FAMOUS

9 WAYS VALUE BUILDERS

OR

PRIORITIZE WEALTH

RICH

OVER RECOGNITION

BY

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The ValueBuilder System™

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DO YOU WANT TO BE FAMOUS OR RICH? (Pick One)

As a founder, you have a fundamental choice to make: **Do you want to build wealth or fame?**

On Being Famous

When I say fame, I don't necessarily mean movie star popularity, although that can happen when the start-up you run gets funded and written about widely.

More commonly, small business owners become famous for being a leader in their industry or local community.

Your desire for popularity may stretch no further than your daily life. Perhaps you love the sense of power you feel when you lead your employees on a project, or you relish the feeling of satisfaction when a customer turns to you to solve a particularly vexing challenge.

Yes, being a founder provides lots of opportunities to become famous on some scale, but there is another type of owner who would prefer to build wealth rather than personal fame.

On Being Rich

We call this second type of owner a "Value Builder," and their main goal is to build a valuable company, even if it comes at the expense of their personal popularity.

Left to the universe, most owners will become famous rather than rich. Like a river with a subtle current, there are a variety of structural reasons small business owners become local celebrities, even if it is just inside the four walls of their office, plant, or store. Customers want you to pay attention to their account, employees want your feedback and encouragement, and your industry peers want you to show them your secrets. As a result, most founders become well known to their customers, employees, and community, but often that fame comes at the expense of the value of their business. After all, a company dependent on its owner is next to worthless to an outsider.

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Value Builders take proactive steps to prioritize the value of their company over their personal popularity.

If your goal is to build wealth through owning a company, you must fight against these natural forces that — left unchecked — will move you away from building a valuable business. As you'll see in the pages to come, Value Builders take proactive steps to prioritize the value of their company over their personal popularity. They are essentially swimming upstream, fighting the natural forces that are pushing them to the center of their company.

Like a typical small business owner, these Value Builders build solid companies that make a profit by addressing a need in the market. On a number of other critical dimensions, they differ:

TYPICAL BUSINESS OWNERS...	VALUE BUILDERS...
Aspire to survive	Start with the end in mind
Prioritize growing revenue	Emphasize growing value
Sell lots of products and services	Focus when others diversify
Distribute products and offer generic services	Own the products and services they sell
Give up equity too easily	Protect their equity
Seek customers	Win subscribers
Are the hub of their business	Build companies that can thrive without them
Treat their business like a piggybank	Run their business like it's public
Plan to sell when there is no more market share to gain	Sell when there is still plenty of market share left to harvest

While most are not public figures, these Value Builders are building durable companies and substantial personal wealth in the process. There is no magic formula for creating a valuable company, but these Value Builders have left some breadcrumbs for the rest of us to follow.

These are their stories.

CHAPTER 1

VALUE BUILDERS

START WITH THE END IN MIND

The travel industry has gone through two significant evolutions in the last thirty years. Our parents booked travel through an agent, but in the 1990s, websites like Expedia and Hotels.com became the standard.

The second major transformation in the travel industry was led by Steve Murch. In 1997 Murch was a Seattle-based software engineer leading the gaming division at Microsoft when he noticed a gap in the travel market. It was easy to use Expedia to book a hotel, but if you were looking for a villa, chalet, or private condominium online, you were out of luck. Murch imagined a website where vacation homeowners could list their location with pictures and a description. Travellers looking to stay somewhere other than a hotel could search for a private home or condo to rent.

In 1997, more than a decade before Airbnb would accelerate the travel industry's second major transformation into the sharing economy, Murch launched VacationSpot.com to connect travelers with private vacation homes. As with any marketplace, Murch knew the key to his success would be solving the chicken or egg problem. Travelers would only use the site if there were enough variety of homes available, and owners would only list their property if there were enough traffic.

Rather than giving up most of his equity in a series of splashy but costly fund-raising rounds to get the money he would need to drive traffic, Murch approached Expedia with an idea. In return for exclusive access to Expedia's users who came to the site looking to book accommodations other than a traditional hotel, Murch would give them 20% of his company.

Unbeknownst to Expedia, Murch had an ulterior motive for partnering with them. He knew they would make an excellent strategic acquirer for his business one day, which they became three years later, when Expedia bought VacationSpot.com for $87 million.

Had he gone the traditional route of most technology start-ups and sought venture capital funding, Murch would have swapped long-term wealth for the short-term fame that comes when a founder raises a substantial round of funding.

