

In The Trenches_ Interview with Rich Manders

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SPEAKERS

Rich Manders, Steve Divitkos

S Steve Divitkos 00:00
Rich, welcome to the show.

R Rich Manders 00:02
Hi, how's it going?

S Steve Divitkos 00:04
I'm doing well. And I will tell you that one of the challenges in considering what to ask you is the fact that you've just done so much across the SMB ecosystem. You've been a founder, you've grown businesses substantially as an entrepreneur, you've bought them, you've sold them. Now you're coaching SMB CEOs. And so one of the challenges is kind of where do I focus, but what I decided to do is try to touch on a little bit of everything. So where I wanted to start is just with some basic company operations questions. From there we'll go on to kind of questions of managing and allocating capital. And we'll go into buying and selling businesses and kind of managing yourself and managing your entrepreneurial mindset. But where I wanted to start is just some kind of nitty gritty operations. And you have now been an investor with the private equity firm Riverside, after having spent many years as an entrepreneur yourself and selling your business to them. I'm curious, what did you learn through your experience as an investor, that maybe you wish you had understood better when you were CEO? So I guess another way to ask the question is, how is your investor lens kind of colored your operator lens, if you will?

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Rich Manders 01:16

Yeah. Well, I think most folks, when they start a business, it's usually a form of a passion project, right in the sense that it's typically something that they're good at. And they expand on that if you've ever read the book, *The E myth*, which is a fantastic book, most people start with this passion project in mind and this and this idea of building freedom for themselves as part of getting there. And so that and that passion drives you through and helps you be successful early on. But what I learned on the investor side and watching Riverside, for example, they've done about 500 deals over 30 years with a unbelievable track record is that's not what drives them. It's a system to follow a organizing system. And I had seen it before in another company that I was a partial owner of and involved on the leadership team that we sold to a company called Danaher. And Danaher is probably one of the best wealth building companies of all time, of recent history for sure, if not all time, and similar to what I learned in Riverside is that they have a, they have a very specific system to build value inside of a business. And it's pretty much product agnostic. It's the right things to do to grow a business, a roadmap to take something of value and make it much more valuable over time. And having that roadmap gives you very predictable success. They really understand what are the drivers of value, what are the levers you can move, and then they dig hard to find the right data to make sure that the things that you're doing to move those levers work, and then they are able to do that, and then make the business scale much faster, value wise, and it's taking some of the emotion out of it, and becoming really powerful. The other thing that I learned is that really, you're investing in the team, that when when these companies, when the really smart investors look at a business, it's less about a individual or even the specific product or market that they're in, but in a team that can climb mountains and figure things out and zig and zag pretty quickly.

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Steve Divitkos 03:50

And so as an entrepreneur, if you do not yet have a private equity parent or some ownership group that has the ability and the experience to kind of execute on this quote playbook, if you will, what are some of kind of the high level tenets, the high level pillars of the playbook, now that you've had that experience? It certainly sounds like a focus on hiring and getting the right people in the right seats as part of it. Are there aspects to it that cover things like, you know, pricing, or financial management or, you know, bringing in, you know, building new internal systems? Like what are some of the high level tenants of this playbook?

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Rich Manders 04:30

So the probably at the top of the playbook is really understanding the market that you're playing in. So having having some good data, how big is the market? Where are the you know, who is your core customer? And what do they need? And how can you fulfill that in a way that's different than other people can right? So building a moat around that value proposition, and Figuring out really how to narrow your focus down to not try to be everything to everyone but to be the right thing in a, in a small focused area, and, and drive that value proposition really hard. And then you can keep adding on to that, right. So that's the first thing I would say, is stop trying to be everything to everybody and try to be really special to just a small group of people. Pricing plays a giant role in that. Since you brought that up. When you figured out who are the core, you know, who's that core customer who can, you can really deliver value for pricing becomes much less of an issue, because you're building value for the for the client, at a faster rate, that they're willing to pay a higher price, they don't even think about it. And so getting that is the first thing. The second thing is I would look at your team, you know, look at your team differently. And look at them from a capacity perspective, right? You know, what's the capacity of the people that you have on your team? And what can you do to build that capacity in them or recognize that they're the... A lot of times folks that you have on your team are the perfect right person to have gotten you where you are, but are not the right person for where you want to go. So you know, easy example is the person who manages your HR. In the beginning, right, that's, you know, you're managing benefits, you're dealing with getting people on board, and you're dealing with all this stuff. And maybe at a small company, 10 or 15 people, that's, that's a full time job. When you scale that business to hundreds of people. Now, really, that's not the job at all anymore. It's really managing a team of people who are delivering value to the people in the organization and making sure that you're getting a good return on investment from those people. And so that job is just a completely different job from being a firefighter, to being a manager is a huge change. And that's happening all over your business. So be aware of where you want to be. So most business owners have a picture in their brain of I want to double my business sometime in a timeframe that is between a year and 10 years, right? I want to take it from where it is today to double. And we look at your team and decide who on that, who's on the boat with you that's going to be there at double who has the capacity and actually wants that future job?

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Steve Divitkos 07:39

Yeah. Yeah.

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Rich Manders 07:42

And be good at that. And the second one is, you have to switch from, as you mentioned earlier, firefighting in the business. So working, you know, in the business, right, solving problems all the time, to really making that transition to working on the design of the business, how the business functions, and improving the design on how you acquire customers, how you win them over how you deliver to those customers, and how you get them to buy again, is a critical business function that every business has. And you really want to be looking at that as a design problem. How do I keep making that better? And I would add back to that data question is, most businesses the Achilles heels of a small business is that they don't actually know where they're winning and losing, they don't have a good scorekeeping system. They don't know. What are the most profitable customers, what are the ones that you're bleeding, etc. And in many cases, it's not what you think the big customers are the ones that kill you and the medium size ones, there's like a sweet spot in the middle, which is where you really win the day is by at finding them and adding them in and creating a great system. So getting good data so you can make great decisions.

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Steve Divitkos 09:06

Now, you've talked about growth, and your company grew very rapidly, over the course of many years. I don't think my company ever grew as fast as yours, but there were a few years where we had pretty notable growth, and one of the things that I learned as a rookie CEO is that managing growth is can present different challenges from managing in a lower growth environment. And sometimes I would describe it to my wife as I feel like I'm trying to change tires on a moving car. And so, as a CEO, who's managed high growth What did what do a lot of people not understand about managing a high growth company? I guess Said another way, like what what unique challenges does high growth present for the small to medium business CEO?

