

November Spotlight Guest Call
Featuring Bill Gately – The Rockland Group
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“Five Strategies Your Clients Should Be Employing Now”

John: Good afternoon everybody. This is John Leonetti calling in and this is our monthly Spotlight Guest Call. This is Thursday, November 6th, and we are very fortunate to have with us on the line today Bill Gately and Bill is the Founder of The Rockland Group. Bill, are you there?

Bill: Yes, I'm here.

John: Well it's great to have you. Thanks for joining us Bill.

Bill: Thanks for having me John.

John: You're welcome. Bill, this is an important call. There is a lot going on in the markets and the economy right now. There's a lot going on with our advisors that serve small business owners and a lot going on that impact small businesses. With all this bad news that's so easy to find, I found the conversation that you and I had very enlightening. And then there was actually an article you had written that I read that I said, "You know, Bill has the right idea." There's a positive side to what's going on in the marketplace right now. And that's what we're going to talk about today. There are PowerPoints that accompany this presentation for those on the call or those listening in on replay and Bill was also good enough to give us two articles that will be posted on our membership site. And again our monthly calls go for 45 minutes and then I'll unmute the line and open it up for questions for those who are new to this format.

Now just to introduce our speaker quickly, Bill Gately is the Founder of The Rockland Group and prior to doing his management consulting work, The Rockland Group, he was President and General Manager of Philips Advanced Metrology Systems, a mid-stage semiconductor instrumentation company. Bill grew AMS from a six person start up founded on technology, licensed from MIT, to a market leading semiconductor equipment manufacturer and positioned the company for a successful sale to a private equity firm. And we can say that that transaction was valued in the ten of millions of dollars. So Bill is not only a consultant to business owners, he has been a business owner. He is an entrepreneur and he is speaking from his direct experience from being in the trenches and having grown and sold a business. He brings over thirty years of experience leading and managing several start up and early-stage, mid-stage technology and manufacturing businesses and most importantly, he shows business owners how to structure their business to improve its profitability and eventually prepare that owner and the business for an exit or a transfer of ownership to the next generation or however else the exit is going to occur.

On the education side, Bill holds an MBA from Babson College, a BS in Mechanical Engineering from Northeastern University, and a Professional Engineering License from the Commonwealth of Massachusetts. Most relevant is that he does work with other advisors to help those advisors and their business owners identify issues so that the advisors, the members of our Pinnacle program can look to someone like Bill, to bring them into a client situation—a very important caveat to what we do: we're not trying to make our members consultants. We're not trying to make you experts in all these different areas. We are empowering you with the network of people who you can bring to your business owners to help resolve issues that they have, whether they are tax issues, deal structuring issues, family transfer issues, valuation issues. In this case, we are actually talking about the business. Because now is the time for our members to add value to what they are doing with business owners. And we're going to talk about that by having some talking points that Bill is going to discuss with us that we can bring to business owners to engage them and there's a very good reason for doing that and we're going to talk about it.

I want to give Bill's contact information before we get into the call. His telephone number is (781) 982-1327. Bill will take calls with questions after this, after even beyond our Q & A for those who don't ask this afternoon and want to ask later. He's also available by email. It's bill.gately@rockland-group.com. The website of course is www.rockland-group.com. Bill, I'm clearly excited about having you on the call and what we have to share. Did I leave anything out of that introduction?

Bill: No it sounds great, John. Thanks.

John: Excellent. You're welcome. Well, let's get into it okay? Let's talk about what's going on in this market right now and the positive things that we could talk to business owners about. Any time that there is something really bad, there's got to be something good. There's got to be a way to find it and in our conversations, I was very encouraged by the things that you had to say. And you've really laid them out nicely here for our members on this call. But what we're going to do is talk about a couple of things. Now recognizing that our members are mostly personal advisors, we do have some consultants; again this is an opportunity to bring this message to your owners. And to understand the talking points and the pain points that your business owners are going through so that you can develop stronger relationships with them and add more value to the relationship, we're going to talk about two main things on this call. First Bill is going to talk about how a business owner can focus on cleaning up their business prior to the exit or transfer. It's a topic we've seen before, but the real significance of this often appears in what's called due diligence and it's an area that is very important to lead into what a business owner should be doing today because there is a time period, there's a lag for any exit. And it's just not as simple as selling a house for a business owner so it's an important frame of reference to understand why a business takes time to transfer and what a business owner can be doing. And then Bill's got five points that we are going to discuss and he's going to walk through the PowerPoints that he was good enough to put together to get through

these two main topics. So we are talking about preparing the business and then we're talking about dealing with the marketplace as it is right now.

So Bill, tell us about the importance of a business owner understanding the process for exit and what they can be doing to prepare it, and then we'll move into what they should be doing today in the markets. Does that sound good?

Bill: Okay, sure John. Let me start off and I'm on slide number three for our folks that are following along with the PowerPoint presentation. Interestingly enough it appears John also wrote an article with an analogy between selling a residential home and selling a business. We're just at essentially opposite ends of the spectrum. Whereas John concentrated on the actual sale and how the transaction differs, really where I work—and my entire talk today will really be geared toward that—is really on the front end of the process which is what I call pre-due diligence. With that in mind, if we take a look at slide three, before the sale, we've all been involved in selling a home or buying a home and typically what happens is a realtor will perform essentially a buyer level walkthrough where they go through the home and they'll look for potentially clutter that is there that makes a room look smaller. They may look at certain improvements that they know have a particularly good ROI, it may be redo the kitchen, but don't bother doing anything other than, let's say painting another room and so forth. These are pretty well known; what you should invest into a home to sell it versus what you shouldn't be, based on an ROI.

