, and then we would open the floor for all of us, Q and A, any question was reasonable, as long as it was respectful. But nothing was off limits. The questions we could answer, we would. My EA was there to document everything and follow up. If we couldn't answer a question, we would very politely explain why we couldn't answer it and but we would note it. And then the key move, and this actually came from the guy up in Canada that I referenced earlier, that basically had said, you know, 115% turnover was good. He added one nuance to it, and that was for the last 15 minutes. We kicked everybody out that was salaried, so it was only hourly employees, and then was one on one with me. So no COO, no site level manager, not even my. EA, it was just me and the hourly employees. And I would open it with, listen, I know this is really intimidating for you guys. You know your managers were in the heads of the company are in the room, but now it's just me and you and tell me what's really good. And that's when I would find out, hey, you know this one supervisor might be having a relationship with the manager here, and it's making us uncomfortable and it was all done kind of in the spirit of of confidentiality and trust. And yes, I did not know 650 names. In fact, I'm terrible with names, and I'm not great with faces, and I sold the company in 2012 I still run into people that come up to me and know my name, and I barely know which office they used to work in, but they had an opportunity to put a face with the name with me, and that was my way to you. Kind of propagate our philosophy around culture and employees and what we were thinking about at least, and can't even think of an office that was once a year. It was at least twice a year for everybody. And we were a 24/7 business. So it wasn't go to St Louis and have one, it was go to St Louis and have three separate town hall meetings so that every employee from every shift could have time. It was exhausting, I mean, utterly exhausting, but the ideas that came out of it were remarkable, because they wouldn't just share the bad, they would share the good, but they'd also share, hey, you know, we're really like we had an office in Cincinnati and one in Dayton. And we had combined them together back when technology was super hard with like a point to point t1 and this really elegant technology solution that we thought was like state of the Art. And it turned out that when they tried to answer calls in Dayton, there was about a 15 second lag before the call would connect. And it was creating these unbelievable customer issues that we had no idea about, and it was just one employee saying, hey, if there's any way that we could have the call connect in like, less than 20 seconds. That'd be really helpful. I said, What are you talking about? And from there, we uncovered what was going on. It was a setting issue, and we never we would have gone another year without figuring that out had we not been there. So it was a data gathering exercise for me, but it was also a face of the company exercise for all the team. And we did it 650 across 24 locations continental United States. I contend that anybody in you know a handful of places, and with Zoom and all the technology we have now, you could absolutely do it today, a lot more seamless. I do believe if you do have physical locations, it's important to be face to face.