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Rich Manders 09:52

Yeah, so let's, if you break it down into four buckets, people strategy, execution and cash. Let's start with the end one which cash. Most businesses have a what we call a cash conversion cycle. For example, you spend money on an advertisement or getting a lead. And the time frame, when you spent that more having a salesperson make a sales call from the time you have that person make that visit or do that call or pay for that lead, till you actually have the cash in the bank depends on the business is somewhere between 60 and 1 year. And because of that, the money that means that the money is following the actual cash from your growth is following behind, usually when the bills show up. And so that really understanding cash flow and making sure that you are doing the best you can to shorten that time to provide the right funding. So just in general, fast growth requires a lot of cash because your funding expenses ahead of being able to collect the money. So that's the first one. From a strategy perspective, it's really the question is the way that you're acquiring customers, taking care of customers, and, you know, delivering product, etc. As you scale really fast, those systems tend to break down. And the way that you would acquire those customers needs to change, right. So if you're a business that knocks on doors per se, right, whether it's by phone or zoom calls, or in person on scaling, that way, is very time consuming and difficult. And so you need to find new ways to acquire customers new ways to grow things. So that's the strategy bucket. On the execution

side is if your systems and how you execute. And what you're gonna find is some of your infrastructure is not going to work at the next level of scale. I have a client that I worked with a few years ago, who built his business and ran the whole thing on an Excel spreadsheet. And he grew it to about \$40 million dollars with, you know, annual revenue, with no ERP, just running it with this spreadsheet. And so a company was about, I don't know, 10 or 11 years old. And each month, he added another row to the spreadsheet, and one day went to add another row to the spreadsheet. And Excel said, You've hit the limit. And all of that, and his whole business ran on this spreadsheet, and everything was linked backwards in time. So you couldn't just delete a chunk of history and like start over. And so for several months, they had to stop most everything inside that business and fix that. Get any RP system in, transfer all the data, train everybody on it, etc, took, you know, better part of a year really to get back on track of growth. And so there's those types of things. So your financial systems, your customer maintenance system, so typically like a CRM system, what you're using for doing your accounting, you know, etc, QuickBooks doesn't really solve above, you know, 25 or 50 million in revenue, etc, you're looking at those things that are, you know, you use to run your business and figuring out what's going to fail. And then less on the people side is back to that question of, do you have the right people in the right seats with the capacity for where you need to go? And getting ahead of that, that where you see problems, their capacity and the desire? Right? So you're having the conversations with them about their desire for this future role, where you're moving from being a doer to a delegator to a manager to a designer, inside your department, right? those different phases of being a leader? Do they actually want to be on that journey? Or are they Hey, I'm the startup guy. Like I love working in startups where it's scrappy, and small. And you know, when it gets big, I'm out, right? So knowing that you have those challenges in your organization and getting ahead of it, because making critical leadership hires takes a long time, takes a lot of effort takes a lot of money, etc. So getting ahead of that is really important for being able to keep up. And lastly on the people part is there's there's all kinds of studies out there that basically, the complexity of your organization goes up by the square of the number of people in the organization. And so, as you scale the number of people in the organization, you need to basically make sure that you're having your communication rhythms move faster and faster and much more structured. So that communication cascades up and down the business, every day, every week, every month, every quarter every year in a very structured and similar way. Which then facilitates the ability to deal with that complexity.

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Steve Divitkos 15:04

That makes a lot of sense. I found from my experience in some of our higher growth years, there were a couple things that I would add in some of the things that I would just double click on. So one of the things that I remember is hiring was challenging in a higher growth environment. Because you know, the business need was such that we had to hire quite rapidly. And of course, depending on, you know, the conditions you need to fill sometimes that talent can be hard to acquire quickly. And then of course, there is the question of hiring enough for the current demands of the business, but also trying to balance not hiring too quickly in case the business slows down, because it's easy to add bums in seats, but it's much harder, and they're more implications to take them away if you kind of overdo it. So I found the hiring to be kind of a harder aspect of high growth, I found prioritization and focus became five times as hard because there's more customers, there's more products, there's more problems, there's more opportunities, there's more things that you have to say no to. And if you don't have a system for like what to say yes to and what to say no to, you find that you're just making these, like seemingly arbitrary decisions on a daily basis. And that that doesn't scale or at least it gets really hard. And then the last thing that you mentioned is communication, which I think is a great point. So that's where I want to go next. So, you know, basically, what I heard you say is that communication, if not properly managed, can get worse as companies scale. And that's, that's been my experience. So what, you know, what are some communication best practices that CEOs should implement, as they grow to make sure that they don't kind of fall prey to that common mistake?

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Rich Manders 16:45

Yeah, so it really is setting up what I like to call this strategic respiration, where you're breathing in breathing out inside the business by creating these cascading huddles, that happen in a very specific order. And so and depending on, the faster the business grows, the more often you need to have these huddles. So and I'm very high growth business, every single person in the company should be in a daily huddle, for example, where and actually really, almost everybody would be in to except for the front, the very front line, which is your meeting with your peers, so the other managers of the other departments, but first you're meeting with your team, then the managers of the other departments, then then, you know, top management team and with a CEO, right in a three level business on a daily basis, and you're following a very specific format for daily, weekly, monthly, quarterly, and annual communications. We're huge fans of the level 10 meeting, which comes from the Traction book, which is really making a very disciplined way of having your meetings structured so that you get all the data out in front of everybody quickly. And you spend the time solving the most important problem for that cycle, right. So if I'm in a weekly meeting, it's like, what's the most important problem for this group to solve this week, and ignoring the other stuff, and ignoring the things that are green, right? So if you if you color code things and say green is it's going fine, yellow is it's got the potential to get into trouble and red is we're not going to make this goal. We're really focusing on the reds and the yellows and not discuss it having any discussion around the green. And with the idea that you're solving the most important problem every week, every month, every quarter every day that's in front of you, that really drives that communication to stay very crisp. It's when you have meetings that drift around, and you talk about everything. And kind of like you said that the possibilities, that of things that you could work on are endless, you know, getting down to like what's with with a group of talented people, what's the most important thing for us to work on right now? It just changes the way that everything works inside of a business.

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Steve Divitkos 19:17

It speaks to your earlier point about how jobs and seats scale as companies scale. And, you know, in this context, it seems like you know, at the kind of founding stage of the business where maybe there's a handful of employees, informal communication mechanisms and structures work, they work just fine. But as you get bigger and bigger communication as a discipline effectively becomes an entirely different job. And I think what I'm hearing from you is if you allow your communication mechanisms to remain informal, or if you don't have any communication mechanisms at all, that's where communication starts failing. It's more like the structure And the repeated kind of cadence of communication that helps prevent growing businesses to fall prey to the communication gets worse, as companies get bigger problem,

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Rich Manders 20:11

Exactly, you want to have whatever is appropriate for you. But it's so our business was called I-Automation, the last one that I built, and we had the I-Automation way we did things and we taught people and we had AI automation University, we taught people how to integrate into our system and be a part of it. And we refined those things over time that made up the I automation way, but it was consistently applied from top to bottom across a couple 100 people.