The second thing that a realtor is trying to achieve is to increase the velocity of the buyer due diligence process. One thing that you don't ever want to do is get bogged down on a particular issue that causes animosity between a buyer and seller, and as I'm sure you are all very well aware, these can often be very trivial issues in the big picture, but they can be deal killers. And essentially that's also what a realtor does. They are looking for potential deal killers, they want to understand your: what is going with the house, what isn't going with the house and so forth and so on. One of the major differences between selling a home and a business is most of the recommendations that a realtor will give you can typically be implemented in days or a few weeks. If you need to remove clutter, you get a storage facility. You either move it or have it moved and it's done. If you need to get your kitchen, let's say warmed over for a sale, you get somebody in. It might take a week or so and then typically the house is ready for sale. The target results that the realtor is looking for obviously is a higher sales price, the correlation being valuation on a business and a faster sale. Because the faster a sale happens, again the less chance for deal killers to crop up and so forth. And the total process—obviously not today with the current housing market—but the total process from the time a realtor walks in, you spruce the place up according to what they recommend until you actually sell the house can be from as little as a few days to obviously a few months, notwithstanding the current market. So the key take away here is the process is relatively quick, the fixes are usually relatively simple assuming there is not a major issue with the home and the process is pretty well known.

If you go to slide four, let's take a look at: Before the sale privately-held business. Typically what will happen there is an intermediary will walk through, again a buyer level walk through. I call it pre-due diligence and this is typically where I spend the lion's share of my efforts. Again it's similar in format in that the intermediary is looking at recommendations on two key parameters. Number one: ROI. Are there some capital improvements that make sense to make to a business that would give a reasonable ROI versus some that just, quite frankly are not going to get any advancement in valuation. They may look at things like product portfolio adjustments. You have let's say, eight or ten products, two of them unprofitable. They may make recommendations, "Look, get rid of the unprofitable products right now. It's going to look bad on the income statement and it's going to drag down the valuation of the business, etc., etc."

The second thing that they are looking at is increasing the velocity of the buyer due diligence process. So scrub the financials. You'll get them audited if you need to. Scrub the inventory. What I mean by scrub is, write down and get rid of the obsolete inventory. The buyer is going to see it anyway. It's just going to create animosity and it's going to create negotiation that is really quite frankly very small in the big picture, and it could drag down the sale. So do that now, before the due diligence process. You'll get credit for having a cleaner operation. The deal will go faster because there are less issues, and you'll probably get a higher valuation even if you wrote off the inventory because they'll value the fact that the business was well managed and well documented.

Succession plan: Huge. I'm sure you folks all deal with. If you don't want to go with the business and most business owners don't, you need to have a management team in place that can carry on successfully without you being there. So those are the other things that would typically be flagged. The major difference of course, unlike selling a home is the time to implement these recommendations can take anywhere from three to eighteen months, sometimes longer depending on the condition of the business. I mean if you don't have a succession plan, you need to identify the weaknesses. You need to find people to fill those roles. You need to train them, etc., etc. That takes a long time. Some capital improvements, product portfolio type improvements can take quite awhile. So the target results of course are very similar to a home. You want a higher sales price or essentially valuation in the case of a business. And you want a faster sale, and you want to reduce the chance of unexpected deal killer issues. Again, selling a business, after you clean it up, the sales process can take three to eighteen months. The take away from these first two slides for you folks out there that are listening is that there is a fairly long lead time to getting a business ready for sale versus let's say getting a residential home ready for sale. The earlier the process starts, the better. Certainly the earlier in the potential seller's mind the process starts, the better. And quite frankly, many of the things that would be on this list are things that will improve the business overall anyway, so they are good things to be working on anyway, even if you weren't selling. That's the take away from these two slides.

John: So what I heard you say Bill, is that first of all this isn't just about the sale of a business. This is about actually any transfer, internal or external, correct?

Bill: Correct.

John: Okay, but I think what you are saying, and you reference the article that I wrote last September of '07, what I was making the point on in that and what you are making the point on is that a business owner—for an advisor—an advisor needs to know that a business owner is not thinking about these things day to day. And what Bill is explaining is that there is a long process for an exit, no matter what type of exit it is, internal or external (either a transfer internally or a sale externally). And what the mindset of the business owner is, "When I'm ready to exit, it'll be like selling my house." And that's just plain wrong. The interesting thing about that is that there are things in this environment that business owners can be doing to address these issues and that's where we're segueing into. But you know Bill, I think about this is like, on a rainy day I might use that to clean my garage at home. So if we have a rainy economy, you should know that if you're looking forward to an exit, that there are things you could do to clean your business. Does that sound right?

Bill: Yes, there is definitely an analogy there. I actually wrote in my newsletter two months ago an article called, Why a Recession is Good for your Business. Because it does take certain pressures off in certain areas and allows you, if you use that time and that opportunity wisely, to address issues and clean things up that you normally at a high growth period or a robust period you just physically don't have the time to get to.

John: That's interesting. It's interesting. So as a big picture idea, because we're talking about the business and Bill consults to the business with business owners and complements a lot of the personal planning that we do and we promote here at Pinnacle, it's very important to understand the backdrop against which a business owner is thinking and setting the stage for things that can be done.