S Steve Divitkos 37:09

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J John Ratliff 38:53

Yeah, this may be a little bit of a corollary to that, but I think it's a really instructive story that we tell very, very often. We would do quarterly planning, like I said, and it was 12 or 13 people that would come together to do that. Our cadence, our scaling up cadences, we set our BHAG, which is our North Star. What are the priorities in the next three to five years? Pick a handful. We'll call it five priorities over the next three to five years. What are three to five for this year? What are three to five this quarter that line up to all of that? And then what are we going to do this week? And what are we doing today? That was our key. So in the quarter lease, it was three to five priorities that lined up to our annual plan, and I would walk into those quarterlies knowing exactly what the three to five priorities should be, but I considered myself a diplomatic Democratic leader. I'd love people to have their say and their input and feel like they were part of the process. And so we would spend. It was a two day meeting. We'd spend most of the first day kind of figuring out our five priorities for the next quarter or in the annual for the year. And invariably, we would land on my list, and everyone would feel like I thought part of the process, but it was torture for me. So I'm standing in a, we would rent this beautiful space. It overlooked the river in our city, and like all glass, and I distinctly remember standing there and we're having this debate about the three to five for the quarter, and I'm like, ready to beat my head against the glass like it was torturing me. Finally, I said it was like three hours in on day one. Finally said, if we could just pause, I want to share with you the four priorities I have for this quarter, and then maybe you guys can reflect on that. So I laid them out, and we debated one a little bit, and in about 10 minutes, we had our priorities for the quarter. And then we had a break, and three of the people came up to me at the break, and they said, we've been waiting for years for you to figure out that it's your job to set the priorities and let us do the execution planning around those we don't want to be involved. We don't think that way, like I know you're trying to be nice and make it so that we all had a say in it. Next quarter, can you just show up with the priorities, and maybe we'll have a little time to debate them, and then we have all this extra time to plan how we're going to achieve them, so that that changed, and that became our cadence. So I believe really strongly that the entrepreneur, the founder, owns strategy, and if they're not a great strategic thinker, that's a challenge. I understand, but they have to own strategy, and I'm a big believer in benevolent dictatorships, actually trump a democratic process and setting strategy. So that's one that I think the entrepreneur maybe has to wrestle back from the team a little bit, and if you're trying to consensus build, I think you'll get priorities and you'll get a fairly good list, but you won't get an optimal list. I think you only get an optimal list. You know, it's the entrepreneur's job to be up above the trees and kind of figure out where they're going. From there, I think, from a decision making standpoint, once you've got strategy nailed, I think making sure that, you know, it's in Jim Collins words, that these are the seats on the bus, and we have the right people in the right seats on the bus. I think that's the entrepreneurs, not only the entrepreneurs responsibility, but I think that's an area where they should be making decisions, obviously, large capital allocations, anything M&A related, I think, is the entrepreneur. Although, you know, we bought 24 companies, and by probably 16 or 17, I was the person that people would call and say, hey, you know, we're thinking about selling, and we'd like you to take a look, but after that, I'd get out I would negotiate, kind of be the deal maker, but then I'd get out of the way. I think in a well run company with a really aligned executive team, it ends up actually maybe precipitating out a lot of the decisions that the entrepreneur has to make. They have to make a couple of really key ones, like where we're going and how we think we're going to get there. And then, if you've got the right team, a lot of the thinking then gets distributed down, and it's not really down, it should be up. And you believe in servant leadership, the entrepreneurs on the bottom, and you lead from the bottom up, but, yeah, I think having a good, aligned executive team with a really clear direction is like, that's the superpower to scale. And I also believe in the discipline around what I just talked about, scaling methodology. What's our North Star three to five years? What are we doing this year? What are we doing this quarter? What are we all committed to this week? And what are we going to do today? And we need to get together and status on that and have conversations about it. I think the vast majority of companies that struggle to scale it's one of a handful of things, one, they have too many opportunities, and they don't know how to prioritize. That's probably not number one, but that's one of the ones on the list. I think number one on the list is they don't communicate effectively. As an organization, the left hand doesn't know what the right hand is doing, and the entrepreneur thinks everybody knows everything, because it's their vision and their their priorities and their alignment. But when we work with companies, we always, always find that the team's ideas about where we're going and the entrepreneurs ideas never lined up. They might be close, but they never really lined up. So I think communicating is a really important part of scale, having everyone know the role that they play. You know, I love Dan Sullivan from Strategic Coaches. Actually, he's talking about hiring now is casting. And you know, he talks about front of the house, back of the house, everybody plays a role. Everybody gets cast into the performance that is operating a company. And knowing the part that you play, knowing the other parts you collaborate with, I think is really, really important. I think that's lost in business today, especially as we become more and more virtual. I think we're missing a lot of the anecdotal and interstitial conversations. And I think employees, by and large, aren't totally sure what to do or where they're going. And you know, a lot of high potential companies are stalling because they're just not communicating well. And then the third, obviously, is, you know, you don't have a good strategy. So you know, maybe it was, might have been Drucker, or somebody said one or no Elon, I guess. But one of the great, you know, tragedies in business is doing exceptionally well. What shouldn't be done at all. And I think there's a lot of companies that are kind of in that, in that boat as well.

S Steve Divitkos 46:17

I'd like to, if possible, move on to M&A because you were so prolific in growing Apple Tree Answers via M&A, you mentioned that you acquired 24 separate companies before selling the company yourself in 2012 and I'd love if you could contrast, let's say deals one and two, with deals 23 and 24. Like after so many reps and so much experience, how did your acquisition and integration process evolve, and what lessons were those evolutions based on?