STEVE MURCH
Founder: VacationSpot.com
Built to Sell Radio Episode #161

Beginning With The End

Value Builders like Murch begin thinking of their natural acquirers very early in their company's lifecycle. They also understand the difference between a strategic and a financial acquirer.

The financial buyer purchases a business in return for a stream of profits; they are buying your future cash flow. Since most small business acquisitions are made by financial buyers that are merely looking for a return on the cash they invest, they often pay much less than a strategic acquirer.

The strategic buyer is acquiring a business for what it is worth in their hands. They have a set of assets that are made even more valuable through the acquisition of the target company.

> Your business may be strategically valuable to a buyer for many reasons beyond cash flow.

Your business may be strategically valuable to another for a lot of reasons, but here are some of the most common. Owning your company will allow a strategic buyer to:

- Win more business from their competitors.
- Differentiate their offering.
- Enter a new market.
- Capture more market share and therefore raise prices and be more profitable.
- Improve profit margin by spreading their overhead across more revenue.

Taking Action

Even though you may be years away from selling, make a list of potential strategic acquirers for your company. Consider major strategic decisions through the lens of their impact on your list.

CHAPTER 2

VALUE BUILDERS

PRIORITIZE VALUE OVER REVENUE

STEPHANIE BREEDLOVE WAS ON HOLD.

AGAIN.
IT WAS THE THIRD TIME HER CALL HAD BEEN TRANSFERRED, AND SHE WAS GETTING FED UP.

Cradling her infant son in one arm, she lodged the phone between her ear and shoulder as she fumbled to find yet another document that was required.

An associate on the fast track to become a partner at Anderson Consulting, the predecessor to Accenture, Breedlove thought her task was simple enough. She wanted to pay the nanny she had just hired to care for her son. She had called one of the giant payroll providers, which showed little interest in setting up a new account to pay just one employee in an industry that makes a tiny margin on each paycheck it issues.

At dinner that night, Breedlove recounted the story to her husband, a rising star at Ernst & Young. As she described the frustration of having her call transferred to multiple agents, each one less interested than the last in helping her, she had an idea. What if she set up a payroll company just for parents to pay their nannies?

The concept was simple enough. By focusing on parents with nannies to pay, Breedlove could master the process of setting up a new account. Paying a caregiver requires a parent to complete a batch of confusing government forms. If Breedlove could simplify the process, she figured she could make a reasonable profit from busy parents that didn't have the time to navigate a labyrinth of state and federal government departments.

BREEDLOVE & ASSOCIATES WAS BORN.

STEPHANIE BREEDLOVE
Founder: Breedlove & Associates
Built to Sell Radio Episode #74

While her husband kept his job at Ernst & Young, Breedlove worked her local connections and signed up a few customers. They told friends, and after two years, she had built her business up to $300,000 in annual revenue.

Now Breedlove was at a crossroads. After paying her expenses, she had little to show for her efforts. She had given up a lucrative consulting career in exchange for a small business that was barely breaking even. Breedlove needed to grow her business or shut it down and return to Anderson, where they were keen to have her back.

Determined not to give up, Breedlove decided to press on. Her challenge was to figure out how to grow. She had invested a modest amount of money in her company to get it started but had opted not to accept outside capital. From her consulting days, she thought the easiest way for her to grow was to cross-sell additional services to her existing customers. Breedlove made a list of the other services busy parents needed and came up with things like home cleaning, dog walking, and meal preparation.

Each business idea seemed intriguing, and Breedlove knew she could sell her loyal customers on buying more from her. Faster growth would have been more exciting, and she would have received more recognition from peers and friends, who would no doubt acknowledge her company's expansion. But Breedlove had started her business to solve a specific problem, and the idea of offering complementary services meant she would be veering away from her vision. Breedlove vowed to stick with her initial idea even though it meant she would grow more slowly.

Over the years, Breedlove continued to refine her system for setting up payroll for parents with a nanny. She tweaked her process regularly, delighting her customers along the way, who recommended Breedlove & Associates to their friends, which made finding new customers easier and easier.

Although far from a juggernaut, Breedlove & Associates grew around 20% per year. Throughout the years, she received various offers from investors, but she declined, hanging on to her equity, knowing her main goal was to build a valuable company rather than become a posterchild of the industry.

After 20 years in business, Breedlove & Associates was profitably generating $9 million in revenue from a customer base of 10,000 parents. Breedlove's two sons were all grown up, and she was beginning to consider what was next for her and her husband (who had also just left his company, Anderson) to join his wife's business.