Bill: That's true. Just to summarize this, if you'll go to slide five and I'll just give you a summary of what we're talking about. What are the benefits of utilizing this process for the people that are on the other end of this phone call listening to the recording? What you really want is the cleanest deal with a seller who is truly ready to sell, with a buyer who is truly ready to buy at a maximum valuation. And really, if you utilize the process that we talked about in the previous two slides, you're better able to establish and agree upon the true valuation of the business before you even put it on the market. Even the seller going through that process is going to have a better understanding of the true valuation of his business than he would, as John said, he just decided to sell one day, he's got a number in his head, and that becomes the number. A cleaner business realizes the higher valuation, even if you have to do things like write down inventory and so forth and so on, a buyer will value a well-run, well-documented business over a business that let's say, has a higher inventory level that they realize pretty quickly (and most buyers are pretty savvy) that a lot of that

inventory is suspect. They're not going to give you valuation for that. Reduce risk of unknown deal killer issues. I've seen the most mundane, trivial items kill a deal because it becomes a bone of contention between a seller and a buyer. And although it's small in the big picture, it kills the deal because you get into what's called deal fatigue. It slows down the deal. So when you go through an upfront process like I just outlined, you uncover these. If there is a sticking point that the buyer is just hung up on, you get to identify that early and then present that to the buyer early so that the buyer is aware of it and you can work around it.

John: So Bill, what a lot of people communicate to me is, we do a lot on the personal side, but we don't do as much on the business side. And I acknowledge that because I think that an exit is a personal decision really for an owner/operator for our marketplace. But what you have just described is the path to a successful exit and the obstacles that can be overcome. In the book that I wrote, "Exiting Your Business, Protecting Your Wealth," most people on the call know about this, the very first chapter I said, "Exiting is a process; it's not an event." But interestingly as we segue into really the exciting part of this presentation, there are things that business owners can be doing as part of that process now, today, in this environment to look ahead to the day when they are going to exit. And that's really the crux of what we want to talk about today are these five items that you have. So if I could segue us into there, I think that's what I'd really like to do because what you have to share with everyone is phenomenal as far as the mindset of the business owners.

Bill: Okay, fair enough. Just as an overview to what I'm going to present, the next five items, the context in which I'm presenting these from my line of work are, look we are in a financial crisis right now and a global crisis right now. Everyone knows it, you can see what the stock market is doing, we all know about the liquidity crisis, etc., etc. However when you are running a business you can't afford to freeze. You can't afford to panic. And there are opportunities. A lot of new emerging leaders will come out of a situation like this and a lot of current leaders will become yesterday's leaders. So what I'm trying to offer here, starting on slide number seven is if I was talking to a business owner—for the folks listening you can think about it as how you would approach a business owner—who is nervous and concerned about the current financial situation, what would you tell them to do?

So let's start off with Step number one. And step number one is really: Don't panic. What do I mean by don't panic? People do two things when they panic. They either freeze or they make reactionary decisions. Small business owners can't afford to do either one. So the first thing that you want to do is step back, take a deep breath and analyze the current environment. Look for historical evidence of cycles and patterns to keep things in perspective. As a small example, if you look at a stock graph, especially today at the volatility let's say over a one week or a one month period, it looks like a roller coaster, okay? But then blow that graph out and look at one year or look at twenty years, and you realize that all those undulations going up and down are really just part of an upward movement over a period of twenty years. So that's what you need to do is step back and look at things in a larger perspective, and say, "Is this

a complete shift in direction or is this just a normal, cyclical pattern that happens every ten years, twenty years or whatever.” Key thing—and this is where the people on this phone call would come in very, very handy—seek objective advice and input. When you are running a business, you’re very intimate with the business, the industry and so forth. It’s very, very difficult to not see the forest for the trees. So try to get some objective, outside advice where someone can come in and help you put things in perspective or at least bounce ideas off and decisions off before you go off and make them.

Third thing under that heading, validate before moving. Don’t go on hunches and gut feel. If you think that the market is changing, if you think the competitive conditions are changing, get some validation because in a small to medium business you can’t afford to make a wrong decision and find out three months later it’s wrong, especially in times like this. I’m not talking analysis paralysis, but just get some validation before you move. And then ask yourself, step back after you’ve gotten your objective advice (and this is really key) “What is really going on in the global market?” How does that affect *your* market and more importantly, how does it affect your customers? And a follow onto that is, what’s not going on. Does the global credit crisis affect your industry? It may not. There are some industries that this is having very little effect on. Does it affect your customers? Because if it’s a global issue and let’s say that you’re not a multi-national company and currency valuations are going up and down, that may have no effect whatsoever on your business or very little effect. So if it doesn’t, don’t worry about it. Worry about what does affect.

Ask yourself, “What do I need to revise based on these new conditions? What does not affect my business?” And the last line, I think most folks have probably heard this phrase by Wayne Gretzky, but when Wayne Gretzky, the great hockey player was once asked about why he is such a great hockey player, he always said that—Look, I don’t go where the puck is; I go where it’s going to be. And that’s what you need to do with your business. You know, you can’t revamp your strategy to go after what is going on now. You need to step back and look, not what’s going on now; what is what’s going on now, how does it affect where things are heading? Because it’s going to take you time to gear up and implement what you want to implement. So you want to make sure that by the time you implement it, you’re intersecting the point you want to intersect. And that’s what Wayne Gretzky did. While people fought for the puck, he went where he knew it was going to wind up and he was there when it got there ahead of time. That’s really what you want to try to do with your business.