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Steve Divitkos 20:42

So let's stay on this topic of growth. Because as part of a growing business, you had an option to, you know, as running it as a CEO, you had the opportunity to provide your leadership team or maybe your employee base more broadly with options or equity in your business. And I had the same thing. So in my case, I gave options to my management team. And ultimately, when we sold the company, you know, they benefited financially from that. But I, I don't know where I kind of reside on the spectrum of options are a very, very important tool to attract and retain talent, versus they're a little nebulous, they're a little amorphous, and people just kind of treat them as gravy. And maybe you'd be better off just giving profit sharing, because it's more immediate term in nature. So, you know, did you give your management team or your employees like an economic interest in the business? Why or why not? And how do you think SMB CEOs should think about, you know, this question of whether or not to give key people an economic interest in their business?

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Rich Manders 21:52

Yeah, so the, there's a few, there's a whole bunch of stuff in there. But to answer your first question, yes, we did mostly for just for management, we gave options in, you know, along the way, that the challenge with options, as you pointed out, is that the time horizon is pretty far out there. And, and we use it the end, you could whether there are options, or stock appreciation rights, or Phantom stock or whatever. Unless you have an exit pegged for how they're going to get that value. Then don't, don't do it, right. Because if you're running a private company, and you have no idea when you're going to sell it, it's too far out for people to have a real economic interest in, in that part of the business, right. So just your private company is illiquid, right as a general rule, unless you're going to build in a way that they can get that value out, which also has its own problems. But if you're going to do it, right, so let's just say that you do have so we always had in mind that we were going to sell the business, we had a time horizon that we expected it to happen. It didn't turn out that way it took longer, but which I can tell that's a whole other story. But the that this, then the responsibility of you as the leader or the leadership team, is that you have to educate those people that you've are granting these options or appreciation rights to you have to educate them as to how it all works. And it's not small, it's not a small thing to because now they have to understand how a business will be valued. What are the levers that make that value go up? How do they play a role? And what's their responsibility? What are the KPIs that they're driving that make the business more valuable over time? And so you have to really spend an inordinate amount of time educating the team and reminding them of why you're doing it, you're driving this way for the business. Right? So those are all the downsides. We spent a lot of time educating people as to how driving the value of the business is going to be good for them so that they could

connect the dots between, okay, if I improve gross profit by 5%, as an example, what's that do to the value of the business? And how does that then reflect back to me on the increase in value for my options? And of course, then throw on top of it, market conditions change everything, right? Like right now we're in a crazy valuation period, where companies are getting ridiculous valuations. So those options could be worth a lot, but that won't last forever either. So having a clear picture, the educational system for that, I'm much more a fan of shorter term bonuses because the second thing is no leader has ever figured out a compensation program that is good forever. right, it's temporary. So the when you use shorter term bonuses that are based around the achievement of objectives and a timeframe, now somebody can wake up in the morning and do something that's going to result with to a financial change for them in the shorter term. And if you can make it that it's not about a formula, per se, but about the achievement of a goal, that's the best because the problem with formulas is that they become obsolete. For example, if I have a salesperson, and I say, I'm going to give you 5%, of our gross profit, and that's going to be your bonus. Well, as the company grows, that 5%, one becomes a ridiculously large number. And secondly, I have to deal with either shrinking your territory or changing the percentage and so on. So it gets to be this never ending battle between me and somebody else about the formula. Instead, I say, this year, I want you to improve gross profit by, say \$100,000. And in exchange for that, if you hit that target, I'm going to give you \$20,000, and then we'll renegotiate next period, what that's going to be, you solve for a lot of that hand wringing and and debating about changing a formula that somebody has gotten used to, because one thing's for sure, people will figure out how to game the system. Short term bonuses based around achievement of objectives has been the best compensation program for most leaders and frontline employees. But in a big business, you know, or one with an exit in mind can benefit greatly by having options or some variation on the theme.

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Steve Divitkos 26:49

Yeah, it's interesting that you say that, because having, you know, issued options to my management team and then selling the business, I think, ultimately, they were viewed as kind of gravy, as opposed to the tool that produced these deep motivational characteristics that I was looking to create. And now that I've kind of gone through that experience, and as I'm rethinking my own approach to options versus short term bonuses versus other kind of incentive mechanisms, I use almost like a decision criteria similar to SMART goals. Right? So is it measurable, right? Well, a bonus is much more easily measured than stock options, right? Particularly for executives who are not particularly financially inclined, it's a lot easier to explain a bonus than it is stock options. You know, is it reasonably attainable? It's kind of easier to understand, okay, if I increase gross profit by 5%, I understand that, whereas it's a little bit more nebulous to say, if I increase gross profit by 5%, here's what's gonna it's gonna do to the company valuation, and therefore my share price. And then the big thing for me was time based, right. And I think generally speaking, it's been well established that the less time there is between action and reward, the higher the motivational qualities of that reward. Whereas if I give you an option today, and I say, Hey, we're planning to exit in 10 years, you know, there's really no clear link between those two things. And as a result, the motivational characteristics that you're trying to create might be lost.

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Rich Manders 28:26

Yep. And, yeah, I've seen it work. It definitely I agree with everything you just said. And I'll add to it that if you're going to use those options, you have to be talking about them regularly, if you want them to have any value, right? Having that company valued by, you know, independently, for example, or finding comps in your industry so that each quarter or each year, you're basically doing an update and saying, hey, the value of the options pool has gone from x to y, your share of that is z. And I'm super excited about that. And we're aiming next quarter to make that be $z+1.5$ or whatever, right? And now people are getting can at least go home and tell their significant other, hey, check this out this thing, you know, when I'm working hard, I'm building value, check out like what our account looks like. Now, there's all kinds of legal ramifications to that. So I'm not a lawyer. So you want to make sure that you say these things in the right way about how the value is increasing. But make sure that you're doing that if you're going to use that as a tool.

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Steve Divitkos 29:38

Yeah, yeah, I agree. So you know, whether you share an ownership interest in your business or not, one of the questions that I often get from, particularly younger CEOs is how much information should they share with their employees? Should they show them every line of the financial statements should they show them only Revenue. This was something that I struggled with as a younger CEO, ultimately, where I kind of landed was to really just kind of open up the kimono and be incredibly transparent. And the logic that I use in making that decision was, hey, if I need my employees to help me get to a certain financial goal, how can they help me get to that goal if they're flying blind, right, if they don't know kind of where they are, and where we want to be? So that's the way that I thought about it. But you know, that I'm just one person. So how do you think kind of the average small to medium sized business CEO should think about this question of how much to share with their employees?