Breedlove considered the landscape of companies that could benefit from the business she had built. One immediately stood out. Care.com was creating an online marketplace of local care providers and had amassed 7 million subscribers — mostly people with a need to hire a nanny or elder care worker. Parents looking to find a nanny could visit Care.com, type in their address, and immediately receive a list of local nannies rated by the parents who had entrusted the site to help them find a caregiver for their child. Similar to an Angie's List for care providers, Care.com had recently raised a significant round of venture capital and was looking to expand quickly.

Breedlove & Associates began the relationship by establishing a simple marketing partnership to provide content for their 7 million subscribers. Following a few months of delivering content and developing relationships with the Care.com team, Sheila Marcelo, Founder and CEO of Care.com, connected with Breedlove to initiate a discovery process to vet potential synergies between the two companies.

Breedlove took the opportunity to open a discussion around acquisition. Marcelo immediately saw the potential of acquiring the payroll company and, a few weeks later, presented Breedlove with an offer to acquire her business for $39 million. To put that number into perspective, a typical service business in the United States may hope to garner one times its annual revenue. Here was Breedlove being offered more than four times that amount.

+ Breedlove negotiated a price equivalent to six times her annual revenue.

Most owners would have jumped at Marcelo's offer, but Breedlove demurred, believing Marcelo would pay more given the synergies between the two companies. Breedlove showed Marcelo how she had built a profitable, $9 million company with 10,000 customers. She reasoned that if just 1% of Care.com's 7 million subscribers were to buy Breedlove's payroll service, it would create a company seven times the size of Breedlove & Associates almost overnight.

Just six weeks later, Marcelo upped her bid to $55 million in cash and Care.com stock. Breedlove, having negotiated a price equivalent to six times her annual revenue, agreed to the acquisition.

One Thing

Value Builders like Breedlove commit to a product, service, or bundle that does one thing well. They aim to make that offering so different that it gives them a protected niche.

When customers see what you offer as unique, they become less able to compare your price with another provider. With more control over your margins, you're ready to invest more in sales and marketing, which further inoculates you from the competition. The other benefit of a point of differentiation is that it makes it hard for would-be competitors to imitate you, which is why an acquirer may reason it is cheaper to buy you out than set up shop to compete.

Most founders do the opposite. Chasing the recognition that comes with growing revenue or hiring more employees, they take their initial success and water it down by cross-selling additional products, leveraging their relationship with their customers to sell them merely good offerings on the back of their great product or service. The problem with wandering too far afield is that while adjacent products may increase your revenue, they often decrease your attractiveness to a strategic acquirer. Like being asked to buy a cable package of hundreds of channels when all you want is a few, acquirers don't like buying things they will not use. They often walk away from a deal where a great product has been watered down with dozens of less attractive products or service lines.

Value Builders focus their limited resources on becoming so good in their niche that an acquirer reasons it would take too long, or cost too much, to compete. Most small businesses with limited cash can only afford to get that good at solving one problem for their customers.

Taking Action

Make a list of your products and services. Review each item on your list, and consider the following questions:

- Do you have a competitive advantage?
- How durable is that point of difference?
- Does your competitive advantage grow or become diluted as you grow?

Commit to focus on the products and services that make you unique.

CHAPTER 3

VALUE BUILDERS

OWN THEIR PRODUCT

Jeffrey Feldberg, Waleuska Lazo, and Stephen Wells co-founded Embanet in 1995, a company that helped prestigious colleges like Vanderbilt and Boston University take their courses online.

In the beginning, Embanet was a classic service business. Like most consultants, Feldberg, Lazo and Wells were personally in demand and paid handsomely for their time. A few years after starting, they were approached by an acquirer who offered them around three times their profit for their business.

The would-be acquirer thought that the founders of Embanet weren't looking at their company in the same strategic light as they were. But in saying no to the offer, the founders said "yes" to mastering the art and science of selling a company.

They went from offering commoditized web design services and being limited by the number of hours in the day to owning a share of the sales of the online courses they developed and helped market. Suddenly the founders were no longer restricted by selling their time and could offer their courses to as many people that signed up.

And sign up they did. Embanet became a leader in the burgeoning e-learning category, which enabled them to attract an offer of more than 13 times EBITDA just two years after their business model change.

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Two years after changing their business model, Embanet attracted an offer of more than 13 times EBITDA.