John: Yes Bill, there are two things I want to say. Number one is that most people listening right now and on replay run their own businesses. So I know that the people listening who are running their advisory businesses are thinking, “Boy this applies to me too, not just to my business owner.” And to that point I say that every one of us as a small business owner who feels these same items that Bill is describing; about not panicking and you can relate to the business owners that you serve on these points because they are equally applicable to you and you can take a leadership role in addressing your business owner on this topic. The second thing I was going to say is

that what is really important behind what you're saying Bill, and you told me this on one of our preview calls leading into this, is to realize that small business owners cannot afford to waste their resources. The fact that they are a small privately held business means that they have limited resources which means that a change in direction based on a perceived problem that, as Bill said, is not actually impacting the business can be a game changer for a small business.

Bill: Absolutely.

John: And this is true for our advisors too who are serving business owners. If you want to be where the puck is going to be, then start thinking ahead as to what this is going to look like when we come out of it. That's just segueing into the next point that you are making. So thanks for letting me put that in there, Bill.

Bill: No, that's fine. The next thing is once you get your feet on the ground and you've got a pretty good analysis of at least what the landscape is out there relative to globally and relative to your local markets, the next thing you want to start doing is look for opportunities, okay? Because challenging times like this always create new opportunities. Quite frankly, one of the reasons why I'm on this call is I saw this as an opportunity to differentiate myself in my skill set, based on my experience seeing this stuff come and go to really capitalize on what I know I can do to help companies in this situation. So that's what I did. I took my own advice and said, "Wait a minute, this is going to be a very chaotic time, people are going to be very, very nervous and unsure. You've been through this before; you've been studying this for twenty years. Now is a good time for you to step into this." And that is where I used my expertise and took my own advice.

One of the major things, and I said this before and I'm going to talk about this in another slide, is a lot of your competitors may be paralyzed, crippled or severely cutting back in key areas. Again, I've done a lot of research into disaster situations, plane crashes, fires and so forth and so on, and amazingly enough one of the major reactions by people is not chaos and running and so forth. They basically shut down. They become paralyzed. They will literally sit in an airplane chair and not move, even though the door is open right next to them. And business owners do the same thing. They get into a situation like this and they don't know what to do so they do nothing. Some of them just go through the same blocking and tackling of just cutting back rather than look for opportunities and looking to leverage what they have, they just grab the head count and they say, "Well we need to reduce the head count to cut costs." Well, yeah you need to do that but that isn't going to help you grow your business. And if your competitors are doing that, that opens up an area for you, particularly if the competitors are larger than you. Just because they are large doesn't mean that they're not going to leave opportunities open to you; because they're not exploiting their own opportunities. And I guarantee new market opportunities are being created in your industry. You folks, among everyone, this whole exit planning industry is very evolving and emerging and there is no question that the dynamics of

this financial crisis are going to make that even more so and it's going to change the whole fabric of this emerging industry.

John: Bill, just to that point for our members who are listening to this, get out there and educate the business owners and talk to them while the advisors who you compete with are stuck in their offices not doing anything.

Bill: Right.

John: Because the advisors who get out there and provide the same education and opportunities that Bill is providing, the same education and opportunities that I see as putting out there with Pinnacle, I'm looking at our members and saying, "We need more. We need more education and targeted presentations towards addressing issues." Take this as an example of what Bill and I are both doing and go out in your local marketplace and talk to the clients, talk to the owners and share with them material like this that they can use. And give yourself an opportunity to win their trust in this marketplace because odds are your competitors are sitting there not doing anything. They're frozen and I actually happen to know this for a fact. I can't get into the call that I had yesterday but the vast majority of advisors are really struggling to be proactive at all. It's a phenomenal opportunity to grow your business.

Bill: I'm going to give you a glaring example of that on another slide, but you're absolutely right. What better time to establish credibility and trust with somebody than at a time like this when they need help more than ever; to have somebody like you come along and help them calm down, sit down, understand the situation, put it in perspective and formulate a plan to actually turn this into a positive. What better opportunity could you want? And that will completely distance you from other people who aren't doing that. Next point: don't just look at the negatives. Sure there are negatives out there. Liquidity is tight, the stock markets going down and so forth and so on, but a lot of those things you can't do anything about. But what you can do something about is how your business reacts to those things and looks for opportunities to either circumvent them or to capitalize on them. A lot of people get very fixated and focused on the negatives. You want to be aware of them, but don't focus on them.

Let me give you a couple of key opportunity areas that I see, that I think are pretty straight forward. Number one, if you look at the global economy, the U.S. market should rebound first. For all of last year and most of 2006, emerging markets (and by emerging markets I mean China, Vietnam, India, places like that) they've been the hot markets (South America, you know). Their GDPs are growing at double digits and all the rest of that. Well that's all wonderful. The problem is none of those markets including China, they do not have the financial infrastructure and the institutional infrastructure that the United States has. So when things like this happen—and look no further than Japan. Japan went into a huge banking crisis in the 1980's, and to this day, almost thirty years later they still have not written off those bad assets in those banks. And they haven't because their culture (I'm not saying this

as a negative, it's a statement of fact) their culture is so pride driven that they cannot bring themselves to this day to write down that debt. Now you contrast that with the United States and you look at what we've just done. Whether you are a complete believer in it or not, what we've just done with the bailout, the interest rate drops, the presidential elections, we have just innovated. And the EU is following us and the Far East is following us in all of these activities, but we are always the first. So our coupling of deep, long historical institutions with, quite frankly, a stomach for innovation will surely drive us out of this first. Absolutely convinced of it. The credit crisis shifted. A lot of people don't realize this. The credit crisis is not a credit crisis any longer. It's a confidence crisis. What do I mean by that? We had a credit crisis because there was no liquidity. There was just no money out there because of all the bad debt assets that these banks were holding and I won't go into all the gory details. But the government bailout has injected huge amounts of capital into these banks. So the money is there. The liquidity is there. The problem is the banks aren't lending and people aren't borrowing. That's a confidence crisis. That's different, okay?