Yeah. So I'm 100% aligned with you, right? So if, if you're paying people a salary, and you're having them around, do, I'm assuming that you're bringing in the right people, right? That you're, you've got people who you value, what they can do for you. And so I'm open book all the way because I want them to basically have an input into us getting to where we want to go. And if they understand how the system works, so this goes back to having education as part of your business model, how does this business function the most, the thing that surprised me is everybody thinks you're making when you're running a small business, everybody thinks you're making a lot more money than you actually are. Especially if they can understand cash flow. And so you need to teach that. And if you do that, now, they're all part of the problem solving team. So you've got, you know, a dozen or 100, or 1000 minds, all trying to figure out how to make the machine work better. And so by sharing that information with them, they start to learn. I'm a huge fan of Jack Stack, who wrote a book called a stake in the outcome. And what he talks about is teaching everybody in the company, how the finances of the business work, so that they can solve for it. And in our business, we used to teach that at I Automation. And we started with an easy example, because our business was pretty complicated. We had inventory, and we had acquisitions we had made, and so on. So there was any no depreciation, amortization, you know, etc. That's more complicated topics. But we just started with this concept of a bagel shop, I'm starting a bagel shop, I'm good at making bagels, I buy an oven and you know, pots and pans and so on. It costs x. And now I start building up my sales, how does that affect cash. And we would teach this once a month, we would have, you know, groups of people who are coming into the company, new employees, and we would teach them how the bagel shop worked. Along with like this, the the kind of big decisions that you would need to make. So in this proverbial bagel shop, one day, we get a call from the local school district, and the local school. And so let's say we're doing \$1,000 a week in bagels. And the school district says, Hey, we want you to become our bagel supplier. And that's going to be \$10,000 a week worth of bagels. Okay, how's that gonna work? What do we need to buy for equipment? What do we who? How many people do we need to hire? Oh, by the way, the school pays net 60 days, because that's what how they do it. So what's that going to do our cash flow, etc. And you teach this basic concept of this steady Eddy business that experiences a hyper growth moment. And how does it how do you? What are the challenges that will fall out of that? Now that get it! And so when they look at the business, okay, how are we going to make this machine more efficient? And they understand the underlying pieces behind it. In the book and the Jack Stack book, that is, I believe the exact one of the examples was a guy who was the janitor sweeping the floor, who learned all these business principles and went to Jack and said, Hey, I see something here that doesn't feel right. I think there's a better way. And it was a multi million dollar profit problem that he solved. Changes how the business how the business function, but the guy who's pushing the broom, right you want so that's the picture I want you to have in your brain is like, the guy that's pictured pushing the broom is often the person who knows more about what's going on than the CEO about how to make that you know, what's not working well inside your business? You know, so the more they know, the better off they are.

S**Steve Divitkos 34:35**

Last question for you as it relates to company operations. And we're going a little bit higher level here outside of the day to day but a lot of entrepreneurs and CEOs listening to this will have a board of directors. And, you know, as a young CEO, there was a bunch that I did wrong about communicating with my board, utilizing them as a resource, but also kind of managing them for lack of a better phrase. So, you know, you've reported to a board, you've been on boards, as a result of you know, those experiences, what have you learned about dealing how to best manage a board how to best utilize board. So what should CEOs do with respect to their boards? What should they avoid doing with respect to their boards?

R**Rich Manders 35:21**

but you know, so boards are is a pretty broad category, but I'm going to go with the idea that you brought in outside investment, and some of the people on the board or your investors. Sure, a, because there's advisory boards, and then there's formal board. So I'm gonna go with a formal board first. And so the first thing is, don't expect them to tell you what to do. In fact, you don't want them to tell you what to do. You want to tell them what you plan to do. And then get feedback from them about what they're concerned about, or their thoughts on what your plans are. That's where the real value is it a lot of people figure, oh, I'm going to get a board. And they're going to be full of these amazing ideas of how to make my business better. And in most cases, that's not what you're going to get, you're going to get people who are seasoned business veterans who can poke holes in your strategy, and give you good good ideas about what you might need to change. So that's the that that's the first part of the value proposition. Best as possible is make sure you're stacking the deck with folks who've been where you want to go. So on our board, we had two people who had built businesses similar to ours in his, you know, similar industry at a speed that we wanted to go with outside investors, and they were invaluable in helping us with managing, you know, the investor expectations, our team's expectations, and some of the challenges that we would see along the way of going there. So make sure that you've got people on that board that have done what you want to do as part of it. Second thing and you'll see this is a recurring thing with me is build a rhythm with the board meetings, the board members outside of the board meetings. So what I mean by that is, make sure you're having regular one on ones with them in between, typically the rhythm is you're going to meet quarterly with a board. But in between that maybe on that six week mark or something after the board meeting, it's just to like a half hour an hour one on one, if possible in person with those board members and just say, hey, what, what's your feedback for me? What what do you what do you see out there? What should I be focusing on? Where my blind spots, right, etc, asking those questions involve the board members in special projects, so focus groups, recruiting, getting it, you know, looking at the people that are there. I've also found having the people on your team coming into the board meetings, and doing a presentation to the board, helps you helps the board get a sense of who's on your team and gives you a good outsider perspective. With that, so making sure you're doing those things is really important.

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Steve Divitkos 38:15

And in my experience, having some key executives present to the board is something that my key executives really enjoyed. I think they got a lot of value from the fact that I kind of trusted them to speak to the board. And in my experience, it forced them to get outside of kind of working in their function, and kind of speaking about working on their function. So in some ways, it kind of forced a different level of thinking that otherwise might be hard to create without that kind of forcing function.

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Rich Manders 38:48

Yeah, exactly.

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Steve Divitkos 38:51

Okay, so let's move on from Kind of day to day company operations. And let's move on to the concept of managing and allocating capital, which some would argue is, you know, one of the most important jobs of CEOs. And let's start with cash, because we talked about cash quite a lot today for good reason. So how did you think about as a CEO, how much cash should you keep on your balance sheet, and of course, every business is different. There's different working capital cycles, etc. But, you know, broadly speaking, on one hand, you know, if you have a lot of cash on your balance sheet, it's quite conservative, it provides you with a potentially valuable buffer against unexpected events like COVID-19. But But on the other hand, the pure kind of finance 101 would say too much cash is overly conservative, not an efficient use of capital. So you know, where did you lie on that spectrum? And how did you think about how much cash to keep on your balance sheet and did your time as an investor, you know, change your opinion over time?

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Rich Manders 39:48

Yeah, so the first thing in general, I believe a safe bet is that you want to have six months, cash flow runway tucked away. And when I say tucked away, I don't mean in a line of credit because line of credits get pulled when you need them often. So, the Holy Grail, I was able to sleep pretty well at night, knowing that I had six months of cash in the bank, accessible and ready to go, if we hit a rough spot, right in the business, which, hey, who would have predicted pandemic, not too long ago, right? So having that's kind of the number that I think of that way. But again, it is it so six months of cash does not mean six months of revenue, it does not mean six months of profits. It's really understanding and this is a critical piece for whoever's listening to this, if you're a smaller medium sized business is is absolutely critical that you understand your cash conversion cycle, so that you know how long the cycle is from when you spend money till you get the money back. So I'm really getting a good handle on your cash flow. And understanding it will give that that's the number, how many months if I had no revenue, could I survive for with with the resources I have on hand, also don't count on receivables, because during a down cycle, most companies stopped paying their receivables during the first part of the pandemic. So you can't count on that either. But really, cash is the six month number.