J John Ratliff 46:46

Yeah, that is a multifaceted question we could go a lot of directions with. I will say this as a primer for this conversation. The exciting part of m a is the search, the hunt, the putting the deal together, the transaction and negotiating, the thrill of signing, all those things. And so much energy and effort and attention gets devoted to the deal. And invariably, what we see is everybody takes a collective breath and a sigh of relief when the transaction closes, and what they don't realize is 20% of the success of a successful traction of a successful transaction happens on the transaction side, and 80% is on the integration side. And the integration part is boring and it's hard and it's torturous and it's uncomfortable and it's not fun, and it's all things, but the worst thing you can do is do the perfect transaction and then fail to integrate it, and all you've done is waste time, energy and capital. So focusing on the integration side first, knowing exactly how you're going to integrate a company in and put things together, that was the biggest step change evolution for us from deals one and two to 23 and 24 we had it down to a complete science by like deal eight, and all we did was refine the integration. The transaction was mechanics, we used 100% bank debt, so we had a range of parameters we could work in. We could only pay so much, which saying no is one of the most powerful words at M&A when, you know, we build a reputation of taking incredibly good care of sellers and their team, and many times we were the sole source buyer. In fact, we would get proactively called and buyer or seller would say, Hey, I'm ready. I know I'm supposed to sell to you. I'm not calling anyone else. And we would say, here's our program, here's how we do it. Here's exactly how we're going to take care of you. Here's how we take care of the team. Here's our post integration strategy. We laid it all out and the transaction side became easy, but we still had to do all the integration. And when we made mistakes and when things didn't go on didn't happen very often. 24 deals. We had one go bad, was when we didn't follow our own script, when we thought we were smarter than we were. And yeah, this one doesn't quite fit our box, but let's do it anyway. We're so good at what we do, we'll figure it out. And anytime we got off script is when we struggled and had challenges. Now, only one deal was a failure. 23 were successes. But even in the successful deals, the one we followed the script the closest, were the best, and the ones where we went off script were the ones where we had issues. So we had a couple of non negotiable rules. One was, ironically, that the seller is out in the first two weeks. We were a culture, first employee, first company. And it's my mindset that when you buy a founder, entrepreneurs company, and you're going to integrate and install your culture, and we were good at doing it literally, like day one, day two, day three. By the end of the first week, the team would really feel like they've been part of our company for a long time. It's hard to do that when the founder is gone, behind your back gone. I don't know, that might have worked over there, but I'm not sure that's gonna work here, and they undermine a lot of that stuff. So one of our rules was, founder had to go. One of our rules was, we don't cut a benefit. If you have a benefit today, even if it's five times better than the ones we have, we don't cut it. We had employees with seven weeks vacation when our vacation policy was three. I actually put someone through college. Back then it was 2009 I think it cost me, like 39,000 years. She went to the University of St Louis, and I put her through college because previous employer, the company we bought, she was a potential manager for them. And his deal was, I'll pay for your undergrad business degree if you agree to be a manager for five years. And we had a real debate about that one, because one of our rules was, we will not cut a single benefit. So we had $160 to put our money where our mouth was on that one, and we did. And she's actually, I sold in 2012, that woman is still with the company today, and still an unbelievable manager, and I can still contend that as painful as it was, it was 160,000 well spent dollars, but so knowing your strategy and not getting excited about an opportunity that falls outside of your parameters, just because it looks fun, it's a shiny object. I think is one of the biggest fundamentals in M&A, like, it's not time to freelance and make stuff up as you go. It's got to be one of the most process and systems based activities that you take on as a company. Because you're playing with fire, if you have an acquisition go bad, you're betting the, I mean, it can be an existential threat to the business. You're betting the future on it.

S

Steve Divitkos 52:32

And that's an interesting segue into my next question, actually, because at least in my little corner of the world, I've observed that industry roll ups are all the rage right now, and particularly I've observed within the home services ecosystem. So you know, HVAC, plumbing, roofing, that kind of thing. These strategies obviously can be lucrative, and they have been lucrative in select instances. But I've also observed that more often than not, they're quite fraught with peril. So based on your experience consolidating an industry for lack of a better way to put it, what would you say to the prospective consolidators listening to this like, what are some of the basic things that you think differentiate a successful roll up strategy from a less successful one?