And as a business owner you don't want to be addressing a liquidity marketing issue when it's a confidence issue. I have a name down there, Rockland Trust Company, my local bank up the street; very, very smart. They've got marketing literature all over their lobbies and what are they touting? We're not Bank of America, we're not Morgan Stanley, we're not Lehman Brothers. We're your local town bank, safe and secure, no mortgage issues here, you can trust us, we know you, you know us and so forth. It's a low budget marketing campaign that's capitalizing on people's fear that—a year ago global was great, everybody wanted one stop shopping at Bank of America—now people are afraid of those companies because look at the names that have failed. So Rockland Trust has very wisely recognized that it's not a liquidity crisis right now, it's a confidence crisis. And what they need to do is get confidence in people to get their deposit money and also to have them come in and apply for loans because they have cash to lend. So they've seen it. And again, it's a relatively low budget marketing effort that can be reversed if the market changes again. But it's going to pay big dividends for them.

John: Hey Bill, I just want to jump in again and say, what you're saying about a confidence crisis, not only amongst financial institutions, but that extends to the individual, the business owner who lacks confidence in many different areas.

Bill: Sure.

John: What we talk about is being a *Trusted Advisor* to that business owner and when you have a situation that is so bad that the business owner has lost confidence, then there is likely a tremendous opportunity as we mentioned already, but I just feel compelled to say it again, to do a low cost breakfast presentation for a few hundred dollars to restore it, to build that confidence into that relationship or to win it.

Bill: Absolutely.

John: And really what it takes, and the difference between the advisors who do it and those who don't are the ones who are worrying about what's going on and the ones who are not ignoring the negatives, but are taking action to capitalize on these issues. And when they get in front of the business owner, based on what Bill is sharing with us, you have an understanding and you can share these items with them about what is actually happening and they can look to you as a source of trustworthy information. And most of our members will be local independent people working in the community. So I see a direct correlation. I think it's brilliant.

Bill: Yes, so I'm going down a quick laundry list of things that are out there that are affecting the markets including your market to be aware of. The next one: Oil and gas price plunge. Gas has dropped from over \$4 a gallon to down in the low \$2 range. Everyone feels that. That, basically if you look at it, is an immediate stimulus package. If you look at what they did last summer, by the time they announced it, cut the checks, mailed the checks, the checks finally got to people, people cashed them and decided to do something with them, there was about a six month delay. Well now what you're doing certainly to everyone, but especially I would say the middle class and the lower middle class, you are literally putting \$40 to \$50 a week in someone's pocket that is not going in the gas tank. That's a pretty big stimulus package. That's discretionary money that people have that they didn't have literally two weeks ago or a month ago. So again, depending on what kind of business you have, that's a pretty big factor and that's going to have an effect. It's not going to turn the entire economy around but it's going to have a pretty big effect depending on your business.

The higher dollar: double edge sword. We had a weak dollar for a very long time. It drove a lot of exports. Now we have a higher dollar. Again, look at your business. If you import things or you can import things, they're going to be a lot cheaper because the dollar is higher. Conversely, if you are an exporter and a lot of multi-nationals—I don't think this will affect as many of the companies that you folks deal with—but a lot of the multi-nationals are going to see a drop off because exports are more expensive. But if you're a local business and you can buy overseas and import with the lower transportation cost because oil and gas are lower, and the higher dollar, you may be able to save a significant amount of money just by going from a U.S. base to an import.

One that is in here that I didn't put on your presentation is: Strategic partnerships. What a strategic partnership very quickly is you have something that a company needs and they have something that you need. One of the huge pieces of leverage for a smaller company is you may have a product that a larger company doesn't have. You can do a strategic partnership with that company that basically says, "I will supply the product and you will flow it through your huge multi-national sales and distribution network." The win for the big company is they don't develop products anymore. They can't afford to, especially in times like this, they might be hesitant to. You've got a product that they need that they can't develop internally. The plus for you is, at the stroke of a pen, and you need to do this wisely, you just basically sign

let's say a huge, national or international sales and distribution network in a major corporate name on top of your product. You build it and someone else distributes it. There are huge pluses and times like this open up more of those opportunities to be aware of. I've used this effectively in the last two companies that I ran.

Last item: Key resources cost less and are more available. There are a lot of very qualified, talented people right now out of work. So if you need a certain skill set, to be honest, if you look at your current employee base and you want to upgrade certain, whether it's management team members or whatever, there are very good people out there that six months or nine months ago you couldn't have even touched. But now you can because they are available and their salaries are probably going to be a little bit more reasonable.

John: Hey Bill, I just want to jump in as we come up on forty minutes on the hour. I'm fascinated by what you're saying. I think it's great. I want to move through these three points because I want to make sure that all five points that you have here, that they all fit together. They are all very important. So we will go over a little bit, but I just wanted to segue us and just kind of recap what I heard, which was number one, any advisor to a business owner can just lead by example and say, "Look I'm not panicking. What I'm doing is I'm gathering reliable objective information. I want to talk to you about some areas that you might be thinking about." Number two: is that opportunities will exist for every business and if you get blinded by the problems that are out there, it becomes almost impossible to see the opportunity because you're just, you're withdrawn, you're frozen with where you are and that's true for the business owners that are out there. So there is a greater need than in the past for good advice.