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Steve Divitkos 41:31

So if you've got, you know, let's say you've got your six month cash flow buffer, and then you've got excess cash on top of that, then you've got a capital allocation decision to make because you know, at a 100,000 foot level, you could take that cash and invest it back into your existing operations, you could you know, buy equipment, you could hire people, whenever you could acquire another business, you could issue a dividend to the owners, you could pay down debt, you could repurchase shares, there's all these different uses of cash, which broadly speaking is just kind of called capital allocation. So I guess as a CEO, how much time did you spend in the explicit realm of capital allocation? And knowing what you know, now, through your experience, as an investor, would you do anything differently if you were a CEO, again, vis a vis capital allocation?

Um, yeah, so I probably only spent a couple hours a week at it. Part of having outside investors and even before then was the value of a really good CFO, is almost unmeasurable. If you have a really good CFO, they understand these things at a level that you're just never really going to get your arms around. And they're looking at how the machine functions and making a helping make those decisions. But let's say you're not quite there yet, making sure that you really understand those pieces, back to jack stack, I'm bringing them up a lot today. But one of the things that he talks a lot about is this concept of a fortress balance sheet. And when you look at what they were able to accomplish of starting with this, you know, terrible business that was not making any money and turning it into a multi billion dollar enterprise, he credits a lot of the success to two things. One was this stake in the outcome thinking basically giving everybody a feeling of how to teaching them how the business works, and then giving them you know, bonuses and input around and outputs around making the right decisions and learning. But the second one was with a fortress balance sheet, you can be opportunistic at the right time, and do those things at the right time. So that's making that critical hire ahead of schedule, because that somebody just came on the market, that's renewing your lease on your real estate or buying the building that you're in, when the landlord's desperate. And making that acquisition of a company that is going to change the world for you. And they're the the big lesson that I learned about making these investments. And this comes from the investing world is this thing called the J curve. So if you picture a curve, you know, on a graph, a curve that looks like a J, this is the basic investment thesis for almost every investment made, which is where you spend some money on something for a period of time, it's not going to make you any money back, you're actually going to continue to lose money on that money, right, you're not getting a return on investment, etc. And then at some point, if you made a good investment, it's going to turn around and start growing, and then eventually out, pay itself back and then pay back a dividend for making that investment over time. So easy example is I'm going to hire a new salesperson. So I bring them on, I'm paying them a salary, they're in training. They're fixed. out our product line, let's say we're on a six month sales cycle, they start making sales calls, they get a few orders in, and we finally fulfill those orders. That's probably six months before they've or or more before they've even paid back what they cost during that first six months. And then after that, now that salesperson continues to produce, we're going to get it out an outsize return on that investment over time. So really understanding the J curve on the investments that you make in advance is very important. Second, discipline, which kills most bad ideas, is coming up with what are the stage gates that we're going to,,. So let's just say we decide to expand into a new territory, right, we want to open up a new office in another town. So we go and we before we start that we come up with a thesis of what the J curve looks like for making that investment. But then, plugging in along that curve, if we're not to x by y, we're going to pull the plug on this project. Or if we're at, you know, 5x by y, we're going to double down on this investment, and making those decisions before it starts. Because there's this human nature, it's called sunk cost fallacy, that once you've made an investment, you go, Well, I've already I'm already and I'm just going to put a little more in a little more in that you would never do if you were starting over, is getting a helps you get around that sunk costs mentality around the projects that and pet projects that get you sucked in, and you just keep feeding it, you know, money. So understand the J curve, and have stage gates where you're either going to pull the plug, or you're going to double down really clearly laid out along the things that you might invest in. That includes acquisitions, hiring people, new locations, new product lines, you name it.

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Steve Divitkos 46:56

I found that in my experience, if you look at kind of the five uses of cash, it's reasonably easy to quantify certain of them and harder to quantify others. So for example, if I, if I wanted to pay down debt, I can quantify that the return on that investment is basically my cost of debt or the interest rate that I'm playing. If I want to issue dividends or repurchase shares, I can quantify that through my equity, cost of capital, if I want to acquire another business, I mean, it's subject to a million assumptions, but at least I can project what my return on that investment might be. It's the exist, you know, investing, reinvesting in existing operations part that I think most small to medium sized businesses, CEOs don't sufficiently quantify. Because, heck, you know, I could buy another machine for my manufacturing business, or I could hire another developer for my software business, particularly as relates to people I find CEOs don't really try to quantify the return on that investment. Because, you know, when CEOs are in a growth mindset, and particularly when they're operationally focused CEOs, they say, Hey, you know, I run a manufacturing business, I need to, you know, purchase another machine, I'm going to get a 5% return on that investment. But if you have a piece of debt outstanding at a 7% interest rate, you know, maybe that's a better use of capital. So, I found that, you know, in my experience as an operator, and also as, as an investor that small to medium size CEOs can be so in the weeds in the operations of the business that they they fail to quantify what's the return on any given use of cash? And B, once you understand what that, you know, rate of return is, How does it compare to my other options? Visa B uses of cash?

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Rich Manders 48:46

Exactly. if you go back to like the beginning of our conversation, where you talk about what did you learn by being an investor versus being an operator, that you know, those early questions in our call, that's what you learn from professional investors is they really wring that out, and they understand what that j curve looks like. Whether you're so that you brought up that a great example of buying a machine, or hiring another salesperson for that matter is got the same formula behind it, which is you're going to tie up a bunch of capital, a bunch of company resources, what's going to be the return on that? And does this turn into a monster you have to feed, right? And as a small business, one of the things that that you didn't hit on, but I think is really important, is this is the psychological side of it, that you fall in love with the idea of this new machine or this new person, and you think that that's going to save like all the things that are wrong with your business, and it almost never works out if you really do the analysis on it.

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Steve Divitkos 49:55

So one of the uses of cash that we've touched on is acquiring another business. And I think that's that's a good segue into the next kind of bucket of questions I want to ask you, which is everything to do with M&A, buying and selling businesses. And you've seen you've been a part of a few successful inorganic growth strategies when I say inorganic, I mean, you know, acquiring other businesses in the pursuit of growth. But but the data is actually very clear in that historically, more value is actually destroyed in M&A than it is created. Said another way, the average transaction does not create equity value. So I guess two part question for you, you know, a) Why do you think that is? And b), you know, based on your experience, what are some things that define successful, you know, roll ups or acquisitions, as opposed to unsuccessful roll ups or acquisitions?