J

John Ratliff 53:14

Yeah, there's a handful of really important things there. I actually worked on as the lead M&A advisor, one of the most successful home services deals in the last decade. It was a sizable transaction, and a very sizable follow on transaction for that. In fact, in the private equity firm that bought and they paid a strategic multiple for the business, you know, north of 14 times, in an industry that trades at seven. And it turned out then that that was their most successful transaction in that particular fund. And all of that success came from, they bought a platform company that was absolutely run like a Swiss Watch. Nothing was left to chance, when the technician went to the door, they knocked because friends knock and strangers ring the doorbell. They would take exactly two steps back because one step back was too close and three steps back was awkward. They would park the truck so the homeowner would and the homeowner, not resident, it was the homeowner. That's what they called the customer. They parked the truck so that the logo on the truck was over the technicians left shoulder, so that the homeowner would look up and to the right, if possible to see the logo. Because when you look up and to the right, you're using your left brain, and that's your analytical side. To the left, your using your right brain, and that's your creative side, and you might not believe the technician as much it was that precise how the business was written. So what we were able to do was to find a button that totally bought into that level of precision and was able to use their capital and capabilities to take that level of precision and scale it across. I think they did 20 add on acquisitions over 30 months, quadrupled the EBITDA and sold the company and ended up with about a nine times cash on cash return for that particular transaction. All of the success came in the careful selection of the platform company and the careful selection and integration of the add on companies. And when you see roll ups that are successful, there's a playbook and checklists and non negotiables when you see roll ups that are not successful or maybe sub optimal. Very often it's the Wild West we're shooting at anything that moves. We sort of have a thesis about integration, but we really haven't tightened it up. We chase shiny objects like this one fits our thesis 80% but it's such a cool company, and we'll fix it after we buy it. Like we didn't deviate very often from our playbook. And I think that would be my advice anyone contemplating roll ups, first of all, if you're the platform company, get your own house in order. You're not going to buy another company that's better operated than yours, and fix your mix by buying high performer bank. I think that happens a lot. You know the aspiration position where, well, they do it better than we do. Why don't we buy them? Learn from them. We'll use them as the platform, that I've seen failed many, many, many times. So the platform itself has to be the Swiss Watch, and then the Add on acquisitions have to fall in line. And, you know, I'm a big believer in one brand, one culture, one set of operating principles. I also believe in, and I think a lot of roll up strategies fail, because you have to look at each individual asset that you acquire as an asset to be nurtured and grown, not milked. And so many times it happened in the call center role, all the time. You know, I got really prolific at M&A, we paid it forward in our industry and taught other people how to do it, and talked openly about how we did it. There were a lot of people that copied our model, but didn't quite buy into all the things. And they thought they could just buy companies and ride the cash flow out as long as they could. And invariably, those companies would decline, which causes culture issues, customer issues. It just makes things miserable. So if you're going to buy a company, you're not there's no magic formula where you buy it and it's just going to it's just going to continue to operate in perpetuity. You really have to nurture the assets that you purchase and try and grow them individually, on their own. And the last answer to that is the vast majority of things that look like synergy are not synergy. Like, you know, one plus one, very rarely equals, you know, 508. It normally equals like two and a Little bit of change. And if your model is built on one plus one equaling 508, you're setting yourself up for failure. Synergies there, but rarely does it ever come to fruition quite the way that everyone contemplates during the transaction.

S Steve Divitkos 58:57

That reminds me of one of my favorite quotes, that more fiction has been written in Microsoft Excel and in Microsoft Word, which I think is pretty applicable to what you just said.

J John Ratliff 59:06

I've never heard of that, but, yeah, I love that.

S Steve Divitkos 59:09

I want to touch on the transition between incoming and outgoing CEO, because you mentioned when you acquired companies, one of your rules was CEO has to be out in a period of time, measured in weeks. In the ecosystem in which I operate, we're dealing with first time CEOs who are buying small companies from their founders. So in my world, if a founder were to exit post close after two weeks, in some cases, that would be catastrophic, right? Typically, there's three to 12 months of a transition period between incoming and outgoing CEO, and often during that period, the buyer is trying to mitigate any instances of founder dependence, of which there almost always is some. So maybe, if you take off your Apple Tree hat and maybe put on your M&A advisor hat, having seen a lot of these transitions, what differentiates a good one from a bad one, because they can be incredibly challenging if not handled properly.