Bill: Right.

John: And then Bill, you said you can tie these two together and basically develop number three: a short term strategy, correct?

Bill: Exactly, exactly. And I say a short term strategy for a reason, and again I'll go back to the Rockland Trust example, okay? For Rockland Trust to invest let's say tens of hundreds of thousands of dollars in a major marketing campaign based on what's going on today would be foolhardy. But to very wisely take a short term strategy and address people's initial issue which is confidence to go into a bank and do business again, it's a relatively low cost, short term strategy and I think it will wind up being very effective. So I think; one of the things that I'm a big believer in and also I've used effectively is: keep busy. And your employees, you need to keep them busy. And the best way to keep them busy is to give them something focused to do. What you want to do for your business is to develop an effective short term strategy based on the previous two slides and then execute it. It keeps your mind focused on the business at hand and it keeps your employees' minds focused on the business at hand because your employees are as nervous as you are. And if you don't keep them focused and drive them toward a goal, you're going to lose a lot of productivity. I've seen it happen time and time again.

I'm going to give you a very, very quick story. I'm going to go down to the 9-11 Rick Rescorla story of how critical this is and about what people do in times of crisis. Rick Rescorla is a Vietnam veteran who actually was hired as the head of security for Morgan Stanley before the first bombing in 1993, of the World Trade Towers. And his job was basically in addition to keeping the floor secure for Morgan Stanley, is if there was ever a fire, a crisis or something like that, it's his job to get everyone out of the building. What happened on 9-11, they were in Tower Two and Morgan Stanley covered twenty two floors of Tower Two. When the first plane hit building number one, it came over the loud speaker, it told everyone—nobody move, everyone stay in your office, you'll get further instructions. And like I said in times of panic, that's what everyone did. And Rick Rescorla who was in charge of security got up on his desk with a bull horn and told everyone, because he had trained them before, to go to the stairwells and so forth. He told everyone—never mind that message, everybody move to the stairwells like I told you to before. And he went down through twenty two floors and drove everybody down those stairwells. What he did was, he stood in that stairwell and he sang old English fight songs as people marched down. And why did he do that? Because he knew that people were scared, he knew that people did not know what was going on and he knew if he didn't keep their minds one hundred percent focused and full of what he was telling them, that they'd stop on that stairwell. And out of all the companies in both of those towers, Morgan Stanley had 2,687 people that got out safely and only 13 died. They had the highest survival rate of any company in either one of those towers. So that's an extreme example of what I'm talking about how important it is as a business owner or as a consultant to a business owner to get them focused, to get a short term strategy and keep on them to execute it so that they don't divert their attention or become paralyzed and lose a golden opportunity. That's just a bit of an extreme example, but it's true.

I'll go onto number four: Align your core processes. It sounds like I'm going to give you an engineering speech, but it's not.

John: Right. [Laugh]

Bill: Here is what it basically means, because I've seen this happen so many times. You're in charge of the business, you see the changes in the marketplace, you make a mental decision to change a strategy in the company and you don't bother to go and tell everyone. If you want to change the strategy of your company in a time like this, it's important. It starts at the top at leadership. You need to decide with your management team how you want to change the strategy, but then you need to make sure that everything in the business is aligned with that. Your business strategy needs to be aligned with your marketing strategy. If Rockland Trust made a decision to go after the confidence level of people and they didn't reflect that in their marketing strategy, it really wouldn't do anybody much good. They also reflect that in their sales strategy of how they interact with people. I'm sure they're going to put it in their product strategy. I'm sure they're talking right now about how they want to modify the products that they offer to customers that reflects their marketing strategy. And again, same thing with operation strategy and profitability. If you identify for

instance a currency situation, you want to get your operations people on board, “Hey look, we want to look at outsourcing a little bit more overseas because we can buy things cheaper.” So the key thing, especially in a small to medium size business is if you don’t align all of these processes and all of these disciplines, you’re going to lose efficiency and effectiveness and you can’t afford to do that.

Number five: Once you get your team focused on the task at hand, you need to pick your head up. Not them, they need to be focused at the task on hand or you need to get your client focused on the task on hand, but then you need to pick your head up and look at the horizon. Because you need to look at what is coming. What you want to do is you want to be ready for the upturn and you need to be able to put things in place ahead of time before that upturn comes. So it’s very, very important—this is another thing I see time and time again—as an owner of a business or as a consultant to an owner of a business, you cannot afford to keep your head down, focused on what’s going on today. You’ve got to pick your head up. Don’t fall victim to tunnel vision.

Last but not least: Keep the improvements forever. One of the good things about a recession, at the risk of sounding a little bit cold is quite frankly, it cleanses out a lot of businesses that quite frankly shouldn’t be in business.

John: Mmm-hmm.

Bill: That don’t manage cash flow, that don’t build a quality product, that don’t have reasonable profit margins and aren’t well managed. So when you put these things in place, to optimize and run your business lean, don’t revert back during the good times, because you shouldn’t have to go through this cyclical process every time. You should have to tweak a little bit and tune in times like this, but you shouldn’t have to restructure your entire company every time the economy changes, okay? So once you get your clients or you put these improvements in place, when times get better keep them in place. Build on them, but keep the company in fighting trim. I think that’s it.