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Rich Manders 50:49

Yeah, so there's a lot of experience we've had, I've been involved in a lot of transactions, and I've seen both sides of ones that have worked really well, and ones that don't. So at a high level, the number one reason that they don't work is lack of discipline, right? In the in the process of determining who you're going to buy, and how, and what are the required, you know, what are the reasons for making the buy? And what are the results that come out? A lot of times, you're chasing something, right? So you're looking for a savior, somebody has something that you want, right? Whether it's, you know, a team of people that to, you know, your strategy, as you mentioned, a lot of times people are doing acquisitions these days to acquire a team, because it's so hard to hire right now, as you pointed out earlier. Or they're maybe they're trying to get a customer list or market coverage, or, you know, equipment or know how, or IP, and they haven't really done the work behind really understanding and kind of funny, it goes back to that same thing about investments, right? This is just a different kind of investment. What's the expectations on the other side of it? And how do you know that it's going to work? When you look at the professionals like Riverside or and you know, any professional investment firm, they have a very rigorous process that they ring through to figure out that they go through to figure out, how is this going to fit together? And what are those stage gates along the way that are going to tell us it's working, and really wring out what it is, we don't want to look for a savior, we want to take our good business and put it together with another good business that's got some form of adjacencies, or efficiencies that we can easily get. And making sure you have that is really important, right? So where and where I've seen it gone wrong is like you fall in love with something and you just go for it. And you

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Steve Divitkos 53:00

Is that lack of discipline, does it manifest more in the purchase process? Or does it manifest more in the integrate, like post acquisition integration process?

Unfortunately, it's both right. So the first part is like you shoved through a deal where you haven't really done all your homework on one side of it. And then the second side is, you know, you are already a busy company. And now you've acquired this other company that was also busy. And you now try to start mashing things together. And it's hard, right? People don't like your benefit plan, and you know, what they were, you know, where's the office going to be? And what's gonna happen with where you have redundancies and blah, blah, blah. And it just gets hard. And so you just ignore that stuff. And you don't fully integrate, you just kind of hope that things are going to integrate well, and it's almost always a disaster. There's this moment in time when you acquire a company, that you're the new sheriff in town. And you can make big changes quickly, without retribution. But what happens later, if you let it sit for too long, is that you'll end up with people get used to that, oh, they're just leaving it alone, or they don't have a you know, have it put together. It's, that's where you start to really have problems that you didn't get that clarity on the other side. So a couple of tools that work with M&A that I've found to be very, very good. One is to use this tool called the business model canvas by Alex Osterwalder. It's a company called Strategyzer, er. And actually, I've coached them for a little while. But the is layout your business on the business model canvas and there's tons of videos online and stuff of how to do this. And then over Their business and see how it fits as a starting place, then the second exercise that I would do is do the future state combined company accountability chart. The accountability chart comes from a book called Traction. And basically walk with that your team, figure out what the future state looks like, as soon as you can. So you can figure out like, where do you have redundancy who's going to own what, and what are the metrics we're going to use to judge the success of this business. So for example, let's say I buy a business for geographic reach. But it but I've got the products, I want to spread into that geography so that now acritical KPI is new business at that business I acquired, that is from the product lines that I'm bringing to the party, right and making sure that somebody owns that, and somebody has it so that you can make that go. And the most dangerous thing when you do an acquisition. One of the mentors for our business is this guy, Jim Sharpe, who's our business Professor over at Harvard Business School. And he calls the term PIPs. So PIP stands for previously important people. And when you acquire a company, and let's say that you're going to keep the CEO of that company around, but now they're going to have a new role, and usually that role has like strategy in the title right they're Chief Strategy Officer or some such thing like that, that person can cause so much damage, cultural damage, and progress damage, if you don't manage them, well, previously important people are a real problem for the business. So you want to try and identify that as quick as possible.

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Steve Divitkos 56:52

That's, that's actually such an important point that I don't think people give enough credence to. When buying companies, naturally, there's a lot that needs to be quantified and understood. And yet this concept that might feel a little soft or qualitative to people, which is managing the seller, particularly if that seller was an owner/CEO, so she played a operational role in the business as opposed to a more passive role. That was when I bought my business. That was perhaps where I spent most of my mental energy. And I think it's something that's underestimated. So based on your experience, acquiring companies, when you're dealing with an owner CEO, what have you learned about the best way to deal with them? I mean, certainly, you know, situation by situation, there has to be a lot of variability. But I guess speaking at a more general level, is there a structure or a process that you like to repeat, you know, things like that they stay with the business? Do they not stay with the business? Do they roll equity? Do they not roll equity? What have you, what have you learned about how to best deal with situations like that?

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Rich Manders 57:55

No, it's it's it is very situationally dependent. But if they're, if they're integral to the business, and they're going to stick around, the first thing is do that accountability chart exercise and figure out what are the metrics they're going to own in order to keep their job, right, that's probably the most important thing, having them just kind of floating around, you know, poking around at strategy is not going to work, it'll be a disaster, if they've accomplished financial freedom, as part of them selling the business to you, so they don't have to work anymore. Or don't have to work for a while, when things get tough, they're going to bolt that's guaranteed that I have yet to see that not play out in, you know, many dozens of transactions. So just know that that's going to happen there. When it starts getting hard. They're gonna be like, I'm out of here. I'm going to go travel or whatever,

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Steve Divitkos 58:48

Which is exactly what happened to my sellers, I should add, so there's another data point for you.

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Rich Manders 58:53

Yeah, exactly. And, you know, again, just watch out for those PIPs, right. So you combine two entities together. And now you've got two people who were once head of sales, and now one works for the other, for accounting or whatever, it's really a big challenge for them on that side of the equation, to be that, you know, from going from being the ruler of the universe to not, you know, having a boss is very difficult transition for lots of the sellers.

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Steve Divitkos 59:26

Very, very. And understandably. So, I think, you know, in my experience managing a seller, we we signed them to a two year employment agreement, under the assumption that, you know, there was some key man risk there and I wanted to maximize the period of time during which knowledge transfer and relationship transfer could occur. So academically, it all make good sense. What I think we both failed to realize is a I think my sellers failed to recognize how difficult it would be to watch somebody else make changes to the baby that they had raised for 20 years. And B, I failed to recognize how much time and mind share and emotional energy I had to dedicate to keep them placated because I was very focused on keeping them placated because I thought that a non functioning or toxic relationship between us would have a much more negative effect than, you know, customers leaving or suppliers balking ever could. And so I think we both kind of didn't quite understand what we were getting ourselves into. And within nine months of that two years, there was a mutual decision for us to part ways.

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Rich Manders 1:00:34

Yep. And that's pretty typical. It's very typical, it's a really hard transition to make for anybody who sells their business to being a king to not the king anymore.

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Steve Divitkos 1:00:50

So let's talk about selling. I guess, having having sold the business myself, there's a couple things I know now that I didn't know before. When selling a business, there are a few things that most entrepreneurs really don't understand. One of the things, for example, is when you sell a business, it's very rare to completely take all of your chips off the table and/or take all of your risk off the table, a lot of sellers don't understand that, in selling a business, you're still assuming risk, you're not offloading all of your risk to the buyer. What are some other things that in your experience, small to medium sized business CEOs generally not understand about selling their business?