As the Embanet example illustrates, companies that own their product command a premium over businesses that provide a service or resell someone else's products. Value Builders understand that a sophisticated acquirer would be unlikely to make an acquisition offer to a reseller of someone else's product when they could negotiate a reselling agreement of their own.

JEFFREY FELDBERG & STEPHEN WELLS
Co-Founders: Embanet
Built to Sell Radio Episode #134

Two Ways To Take Ownership

Value Builders pursue one of two strategies to take ownership of their offering. Like the co-founders of Embanet, you can develop your products and legally protect them. Alternatively, you can take ownership of a product you are reselling in the mind of the consumer by investing in a brand that stands out and convincing buyers you are offering something unique.

Wrapping your product in a powerful brand makes your company more difficult to imitate and therefore more valuable to a buyer looking to enter your space. Emphasizing both your company and product brands also trumps the personal brand many service company founders develop in the absence of anything else for customers to remember.

Wrapping your product in a powerful brand makes your company more difficult to imitate and therefore more valuable to a buyer looking to enter your space.

Taking Action

Even though you may be years away from selling, make a list of potential strategic acquirers for your company. Consider major strategic decisions through the lens of their impact on your list.

CHAPTER 4

VALUE BUILDERS PROTECT THEIR EQUITY

David Hauser has been an entrepreneur for most of his life. He had several small money-making ventures in high school and studied entrepreneurship at Babson College. He started a web design business after graduation, followed by an internet advertising company.

Through his early experiences in entrepreneurship, Hauser discovered that one of the most frustrating parts of starting and growing a small business was acquiring a phone system. Back in the late 1990s, big companies used a PBX system to route calls throughout a switchboard, but a PBX system was prohibitively expensive for most small companies to acquire and maintain.

Hauser and his friend Siamak Taghaddos imagined a "virtual PBX" that allowed small business owners to leverage the internet to create a phone system without having to buy any of the hardware. They built a crude version of the technology, named their new company GotVMail (later rebranded as Grasshopper), and launched in 2003.

By 2004 they had acquired their first few customers and could see that to grow, they would need to buy servers and a lot of advertising to drive demand. The venture capital markets were starting to thaw after the dot com bust of 2001, but Hauser chose not to raise venture capital even though an injection of outside money would have put Hauser and Taghaddos on the map and given them the capital they needed to become industry leaders overnight. Instead, they clung to their equity and bootstrapped their little business.

Instead of ordering servers from Dell, Hauser found a local computer company and sold it on his vision for the future. Hauser asked the owner to make a server for him below cost, arguing that if Grasshopper achieved its vision, Hauser would soon buy many more. When Howard Stern moved his show to satellite radio, Grasshopper offered to support Stern's new medium in return for significant concessions on the price of a commercial.

Grasshopper also offered discounts if customers paid for a year's worth of service up front, effectively turning its customers into financiers of the business. Despite its growth from start-up to $30 million in revenue in just 12 years, Hauser was able to retain the majority of the equity in his business, which he sold to Citrix in 2015 for $165 million in cash and $8.6 million in Citrix stock.

DAVID HAUSER
Founder: Grasshopper
Built to Sell Radio Episode #152

Guard Your Equity

As the story of David Hauser illustrates, Value Builders guard their equity like a greedy child hoarding a bag of Halloween candy. Rather than selling their friends and family cheap shares or chasing a venture capital investment, Value Builders use other forms of financing to start and grow their business, often only offering equity as a last resort.

Rather than thinking of your shares as currency to help you grow or make employees feel like owners, consider your stock as the essential ingredient to building value.

Rather than pursuing institutional investors, Value Builders often bootstrap their business and frequently use their customers to fund their growth. If they do seek outside funding, it is more likely that they are being courted by investors and can therefore set their terms rather than the other way around.

You don't have to seek out external funding to be successful. The owner who solicits consecutive rounds of outside capital often becomes famous in the short term but often at the expense of their wealth over the long run.

> Value Builders use other forms of financing to start and grow their business, often only offering equity as a last resort.

Taking Action

Avoid chasing low-margin revenue that will suck up your cash and force you to sell shares. Instead, focus on your product or service with the highest margin and best cash flow characteristics because those offerings allow you to grow without diluting your equity.

CHAPTER 5

VALUE BUILDERS
WIN SUBSCRIBERS, NOT CUSTOMERS

Walter Bergeron started his small company servicing circuit boards for large food processing plants. It was a classic service business where Bergeron himself played hero for his customers.