John: It’s phenomenal. Let me go over these five points again Bill, because they all tie together and the message is the same, spirited message that I’ve been carrying that you as an advisor can choose the thoughts that you think. At a base level that’s what this comes down to. You can choose to be impacted by what’s going on outside of you or you can choose to benefit from the opportunities that are in the environment that you’re in. So whether these apply to you running your advisory business or you’re counseling other business owners on how to apply it to their business, you could start by not panicking and be more discerning as to what you allow to impact your thought process regarding the news and what everyone else is telling you. Number two is look for the opportunities because, I’m sure Bill would say the same thing, I will guarantee you that the opportunities are there and I know that to be the case because right here in this program, we have advisors doing things they’ve never done before in this economy with these tools because the opportunities were always

right there. But if you're panicked, you can't see them. You have to put that into a strategy so basically you take action. You take action on these ideas to turn them into business, you align your internal processes to do this. You get the ball rolling and then you keep your eye on, as Bill said, where the puck is going to be. Because when we come out of this, there are going to be businesses—and it's my core belief and I'm experiencing this right now—that Pinnacle is going to be one of these businesses that is already moving faster, that's going to shoot like a bullet right when this economy comes out.

Because I listen and find and take the advice of people like Bill who understand that these things come in cycles, but over the longer term there are opportunities to benefit from these trends. And if you can see that and if this message reaches you and you can bring it to the business owners, it is what they're looking for. It's the focus and it's not as technical as a lot of our tax talks or ESOP talks or estate planning talks, but it's a leadership talk. And Bill, I think it's phenomenal the way it came together. The reason we did the piece in the beginning was because you have to help the business owner see the end. That no matter what they do, an exit is a difficult process. So you and they both have an opportunity now to examine what's happening, to talk to them about the future and about what they can be doing in this time period. As Bill said, the recessionary period can be a beneficial time period for re-evaluation and put that into the exit strategy. I'm excited about the information, Bill. I'm really glad that you could share it and what I want to do is I want to open up the line for questions. Would that be all right with you, Bill? Can you take a few questions?

Bill: Yeah sure, by all means.

John: Hold on a second. Okay, I've opened up the line. I'm hoping there are some questions out there because I'm excited about this topic and I'll just ask if there are any right now.

Kevin: This is Kevin.

John: Hey Kevin, how are you doing?

Kevin: Good. Thank you very much. Bill, this was a fascinating presentation. It's evident that you are not only a good manager, but it is to me very evident that you are a great leader just by your thought process and the way you are taking over this presentation.

Bill: Thanks Kevin.

Kevin: I want to share something and then I'm going to make a couple of comments. As John well knows I'm in this group, but I am an exiting business owner. I'm at the last year of a succession buyout, and we have cycles in business. I remember them in the early eighties when we started in the business, I remember in the late eighties, early nineties and of course you certainly Bill were—I don't know when you helped this

last company, but you were in a technical business and I can't imagine what you were doing in the turn of 2000.

[Laughter]

But I hope you sold at the peak, but the thing I want to bring up that really related to me when you spoke about this whole thing, the exiting businesses (all of them) need something that is going to improve their bottom line, in other words, their operational excellence.

Bill: Yes.

Kevin: Ironically, as I was listening to this, I realize that we actually began, I was involved in buying the company from '86 until '95. We implemented a Total Quality Management process in 1991, when things were down. And what it did in retrospect, it really focused us on a process in our construction company to do something no one else was doing and that is continuous improvement, forming a process, understanding what quality was, creating operation manuals and executing those things, which by the way took years and years to implement effectively.

Bill: Yeah, that was the whole Motorola TQM. I went through that with Motorola actually. They were the ones that founded that whole thing.

Kevin: Oh, absolutely. So you know the whole process.

Bill: Oh yeah. I implemented it at a company from '92 to '95.

Kevin: Were they the Crosby model? Which model were they?

Bill: Yes, yes.

Kevin: That's what I thought. It was, as you know how complicated and unique it is, and you are doing that in the manufacturing business. We're doing this in the construction business, but my point is, that's what we were focused on in leadership and then implementing that throughout the company during that time. And what you're talking about with all these things, quite frankly when we talk to business owners, it's just good business.

Bill: Yes.

Kevin: It's an investment in which you are going to see the returns no matter what you do in your business.

Bill: Exactly right. That's actually on one of my slides that you may do this with certain business owners, they may decide quite frankly three quarters of the way through the process, "You know something, I don't want to sell anymore, because the business is

running great. I'm happy, the headaches are fewer, I've got a successor in place, etc., etc." Because it's good to do anyway.

Kevin: And to implement something like that, you realize you have to have competent people executing it.

Bill: Absolutely.

Kevin: Everything is better and that was the mantra that quite frankly had probably the most prolific change in our business. We've done lots of different things, but that was the most prolific change. I can tell you in retrospect that we actually brought up our gross profitability almost fifteen percent.

Bill: I believe it.

Kevin: And that's right to the bottom line.

Bill: The company that I implemented that in, Motorola was our biggest customer and they really like us as a company, but they wanted us to grow up because they wanted to buy a lot of equipment from us. This was for a pc board manufacturer. And they put their executives in, I volunteered to be the guinea pig and I implemented it company-wide. And that company from 1992 to 1995 went from \$17 million a year in revenue to \$150 million a year in revenue.

Kevin: I bet higher profitability too.

Bill: Absolutely.

Kevin: That's a win-win. Were you doing an ISO process at that time too?