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Rich Manders 1:01:34

Yeah, so probably the first one is that, that way, we just spoke about in reverse, right, which is what it is to move from being the king of the universe to a, you know, a prince and perhaps an outcast Prince, right. So if you're losing interest, and so on, you're watching your influence, get, you know, more and more diluted inside the business, that's a really hard change from what you said, turned into action immediately to basically, you know, you feel like the company's being run by committee, they have a different, you know, outlook on things, they don't care about the customers the way you cared about them. Basically, if it's a professional company that's buying you, they're switching from your, your, you know, your passion project, that you started to try to turn this thing into a machine that prints money. And that may not always play well, you have relationships with the people there that are going to leave that don't fit, you know, into the puzzle. And you're going to have relationships with the customers and with your vendors and all this stuff. And there, you're going to get caught in the middle of all this stuff. So that's a just in general, you know, psychologically, if you're going to stick around, those are things to be thinking about as well, you know, the antidote for that is have a plan for the other side. So don't just, you know, go from one place to the other from roughly, you know, owning the company and selling it, now you're on the other side of it. But really have a plan, like when this gets... have an exit strategy, that's really clear for you, and have, if at all possible, a gap year built in there. So you don't jump from one thing to the next, which will be your temptation, because you're used to being, you know, in the flow of things, making lots of stuff happen, and being the king. And like that drive to want to do that, again, quickly, versus, I don't know, fixing the broken doorknob at your house that's been broken for 10 years. It will be it's a really hard transition, it was hard for me and I had a plan, I built our business to sell it. And that, you know, switch of gears is very, very challenging. There's lots of good books on that I mentioned later.

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Steve Divitkos 1:03:53

So for you, life on the other side of an exit, so from the selling owner CEO, was it was the experience what you thought it would be? So so for example, when I sold my business, I'd spent years and years and years anticipating this kind of one moment of selling it. And I built it up in my mind so much that it was almost, you know, of biblical proportions. And then when it happened, you know, the way that I described the feelings that I had is, first of all, I felt relief more than I felt happiness. And the other thing that I told, you know, my friends and family is, it felt almost anticlimactic. I guess I had built it up so much in my head that I was almost disappointed in my emotional reaction to it. So, you know, life on the other side of an exit for you, was it what you thought it would be? And what do CEOs generally not understand about life on the other side of an exit?

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Rich Manders 1:04:52

Yeah, so I covered a lot of that earlier, you know, that it's a very difficult transition from being kind of the center The universe to being you know, a party of one on the outside, right? That often it's got a lot of years behind it, I was very fortunate that one of the things that Riverside did when they bought our company was they said, you know, part of our playbook is you need to hire a coach, we have a list or you can go find your own. And so I went out and I sought and found this great guy, who is in his, you know, his 80s. Now, he was in his 70s, then who had built a business very similar to ours, and then had exited and found meaning on the other side after going through lots of stuff. And so I had him kind of at my side as I was going through this process of selling the business. And he gave me some really good advice, which was, you know, build your bucket list of the things that you you know, you really want to have happen and, and design your ideal calendar, and then commit to the people that you care about your friends, to your family and your friends, for all the things that you want to do with them. And actually go and book all that stuff, all non refundable, etc. So when I knew the company was coming to, you know, the company sale was around the corner, I started planning with people so that I had a very full calendar and commitments that would be painful to break on the other side of the deal, so that I was able to, you know, pave the way out the door with something of value and have that time where I was busy, but I was doing things that were outside of the business, new things, that I could gain some perspective before I dove back into whatever I was going to dive into next.

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Steve Divitkos 1:06:53

Yeah, and for whatever it's worth the advice that I sought, it's very, in my experience, it's very rare to get unanimous advice. Usually, when you ask 10 people for advice, you often get 10, perhaps even more data points or opinions. But when I kind of canvass my group of people that I trust people who have sold businesses before, the only unanimous piece of advice that I got, and thankfully listened to, they all said, you know, if you're able to do it financially take at least a year off. And that's what I've done. And Gosh, am I happy that I listened to that advice, and a lot of the entrepreneurs that I know who have not taken a year off wish that they had.

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Rich Manders 1:07:34

Yeah, I mean, I've seen so many crazy things about, you know, quite a few for mates, and people I know, and now clients who have exited without a plan, and just watched, you know, the train wreck that's on the other side of all kinds of craziness, you know, investing in all kinds of stuff, getting involved with all kinds of, you know, boards, buying all kinds of stuff that you end up selling, you know, later, you know, the jet, or the boat or whatever, right, you know, all that stuff. And so, the two things, one thing that they told me was make, you know, make a plan, like you have that time that I actually took about two years off in the end. And the second thing was make a commitment not to buy anything, until you've sat on it, and don't invest the money, you know, just kind of tuck it away safe. And like spend your time learning and figuring things out. And then make your decisions, you know, during that that cycle. So your new job was, let me learn about how I want to invest the money that I have, so I can secure my future. And then also figure out like, what is my passion project that I'm going to focus on next, that when for work, that's going to be you know, rewarding versus just jumping into the next opportunity that comes along.

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Steve Divitkos 1:08:57

So a couple more questions before we conclude. The last topic before we conclude, that I'd like to cover is this idea of managing yourself as an entrepreneur and as a CEO. And so, you know, you've you've done a lot in your career as a CEO and as an entrepreneur, and I don't know this to be true, but I'm going to guess and please correct me if I'm wrong, that at times, Your role as a CEO and entrepreneur took a toll on you personally perhaps took a toll on your family. Because it does for almost all of us. So over the years, like what have you learned about how to manage yourself? What have you learned about ways to stay motivated and engaged and you know, ways to ensure that you can continue to run what is ultimately a marathon and not a sprint?

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Rich Manders 1:09:46

Yeah, so I think, you know, at a high level, it's like keeping your eyes focused out in the distance I'm, you know, mountain biker and motorcycle guy, etc. Right and the way that you ride effectively is you look further out than you think you don't look down at your wheel, you look further out. And so when you get bounced around, as long as your eyes are locked on where you want to go 99.9% of the time, you'll recover and get back moving in the right direction when you get knocked off, right. So that's just something I had learned from years of motorcycles and mountain bikes and so on. Then the other side of it is surround yourself with people who can provide you with perspective, right. So probably the best single business decision I ever made was joining EO 22 years ago, 23 years ago, where you're, you're surrounded with peers, other people who are in similar circumstances, and in a forum and in general, and having people that you can talk to on a regular basis about the challenges that you're facing, and hear the challenges they have. Because probably, somebody's been through what you've gone through, or you're going through. And so having that perspective of your forum, and other people are out there. I'm a coach now, and I'm involved in several different masterminds with other coaches, where we share best practices and learn. So that's another bucket. And then, if at all possible, find a coach, somebody whose job it is to help you play the game at the next level up. Lots of times along the journey, my ability to go to that gentleman I mentioned earlier, and say, Hey, I'm struggling with this, you know, what, what perspective could you share with me, and having them help get you perspective because usually a lot of the problems in your own head. And then secondly, what share with me some of the strategies of either they or others have used to get through, you know, a cash crisis, whatever, you know, we grow in our business, we nearly died a whole bunch of times, probably you too. And it could have killed us. But I had I got perspective from having that.