J John Ratliff 1:00:03

Yeah, so, I'm always a big believer in the first 100 days, like where you start the process I think stacks the deck in your favor for success, or stacks the deck for failure. The first thing I want to know when I come in and you're not going to find it in diligence, unless you get lucky, you're very likely not going to find it in the interactions with the incumbent. But where do the loyalties lie with that CEO? What's her rating you know, from a culture standpoint, how well respected is she? How tightly integrated is she with customers, how tightly integrated is she with vendors? If she were to get hit by the proverbial bus tomorrow, was there a contingency plan in place, who was stepping into what roles and any work that can be done ahead of time on that, I think, is valuable, but it's hard to do that in the midst of negotiating a transaction at the same time. So for me, I think it's really important to come in and honor the past while crafting the future. And I think a lot of times what we see in M&A is the you know, and again, we got rid of the incumbents because we were trying to install the already existing tree culture. In a search fund, new CEO kind of mindset, or even in traditional private equity, very often you're either buying a platform or you're buying a standalone so It's different. You're not trying to install your culture. So in that case, for a new, young CEO, you're trying to install trust in the team and trust in the customers, and trust in the vendor list and in the stakeholders. You can't start to establish trust until you know the lay of the land. So I'm a big believer early on, talk very little, listen a lot, ask a lot of questions, ask a lot of beginner minded questions, and really start to develop your own sort of, like there is no playbook from, we have to figure this out from day one standpoint. Like you can't say, on day one we do this, and on day five, we do this, and day 10 we do this. I think you know, you may walk into a scenario where the CEO is not very well regarded, and it's going to be really easy to win people over and your breath of fresh air, and those transitions tend to go a little bit smoother. Ironically, you may walk into a scenario where everyone requires the CEO like a family member, and you're almost at some point, walking into a funeral, because there's going to be, you know, grief and despair on the CEO. You have to approach those two situations from an incredibly different perspective. So I would say, if I'm the incoming young, first time or early stage CEO, I'm working really hard on my emotional intelligence. I'm working really hard on the ability to build rapport and establish trust, and, you know, to create relationships. And I'm working really hard not to step on the toes of the incumbent, because I need to build a bridge before we can really start to implement an exact change. And I think, you know, we've seen transactions of every, you know, size, shape and color. And it doesn't always cause massive strike, but when someone comes in with the bull in the china shop approach. Oftentimes it's not well received. So, you look at like Greg Brennaman, the turnaround. I don't know if you know Greg, but Greg's written some really prolific books on turnarounds. And he talks about that, you know, he talks about, I just want to listen in the beginning, I want to inform my own opinion. That's another thing too, that you know, in the due diligence process, we learned this lesson kind of the hard way. Invariably, we would hear, well, no matter what, you should fire these two people, and this customer is terrible, and all of those things were through the filter of the bias of the of the incumbent. And many times we would find out the two people that we were told you should fire were the lead candidates to, you know, to run that location for us. They were annoying to the incumbent because they were trying to be progressive and, you know, make change and make the business better. So they were troublemakers of a sort. So go in with a complete beginner's mind and flush all the bias that came through the transaction process, and start fresh to really try and establish, like, what's actually happening here. And I think 30 to 60 days before any major changes are made, I'm not a big believer, and it's back to the synergy conversation of firing people on the way in to cut expense, like if that's part of the model, and that's part of the plan. I get it. But I think then I'm asking myself the question, am I buying, I'll put it more in Buffett's words, we want to buy exceptional companies at fair prices, not mediocre companies at great prices. And if I have to cut a bunch of people to make this thing a success, are we buying an exceptional company? Are we buying a mediocre company that isn't being operated properly? Now some VCs, say we want to buy mediocre companies at exceptional prices. So you have to know that too, like for us, we would not do 24 deals. Never did a turnaround. Would never do a turnaround. I want no parts of turnarounds. I have a buddy of mine who runs his own fund, and all they do is, they're in bankruptcy court buying companies. I could never do it. So know thine self and to thine own self be true. I think is important too. If you're a turnaround guy, you're a turnaround guy. If you're a culture builder, you're a culture builder. If you're a balance sheet engineer, you're a balance sheet engineer. And know what your strengths and weaknesses are and align yourself by companies that that you know are going to fit your mindset and your and your theories about business, and your biases about business.

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Steve Divitkos 1:06:48

Where I'd like to go, actually, is identification of a real seller, because my experience taught me, you know, on a first hand basis and now on a second hand basis as an investor, that when you buy Small companies, it is very tricky to identify a quote, unquote, real seller that is someone who is actually willing and able to transact. As opposed to, like, what I'll loosely refer to as the tire kickers, people who are looking for a free valuation of their company, or are just looking for a bit of an ego stroke, or whatever the case might be. So I guess the question to you is, do you have any specific questions that you ask or things that you look for to try to differentiate the real sellers from those who were never going to sell their company to in the first place?