Bill: Yes, exactly. But just to control that growth, we went from 75 employees to 500 employees running three shifts.

Kevin: Incredible.

Bill: Yes, and just to try to control that. [Laugh]

Kevin: Yeah, I think your hair was on fire a few times.

Bill: But if we weren't doing what we were doing with TQM and so forth, it would have been out of control.

Kevin: In regards to this whole thing John, besides this talk we had a conversation about this just a little while ago. Besides just looking at the structure and what the options are for the owner and their exit plan, they really need, in order to pay for this, need to pick up their ability to... they have to improve their management and their processes,

not just in terms of preparation for the sale of the business. No matter whether they do it internal or external, but it's just good business. And I tell you, owners will relate to that.

John: And the challenge of course is for our personal advisors not to try to over extend and represent what they truly don't know or are trained in based on a Spotlight Call, but to have access to people like Bill and access to other consultants and an understanding and awareness as to what the business owner's true concerns are in this environment and some talking points to build that relationship and build that trust. You don't have to drive this process but you can certainly help to manage it. You can certainly help to bring in someone like Bill, bring in some of these ideas and even at a base level, a very human level, to motivate this owner with the conversation about the future and about moving ahead. And ask questions about the business. Get to know the basics of the business. And the business owner will come to understand that you care more about the accounting and more about the legal and more about the financial or insurance products that you represent, and build into that the *Trusted Advisor*. Because in a place where there is a crisis of confidence, you can assume across the board there's massive opportunity for these conversations. So I thank you Kevin for your comments and your questions. And again, I just say that the advisor should have this in their toolbox when they address the small business owners and have the awareness of the issues that are out there to begin the conversation and continue it.

Bill: Great. Thanks Kevin. Congratulations on your exit too, by the way.

Kevin: Thank you. It's been a long road.

[Laughter]

Bill: They always are.

Kevin: I basically started in '86 with buying the business and then '95 was selling the business.

John: Mmm-hmm. Can I see if there are any other questions out there regarding the content on this afternoon's call? [Pause] We have a quiet constituency. Bill, what I want to do is I want to give your contact information again. As someone is formulating a question, they can feel free to jump in as I pause here. Bill Gately's phone number is (781) 982-1327. And it's bill.gately@rockland-group.com. URL, the website of course: www.rockland-group.com. And the PowerPoint presentation will be on our site along with the recording and everyone will get a CD and a transcript to the call and Bill's articles will be available also. And Bill is available by phone for any future comments or questions.

Before we have you close, you're doing a presentation aren't you Bill, coming up in a couple of weeks?

Bill: Yeah, it's actually going to be on this topic.

John: Can you talk to us about that because I'm doing everything that I can to attend. There is a nominal cost which I'll cover for any Pinnacle member that wants to attend and there is a limit to the number of people. Can you tell us about that a little bit?

Bill: Yes, it's coming up on November 19th. It's in Waltham.

John: Massachusetts.

Bill: Waltham, Massachusetts. Correct. It goes from 7:30 to 9:30 a.m. in the morning. And basically what it is going to be is really a hands-on, nuts and bolts presentation covering essentially what I covered today, but to a deeper level of detail. And it's really geared for essentially business owners, service providers to business owners and investors in early to mid-stage companies.

John: I'm going to think about bringing some business owners too to that event. I think that there's just nothing but mileage to gain from exposure to this material.

Bill: If you go to my website, under News and Events there is an announcement there and you can click to register right on the website. That will bring you right to the registration page.

John: Okay, so go to www.rockland-group.com, go to News and Events. By the time the CDs get out this event will have passed. Are you going to do some in the future also?

Bill: Yes I'm going to do a follow up one to this and I'm going to start breaking it down by topic and getting into more detail under each specific topic. I also may do another one of these if the response is large enough because I have to limit the capacity to fifty people, and I'm actually more than halfway there. So if this over books, what I'll do is I'll probably schedule another date afterwards.

John: Okay, let us know and we'll help market that also.

Bill: Appreciate it.

John: With that, Kevin, thank you for your comments and questions. Is there anybody else out there that had a question that was pending? Okay, Bill do you have any closing thoughts for our members?

Bill: Other than just what I presented, there is opportunity out there and I think for your membership, what better way to establish credibility and trust with someone than to interact with them in a time like this and help guide them out of this situation in a positive way. I think your competition isn't going to do that. They're going to wait this out and wait for "good times" to come and I think if you help people out in the

difficult times, that's the biggest credibility builder that you can possibly do. And that's what I'm doing.

John: I couldn't agree with you more. I'm doing the same thing and I like to lead by example. I just launched an expensive PR campaign out of New York. We just launched a new product for education on our event. I've got four or five presentations around the East Coast of this country this month. I was presenting last night. I'm in Florida, Minnesota and few other places and I'm just getting out there and trying to deliver this message to the business owners and we're engaging owners. And we're seeing things moving very quickly. So in some respects, business is a little bit easier once you get past the difficulties that you can tend to get caught up in. Bill, it was a phenomenal presentation.

Kevin: I agree.

John: Thank you Kevin. Thank you for taking the time to lay it out the way that you did and take the time this afternoon to talk to our members about it.

Bill: Thanks.

John: And I know we'll have you back in the future for an update.

Bill: Great, thank you and thanks for having me. It was a pleasure.

Kevin: Thank you, John. Good bye.

Bill: It was a pleasure.

John: Likewise. Okay everyone, have a great afternoon. Thanks very much. Bye.