The business model worked fine, but cashflow was lumpy. Bergeron had reached a point where he could no longer sell any more of his time, and their growth stalled.

Knowing something had to change, Bergeron made a 90-degree turn. He began offering a membership model where, instead of calling when a circuit board broke, his clients would be asked to subscribe to a plan enabling them to have their circuit boards serviced at any time. The switch to a membership model transformed the business, and Bergeron quickly grew the company to $7 million in annual sales, at which point he sold it for $10 million — more than double the typical multiple offered to a simple service company.

Value Builders love recurring revenue. Not only does the subscription business model boost your value, it also allows you to better plan your resources to meet demand years into the future. Such is the case with H.Bloom, a subscription-based flower delivery service where its spoilage rate — the proportion of inventory they must dispose of each month because it doesn't sell — is just 2% per month. Compare that to the typical flower shop that throws out more than half of its inventory because the owner guessed wrong when supplying their store.

As the Bergeron and H.Bloom stories illustrate, most small businesses begin life using the "break/fix" business model. In the break/fix model, a customer has a problem, and you swoop in to provide a solution. This business model may make you feel valued as a problem solver, but it comes at the expense of the value of your company. In the break/fix model, you must create demand, sell your product or service, deliver it, and start all over again. The break/fix model is also unpredictable, with demand ebbing and flowing from month to month.

WALTER BERGERON
Founder: Power Control Services
Built to Sell Radio Episode #14

By contrast, Value Builders often opt for a recurring revenue–billing arrangement with their customers. These subscriptions, annuity streams, and service contracts create an ongoing stream of income and dramatically grow the lifetime value of a customer. When owners can accurately predict how much money they will get from a subscriber, they can invest more in wooing her.

For Value Builders, the most compelling reason to adopt a recurring revenue model is the impact it has on a company's valuation. Dollar for dollar, recurring revenue can be worth more than twice that of transactional revenue, depending on your industry.

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For Value Builders, the most compelling reason to adopt a recurring revenue model is the impact it has on a company's valuation.

Taking Action

Start by segmenting your customers into buckets based on what is driving their motivation to buy. Think of customers in a broad context. Consider your end consumer as well as the distribution channel that gets your product or service to customers.

Next, measure the purchase cadence of each buyer segment. Look for a niche that shares a need to buy regularly. For example, H.Bloom discovered boutique hotels buy flowers regularly to give their property an exclusive aura, which is why H.Bloom started its subscription model by targeting hotels.

CHAPTER 6

VALUE BUILDERS

BUILD BUSINESSES THAT RUN WITHOUT THEM

Damien James grew up in Melbourne with two dreams: either playing Australian rules football at the highest level or building a successful business like his dad. As his chances of making the AFL diminished, he turned his attention to entrepreneurship.

James had read about the aging population in Australia and reasoned health care was likely to be a lucrative field. He analyzed various options and discovered podiatry was a sector ripe for disruption.

Older people get sore feet. Still, nobody dies from a bunion, so the practice of podiatry is less regulated in Australia than in some fields, where medicine is a matter of life and death. At the time, most podiatrists in Melbourne worked from a retail location, where the doctor owned and operated a private practice. The podiatrist would rent space, hire some staff, and charge patients per visit. At night, some enterprising doctors would also visit nursing homes to offer care. Reasoning that many older people nodded off shortly after dinner, James saw an opportunity for a podiatrist to visit nursing homes during the day, when it was more convenient for patients.

James, who had earned a bachelor's degree in podiatry in 1996, started Aged Foot Care. He approached nursing homes, suggesting he visit during the day. With a compelling offer and none of the traditional overhead of an office, he had discovered his million-dollar idea.

Aged Foot Care went through a variety of growing pains over the years, including an expensive rebranding to the name Dimple. By 2015 Dimple was generating roughly $200,000 of profit on $2.5M in revenue.

Despite his success, James was frustrated. The company's growth had stalled, and his management team seemed perpetually incapable of hitting its targets. Quarter after quarter, he would set goals with his team, only to see them fall short. James decided it was time to bring in outside help, so he hired a recruiting firm to look for a Chief Operating Officer. After interviewing a variety of candidates, James settled on Nick Beckett, who had just come off a successful run growing a tea company, called T2, that been acquired by Unilever in 2013.