J John Ratliff 1:07:35

Probably like everything else we've talked about so far, but I'm a huge believer in questions, but I actually believe there are a lot of sellers that believe they're real sellers like truly believe it, and then they get to that emotional sort of crossroad and realize that maybe not. So I don't think there's a magic bullet way to do it, but I do think if they've, here's one sort of gating item for us, it's going to sound totally self serving. And I'm not even a banker anymore, but I still, you know, I'll get involved in transactions in some, you know, way, shape or form from time to time. But if they've engaged a banker and they've done the work, and they've paid work fees, and they've got skin in the game, I think that's a good sign. You know, if they've worked with an attorney or they've done some sort of state planning or and again, I think all these things come out in, kind of the questions behind the questions and in the quiet moments of, you know. In any transaction, there's times you're talking about, kind of the nuts and bolts, and then there's times you're talking about the kids in the future in the past, and their origin story and where they came from. And I think if you get to be a good interviewer or, you know, and it goes back to the emotional intelligence thing. I think a lot of times you can read between the lines and know if they're serious or, you know, are they in the early stages and just contemplating a transaction. But if they've made investment, that's a great I mean, that's a great gate for me. If they've made significant investment in the process, there's a good chance. But the data says, I think it's three out of 10 companies that go to market end up transacting. So there is a lot of that, and we face it, in M&A as well. It's why we don't do a zero fee engagement. It's not about the fee at all. It's about we are aligned skin. And again, our great tragedy, as you could imagine, is working 12 months on a deal, and you get to the end, and they get great offers, and you did the best work of your life, and they decide, yeah, we don't, we've changed our mind. I mean, then maybe you got some fees, but you know, M&A is really predicated on success fees, and if your clients drop out. So we know that the advisors have as deep a level of concern as probably the investors do, but that unfortunately, especially in the lower middle market, there's a lot of people that just don't know what they don't know. And it's an emotional process, and they get to the end and the emotions catch up and they just don't want to do it.

S Steve Divitkos 1:10:40

When you were doing diligence on a potential target, are there any pieces of non financial information where, if it's missing or if it's ambiguous, makes you particularly nervous?

J John Ratliff 1:10:54

I really, I would always key in on how they were around their team, and you know, it's not necessarily financial or not, but really high turnover was a red flag for us. Actually, we felt like part of our thesis was we could get an arbitrage on culture, because we could make the culture better, literally overnight. But if it was so broken and so damaged, and it was going to take a Herculean effort to move the culture needle, then we would then we would walk. I'm a huge, huge believer, and this isn't something you put in business books, but trust your gut. If you get that weird feeling or something says, Hey, this doesn't feel right. This doesn't look right. I think it's the most important time to trust your gut. We had a transaction that, by every measure, was the right transaction, was the right price. Everything about it was perfect. Diligence went great. And my CFO and I, we went, we had one more like two hour diligence meeting, and we walked in and we got set up in the same conference room we'd been in five other times. And somebody brought us coffee, and we had the stuff. And I looked at him, I said, does anything feel off to you? He goes, John, the hair on the back of my necks standing up. I have no idea why. Something's not right. I go, Ralph, something's not right here, and we haven't found it yet, and I don't want to spend another 100 hours looking for it. But and prior to that meeting, we were all in, we were 100% gonna go forward. We both had the same moment. We very politely, about 20 minutes later, got up and walked out and walked away from the transaction, to the utter dismay of the seller.

S Steve Divitkos 1:12:56

Did you identify what that thing was that made you both nervous?