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Steve Divitkos 1:12:05

Now, part of managing yourself as CEO is managing and allocating your time. And I know a lot of CEOs struggle with this, because there is an endless number of things to do. And then there are some things that are urgent, some things that are important. Some things that are both some things that are neither. So did you follow any specific processes or use any specific tools in terms of managing your time? And whether you did or you didn't, what have you learned over the years about how to best allocate your time and, you know, try to answer the question, what's the most important thing that I should be working on? or What should I be doing today?

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Rich Manders 1:12:47

So two things come to mind. First is rhythms set you free. So if you have rhythms, so the way that I kind of construct it, and what I mean by that is I constructed my calendar that there was times in places to talk about the things that needed to be talked about, right. So in running the business, there was a time and a place each week where I met with the CFO, and the other end and other people in the team. And we talked about our financial circumstances that week, and what's the most important, and what's the most important thing we need to solve that week, same thing for sales, same thing for manufacturing, same thing for operations, etc. So people knew as I was the CEO at a company, that unless it was like, really your hair's on fire, we got to solve this problem, right? In this moment, they saved up the problems that we needed to talk about for that meeting that happened once a week, the finance meeting, the sales meeting, etc. And the second part of that was then the discipline to not try to spot solve the problems. But let's get all the problems out on the table, create a list of all the issues that we have, and then go to that list and say, of all the issues that we have. What's the most important one for us to solve right now. And if we get through that one, what's the next most important one to solve? And like agree on that, and then really just have the discipline to solve one or two problems a week, and let the rest of them go by not try to solve every problem, but like only the most important ones that really made staying on top of things much, much easier than it would be otherwise. And because people have to wait that week, sometimes as much as a week to talk to me about it. A lot of things resolved themselves.

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Steve Divitkos 1:14:36

That's right. Yeah, that was my experience.

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Rich Manders 1:14:41

I'd say the other thing is blocking off time. So I start every week I still do this discipline. In my calendar, I block off time to think time to write time to focus on different areas. And that fills my calendar partially with you know, along with exercise and family. Time and all that stuff so that and you put that stuff in the calendar first, and then you fit the other stuff in around it. That's been very, very helpful tool for me.

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Steve Divitkos 1:15:11

So, moving on to two concluding questions: We've talked about a lot of books today, which is great. So if you were to, this might be a challenging question. But if you were to have kind of a Mount Rushmore of books that you think every CEO of small medium sized business should read, what books would you feature? and you know what, it doesn't even have to be books, it could be, you know, a blog to follow a seminar to attend, you know, whatever a Mount Rushmore of resources that SMB CEOs absolutely should familiarize themselves with, what would you put on that Mount Rushmore?

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Rich Manders 1:15:45

So I start, I would start with get yourself in a peer group, if you're not in one, like, EO YPO, Vistage, whatever, but get yourself into a group where the purpose of the group is to raise your level of play and support each other with best practices learned and applied, right? That's the very first thing. The second thing is find mentors. And coaches as an ideally, I've been so blessed in my career, that each time I've made a move into a different industry, or different thing that I've gone out and sought, like, Who's the best person or best people in this industry, the people who are really knocking it out of the park, and are not directly competitive with me, they're in another market outside or in an adjacent market or whatever. And asking them to spend some time with me some with stock options, others with donating to their charity, whatever, but I want to surround myself with people who are, have been in done what I am trying to do. And that's been very, very successful for me, as kind of the two resources I would be hunting around for. Then books in general, I mentioned the E myth earlier for like the early and the lean startup or two for if you're really early in the game, getting your business figured out and being smart about how you spend money early on. There's another book for that. Also, it's called profit first on this guy, Mike mcallawits is a great author, and he's actually a forum mate of mine for nearly 20 years. That's about building your business with profit. First, not second. And that that's a long topic. Then tools of Titans. It's Tim Ferriss book and four hour workweek for just thinking about how things work differently. As far as a team dynamics, anything and everything by Patrick lencioni and Jim Collins. You know, you want to read those books and study them. They have so many great lessons. The number one lezioni book is Five Dysfunctions of a team. Yeah, I understand and master that scaling up by Verne harnish. Vern was pretty much my coach early on in our business. So great, great book, and then traction and rocket fuel from the EOS guys, great books, and Seven Habits of Highly Effective People for managing yourself. And then everything by jack stack. Wrote are all great, great books.

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Steve Divitkos 1:18:28

That's excellent. I've read every single one of those except for jack stack. So after this, I'm going to go on Amazon and buy some of his stuff. The The other thing that I would add to, you mentioned tools of Titans by Tim Ferriss. Tim Ferriss has a podcast called the Tim Ferriss show I've, I've become a listener. And, wow, it's very powerful. And you learn a lot from it. So I would just add the Tim Ferriss show as a podcast that a lot of entrepreneurs would love.

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Rich Manders 1:18:58

Yep, I'm a huge fan. I think I've listened to every single one, but like, I think 500 or some some crazy number.

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Steve Divitkos 1:19:07

Yeah, yeah, exactly. If you could kind of scream something from from the proverbial mountaintops. And every small to medium sized business CEO could hear and fully digest what you're screaming, what would you say and why?

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Rich Manders 1:19:21

So it's get perspective, right. And the perspective is around this concept of a flywheel. So Jim Collins came up with this a long time ago in the book Good to Great where he saw he studied businesses that outperformed similar businesses by an order of magnitude or more. And your business is a flywheel. And so things that happen in the beginning, it's a flywheel big and heavy and it's hard to get moving takes a lot of effort. And if you do it right, you eventually start to get momentum and the business begins to take on a life of its own and gaining momentum of itself. And if you think about your business as a flywheel, that means that each part of your business in in the customer journey and in the processes and so on, either are pushing the flywheel a little bit faster, or it's slowing it down. And if you can map that out and visualize it. Now, the focus of the business is always about how do I make the flywheel go a little bit faster. Profits make the fire will go a little bit faster, people who are trained well make the fire will go a little bit faster, better systems and documentation makes the firewall go faster, figuring out your value proposition and refining it, making the value to your customer higher and higher, makes the flywheel go faster. And so figure that out, figure out what is the flywheel and now relentlessly focus on improving how that flywheel works. And it's a beautiful picture that you can share with your employees, with your customers, with your vendors, with your bank, etc. Like how what this is how this business works. And here's all the elements and here's what we're doing to make it better over time.

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Steve Divitkos 1:21:10

Yep. Rich, if people want to find you online, be it for coaching or otherwise, is there a good place for them to go? Yeah, so

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Rich Manders 1:21:20

it's freescaloaching.com is the is the website. And that's got all our information in there. There's a bunch of videos, I did a class at Harvard a couple years ago. That's called around how to build value in your business and a framework for doing so you can watch that video. There's a Freescale YouTube channel that has a bunch of videos in there on different topics, along with a bunch of our clients talking about stuff that they do.

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Steve Divitkos 1:21:52

Awesome. Rich Manders, Thank you so much for your time. Really great conversation, so many nuggets of wisdom and we really appreciate you being generous with your time and your insights.

R

Rich Manders 1:22:02

Thanks. It was nice talking to you. Have a great day.