DAMIEN JAMES
Founder: Dimple
Built to Sell Radio Episode #135

To recruit Beckett, James knew he would need to give up some equity, so he commissioned a valuation for Dimple, which came in at $2.5 million. He offered Beckett a salary plus 5% of the company. James estimated he could get to $5 million in revenue without Beckett's help, so he offered him another 3% for every $1 million Beckett grew Dimple's valuation past $5 million, capped at a maximum of $10 million for 20% shareholding.

The partnership got off to a fast start. Beckett started to employ the strategies he used to grow T2 twenty-five-fold in ten years. To his credit, James realized what he had in Beckett and quickly promoted him to Chief Executive Officer. James stepped back from day-to-day operations, and the company continued to thrive under Beckett's leadership.

Down to just one day a week, James's responsibilities as Founder centered around providing a strategic vision and reinforcing the company's core values, while Beckett ran the day-to-day business. Beckett continued to pursue James's core strategy of contracting with aged care facilities, and the company hit $11 million in revenue by 2017.

Around that time, Zenitas appeared on the scene. Zenitas had a similar strategy of bringing health care to patients in homes or care centers rather than having them languish in hospital beds. The company was keen to add podiatry to its stable of services, and acquiring Dimple would allow it to become a market leader almost overnight.

In 2017 — a little more than two years after Beckett was hired — Zenitas acquired Dimple for $13.4 million. The company had grown in value by over 500% in less than three years.

The company had grown in value by over 500% in less than three years.

The Hub & Spoke Problem

In a typical small business, the founder is a hub within a wheel where employees, suppliers, and customers are spokes. Decisions get made at the center, which makes the owner feel powerful and in control.

Not only does this Hub & Spoke model limit the growth of an organization but it also makes it unattractive to an acquirer since the company depends entirely on the owner.

If your end game is to sell your business, you need to figure out how to get your company to hum when you're not there.

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The Hub & Spoke model will limit the growth of an organization and make it unattractive to an acquirer.

Taking Action

Document your processes, as Michael Gerber wrote about so forcefully in his classic, *The E-Myth*. Once your processes are documented, automate as many of them as possible to eliminate human error in their delivery.

Like Damien James, consider hiring a second-in-command (2iC) to run your business day to day. Finally, take regular and increasing periods off to give your company a dress rehearsal for operating without you. Upon returning, look for areas of weakness, and repair them with new processes, training, or technology.

CHAPTER 7

VALUE BUILDERS

SELL A FEW THINGS TO MANY

f there was a party at the University of Oregon in the late 1980s, chances are Jill Nelson was somewhere close by. Nelson loved to have a good time and take care of people, which was one reason she admits that she only just graduated in 1988.

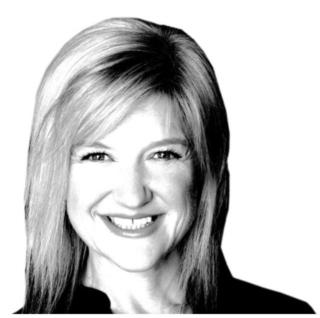
Nelson started her career after college as a receptionist and used her effervescent personality to greet callers. Eventually, Nelson moved into a sales career but never forgot her time taking phone calls. As a sales professional, she interacted with a lot of receptionists, and most left Nelson with a diminished view of the companies she was calling on.

Nelson reasoned that if a company were to answer phones in the same chipper, positive tone she did, it would give a much better first impression. In 2003 Nelson founded Worksource Inc (later rebranded as Ruby Receptionists), a telephone answering service for small businesses that strive to give their customers a great first impression.

Small companies hire Ruby Receptionists to offer their customers a friendly voice when nobody in the company is available to take a call. Nelson's receptionists work from home thanks to the routing software Nelson's team built that enables her to direct calls to an available receptionist. This technology ensures all of her customers will have their calls answered by a friendly voice no matter how busy any one receptionist may be.

Most telephone answering services grow by winning contracts with large enterprise companies looking to outsource their call center. Not wanting to become too dependent on a single customer, Nelson grew the hard way, signing up small customers that paid a few hundred dollars a month each.

JILL NELSON
Founder: Ruby Receptionists
Built to Sell Radio Episode #99



Between 2012 and 2014, Ruby Receptionists grew to 6,000 customers and doubled its revenue to $11 million in the process. Nelson, who had become something of a minor celebrity in Portland entrepreneurial circles, started talking with Jon Seeber of Updata Partners, an investment firm focused on technology companies. Seeber was impressed with the software Nelson had built to handle thousands of customers and millions of calls a year. On January 6, 2015, Updata announced it had bought a majority stake in Ruby Receptions for $38.8 million.