J

John Ratliff 1:12:58

Oh yeah. Two years later, he he had sold to a friend of mine, probably about 18, months after we walked out, he sold. And at the two year mark from the day we walked out, it came out that the whole thing was a house of cards. It was all fraud, and the whole deal blew up and unwound, and it looked perfect on paper. Everything about it was right, and it was just something about an interaction and the energy that came off the guy that at that very last meeting, we asked an innocuous question. He got nervous about it. Kind of dodged the question. We were like it was weird. He dodged the question, and then that's when I said, something feels wrong, and so trust your gut. And I know you can't put that on a checklist or a system or process. But we're pretty well informed as entrepreneurs from a pattern recognition standpoint, and oftentimes when we go against what we think we see as a pattern, because we're so excited it, it's as exciting for the buyer as it is for the seller. And sometimes we let our excitement cloud our judgment, and you got to fight really hard not to do that, and the corrolary is true as well. Sometimes, you know, balance sheet doesn't look great, and the P&L isn't right, and there are some cash flow issues, but the underlying fundamentals are great. And you know, with those underlying fundamentals, with some minor changes, you can turn around, trust your gut there too. Like, this isn't about the business has to be perfect or you walk it's about, can we reasonably stand behind what we believe to be true and diligence, or are we having a little bit of concern here and a tiny concern there, and maybe a moderate concern here? And I think that's part of it. Another total deal breaker for me is the kind of the ethical activity of the senior leadership team. So if you find a completely upstanding and and incredibly well intentioned entrepreneur, and checks every box, and all the things, and then in the process of due diligence or management presentation or anything that there's a key leader that looks like, maybe they've got some integrity issue or performance thing or something that doesn't align. And you say, well, we can always replace them down the road, or this or that. I actually believe there's a smoke and fire kind of approach. And if there's an integrity breakdown somewhere at the senior level, there's a really strong probability there's an integrity problem inside the company. We actually were the deal leads on a deal that it was a construction company and two of the senior leaders, and it wasn't, it wasn't super egregious, but they were doing some things that definitely fell outside of the, you know, of the reasonableness test with the IRS, in terms, I mean, it was borderline tax fraud what they were doing, they were minor sort of activities and minor amounts. We were adamant, we need to know everything, The Good, the Bad and the Ugly. They had kept this from us as the advisor, and it actually came out by accident with a totally innocuous question in due diligence, we were 48 hours from close, and the buyer, to their credit, said, listen, we're going to be your partner going forward. And based on what we just discovered, we can have either of these two guys as partners. We don't operate this way, and we don't have the wherewithal to replace them. They're integral to the business. And that was a $48 million transaction that blew up over two guys that were saving 50 grand a year in taxes, that were COO and and CFO. With the knowledge of the founder entrepreneur, but not necessarily the blessing.

Steve Divitkos 1:17:26

John, in our remaining time today, if I can, I'd like to ask you two concluding questions. The first being, if someone shadowed you for a week during the peak of your operational career, including all the M&A activity that you've engaged in. What do you think would surprise the most about how and where you spent your time?

John Ratliff 1:17:48

Well, if it was in the last three years that I am in the business, they'd have been shocked at how little I actually worked in the business. You know when we had gotten really good at scale, and we've gotten really good at scaling up methodology and building an operating company that really was, you know, operating on all cylinders. So my thought process, maybe running joke that turned into my thought process was, I matter eight days a year. That's the two days for animal planning, and the two days for each of the three quarters that we're going to plan. Outside of that, if I'm integral to this business, then I'm detracting from the value of the company. So I really aligned my kind of approach to how I ran the company around that ideal, that I was 99% strategy, 1% you know, operationally focused. And that surprised a lot of people. Because of that, you know, I was probably a 15 to 25 hour a week guy. I did a lot of speaking. I did a lot of personal development work. I did a lot of sort of like out in the marketplace stuff, but operating the company was an hour a week, but really, working in the business was 15 to 25 hours a week.

Steve Divitkos 1:19:12

There are a lot of CEOs listening to this who are salivating at the idea of working eight hours a month, by the way.