As the story of Ruby Receptionists reveals, Value Builders are careful not to become too reliant on a single customer. Their goal is to sell a few things to a lot of customers rather than the other way around.

One of the most overused rules in business is the Pareto principle which, among other things, suggests an owner should focus on 20% of her customers generating 80% of her revenue. While this may be true if one's goal is to build a larger or more profitable business, it can make a business less valuable in the long run.

+ Value Builders diversify their risk across a large number of customers.

This story shows how — in stark contrast to most small businesses — Value Builders diversify their risk across a large number of customers while concentrating their bets on a small number of products and services. This means they are not dependent on a single customer and have the resources to invest in further differentiating their products and services.

Taking Action

Try to ensure your business is independent of any one customer, employee, or supplier.

To start, take a look at your employees. Try stack ranking them from most difficult to replace to least difficult. Then make a list of the things you are doing to minimize your dependence on the most difficult to replace employees.

CHAPTER 8

VALUE BUILDERS

RUN THEIR BUSINESS LIKE IT'S A PUBLIC COMPANY

Jay Steinfeld studied accounting at the University of Texas and joined KPMG after college. He went on to become Vice President, Finance at Meineke Car Care Centers, Inc., the nationwide automotive franchisor.

Steinfeld left Meineke in 1985. Mid-career and out of work, he joined his wife's business selling blinds in her retail store. Her business was such a success he decided to open a second store.

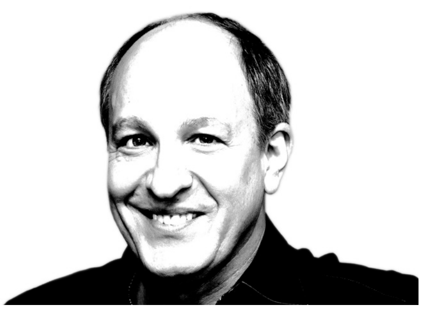
Steinfeld quickly discovered that life as a retailer was harder than he imagined. He worked in the store six days a week and did the books at home on Sundays. Many nights, he didn't get home until after nine o'clock. Determined to find a better way, Steinfeld began researching an emerging technology called the internet. It was 1993. Steinfeld invested $1,500 in his first online advertisement, which was mostly an electronic version of his brochure.

Over the next few years, Steinfeld continued to experiment with online advertising. His business model was crude. When customers responded to an online ad, Steinfeld instructed his staff to tell the caller that someone from the customer service department would call them right back. The employee in the store would then call Steinfeld, who in those days spent most of his days driving around Houston installing blinds, letting him know someone had responded to his ad. Steinfeld would pull off to the side of the road and call the customer back. With a calculator and notepad in hand, he would take their order from the front seat of his van.

While Steinfeld was tooling around Houston in his minivan, Jeff Bezos was experimenting with selling books online. It was 1994, and Amazon's early success got Steinfeld wondering if people would buy blinds online. He ran the idea by a few customers, who balked, saying that shades were different than books because they needed to be measured and installed. Undeterred, Steinfeld invested $3,000 to build his first online store.

He continued to tweak his approach to advertising and selling blinds online. Eventually, Steinfeld got to the point where his online orders eclipsed the $1.5 million in sales he was making through the store. In 2001 Steinfeld decided to go 100% online and launched Blinds.com.

JAY STEINFELD
Founder: Blinds.com
Built to Sell Radio Episode #108



Unlike many of the first-generation online companies that operated with few financial controls, Steinfeld grew Blinds.com like an accountant. He was determined to run his business with the same rigor as a publicly listed company. He built an experienced management team and took the unusual step of assembling an outside board of directors even though Blinds.com was private and Steinfeld owned all of the stock.

The board met quarterly, and each of Steinfeld's senior managers were asked to prepare and deliver formal presentations to his board. Steinfeld hired a Big Four firm to complete a full audit of his financials each year even though there was no need to be quite so button down to prepare a simple business tax return.

By 2014 Blinds.com had grown to 175 employees and, at more than $100 million in revenue, was the largest online retailer of blinds in America. Even though Home Depot had close to $90 billion in sales at the time, Blinds.com was outperforming them in its tiny niche, which made Blinds.com irresistible to Home Depot. On January 23, 2014, Home Depot announced the acquisition of Blinds.com. Terms were not disclosed.

As the story of Blinds.com illustrates, the most valuable companies are run with financial rigor. Some small businesses run as if their sole purpose is to fund the owner's lifestyle. Many use the spending power of their business to buy trinkets and baubles like cars and expensive trips that further fuel their ego and get them noticed in town.

However, if your end game is to sell to a strategic acquirer, then you need record-keeping that will stand up to their scrutiny.

Taking Action

Consider recruiting an outside board of advisors, and host quarterly board meetings where key managers are asked to present their operating results, along with plans for the quarter ahead, to an outside board of advisors.

Invest in bookkeeping and quality reporting from your accounting firm.

CHAPTER 9

VALUE BUILDERS

LEAVE SOME MARKET SHARE FOR THE NEXT OWNER

On July 30, 2002, George Bush signed an obscure piece of legislation into law in the United States. It was written to protect investors from a repeat of the accounting scandals surrounding WorldCom and Enron. Named after the bill's sponsors, U.S. Senator Paul Sarbanes and U.S. Representative Michael G. Oxley, Sarbanes-Oxley ushered in a new set of accounting and disclosure regulations for companies.

A young entrepreneur from New Zealand was watching.

Wellington-based Rod Drury realized those big companies would have to do a much better job archiving their email, so he started a company called AfterMail. The business helped Fortune 500 companies archive their corporate disclosures after the introduction of Sarbanes-Oxley made keeping accurate electronic records a matter of law.

Drury convinced two Fortune 500 customers to buy his software, each paying around a million dollars. With revenues of $2 million and a proven product, many business owners would have been keen to build a big business to sell to the other 498 companies on Fortune's list, all of which needed AfterMail due to the new legislation.

But Drury is a Value Builder and knew that to maximize value, he must show a buyer how they would win from acquiring his company. Drury approached Quest Software, which had virtually all of the Fortune 500 as customers already. He argued that since they already had the relationships and the new legislation required large enterprise organizations to use software like AfterMail, they should buy his company. Drury sold his little $2 million business for $35 million — an outlandishly good multiple, even for a Value Builder.

ROD DRURY
Founder: AfterMail
Built to Sell Radio Episode #56

Your Finish Line Is Their Starting Line

If running a business were a sport, it would be a marathon: a long slog with lots of twists and turns before the eventual finish line. Most founders end up dragging their tired bodies across the finish line and forget that there is a buyer on the other side of that trade that is starting their marathon.

Value Builders know the buyer is beginning the race and must be enthusiastic about the future to commit to the pain of running the course. The buyer needs to know the outlook is bright for your business and that plenty of future opportunity remains untapped. Most small business owners think market share is desirable, but bigger is not always better. In fact, there is a point where too much market share can dilute a company's value because acquirers will reason there is little left to harvest. Therefore, the Value Builder often sells earlier than expected.

> The buyer needs to know the outlook is bright for your business and that plenty of future opportunity remains untapped.

Taking Action

Consider the 10/40 rule. Size the potential market for your existing offerings and estimate your current market share. Consider exiting when your market share exceeds 10% (proof of "product/market fit") but is no more than 40% of the total addressable market.

ARE YOU A VALUE BUILDER?

Want to know how you compare with Value Builders like Steve Murch, Stephanie Breedlove, Jeffrey Feldberg, Stephen Wells, David Hauser, Walter Bergeron, Damian James, Jill Nelson, Jay Steinfeld, and Rod Drury?

If so, fill out the Value Builder questionnaire. Upon completion, you'll receive a customized report with your results on the main attributes acquirers look for in the companies they buy.

Just ask your
Certified Value Builder™
for details or visit

www.ValueBuilder.com

ABOUT
THE AUTHOR

John Warrillow is the founder of The Value Builder System™, where the community of Certified Value Builders has helped more than 50,000 businesses improve their value.

John is the author of the bestselling book, ***Built to Sell: Creating a Business That Can Thrive Without You***, which was recognized by both *Fortune* and *Inc Magazine* as one of the best business books of 2011. *Built to Sell* has been translated into 12 languages. John's next book, *The Automatic Customer: Creating a Subscription Business in Any Industry*, was released by Random House in February 2015 and has since been translated into eight languages.

John is also the host of *Built to Sell Radio,* where he has interviewed hundreds of founders about their exit. *Forbes* ranked John's podcast as one of the ten best podcasts for business owners.

Before founding The Value Builder System™, John started and exited four companies.

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