J John Ratliff 1:19:17

Yeah, well, and you know the paradox is, you can't do it tomorrow, like you have to align, you know, you have to align a lot of things to get to that point. But if you ultimately are contemplating exiting the company, you know, exit values really boil down for me to a risk calculus. So anything you can do to take risk out of a transaction increases the potential transaction value, the biggest fundamental risk to any business. And you talk to any good you know, investor, PE, VC or otherwise. Their biggest fear is we're going to write a huge check. The founder, entrepreneur is going to get a big pile of money, and they're going to stop paying attention, and they're going to not care as much. And we've sold them on the second bite of the apple, but, you know, they just got a pretty huge first bite of this apple. And are they going to wake up tomorrow as excited as they work today? And that's a risk, and the more you can do to mitigate that, and what's the best way to mitigate it, don't be integral in the day to day operations of the company in the first place. So I think it's not only, you know, I think it's not only good practice and good governance, I think it's a valuation driver, the less the entrepreneur can be. You know, I always use the example two identical companies, P&L, balance sheet, cash flow statements look identical. And you walk into one business, and you meet a relaxed woman and and she shows you their playbooks, and you look out on the, you know, the factory floor. And you could literally eat off the floor and it's perfect, and it's kind of quietly humming along. And you go to the second company, and everything's identical right down to the, you know, the quarterly financials. But the founder, entrepreneur is late, and you finally find him on the factory floor, and he's under one of the product lines with a wrench in his hand covered in grease. And somebody jokes, thank God you're here, because you're the only one that knows how to fix that. And you have capital to put into one company or the other. Which one are you going to buy? So for me, it's the entrepreneurs, like ultimate win to be the first one, not the second one. And so many of us probably because we started the company on the floor, turning the wrench and fixing the line or doing the plumbing or selling the consulting service or whatever it is, and we just naturally are still super integral, because that's how we grew up in the business. And the one that takes a really intentional role in truly being a CEO that can elevate to chairman or chairwoman, and is not integral day to Day, I think, is wildly more. And obviously it's a lifestyle better life, but it takes time. You don't listen to a podcast. Work 80 hours a week. Wake up tomorrow and go, Oh, I'm just gonna work 20 hours a week and see what happens. Like a lot goes into getting there.

S Steve Divitkos 1:22:35

That would be a very valuable podcast. Let me know once you find it. John, final question for you, at the risk of putting you on the spot a little bit, I'm curious, what is the most meaningful lesson that you've learned over the past 12 months? And that could be anything. It could be business, could be personal, it could be spiritual, it could be anything

J John Ratliff 1:22:54

over the last 12 months. So I have a really close friend who, and I won't get into all the mechanics of how this happened, probably because it's maybe slightly controversial, during some breath work and some other things, had a pretty interesting spiritual experience that he's recounted to many of us, many times now. And during his experience, he was visited by his deceased mom, who was his kind of, you know, North Star his life. And she laid out a vision for him, about a business vision, about thinking about business from the perspective of flow. And so much of what we do in business is, what do we say? We gotta scale. We gotta climb the mountain. We gotta get upstream. Everything's about, you know, fighting against all the odds to get to where we want to go. And what he got in this breath work journey that he went on was, it's not about against all the odds. It's not about fighting the current. It's not about, you know, climbing the mountain. It's about where is the flow. So pick your destination, like, get really clear on where you want to go and use that. Use picking the destination to tune into the flow that you want to be in, that the people you want to have around you, the journey that you want to be on. And then surrender the idea of the destination, because all that was meant to do was get you tuned into the path, and then when you get on that path, joyfully. Play in that flow, and then she showed them in this journey, when people drop rocks. So imagine a deep river that's really deep, but really rapidly moving. If there's no rocks in that river, you can barely tell on the surface that it's moving, but it's because it's deep and wide and moving really rapidly. But as soon as you drop a rock in that river, you get turbulence. So your other job is the entrepreneur. When you finally tune into the right flow and things are really moving, your role as the leader is to get the rocks out of everybody's river, to get the turbulence and let everybody joyfully play in the flow that you're creating together. And instead of trying to row against the current and swim upstream and all the analogies that we use that are kind of like, you know, the alpha male versions of how to scale companies. And you know, he's shared it with us, and he's an unbelievable storyteller. You should hear the story from him, not me. He'd be a great guest, by the way. And he's building an agriculture I'm actually the chair of the board. We're building an Ag Tech company that's literally, we believe, going to solve the climate problem on the planet and change at the way we grow food on this planet forever. So there's a lot of flow happening, as you can imagine, but the idea of getting rocks out of the river for me is one that I just can't shake. And now, everything I look at, I look at art, is that a rock and a river, and how do we get it out? So that's been my biggest shift in probably the last that's probably nine months that maybe 10 now that I've been thinking about the world as rocks in the river, and how do we get them out?

S Steve Divitkos 1:26:48

What a great thought for the leaders listening to this to take away with them. John, it was a real treat to have you on today. Thank you for joining us, and thank you for being generous with your insights.

J John Ratliff 1:27:01

Yeah, thanks for having me. I really enjoyed it.