

# CEO <sup>20</sup> CEO

Assisting business leaders as they navigate critical passages

**Other People's Money**

March, 2008



Lots of money in the bank is always a good thing, but its especially good when a downturn might be looming. This issue's Insomnia Factor looks at the potential ugly side of using other people's money and poses some key questions that every CEO should think about before taking money.

My work with CEOs continues to be fun and interesting. The mix of situations I'm called in on combined with the mix of personalities keeps it very fresh for me. I've got a classic battle taking place as I write this, and I've touched on it next.

## **His Own Turnaround**

A founder has done much of the work on his own turnaround, but a top exec and a top salesperson have become opposition and need to go. The day of reckoning is 36 hours away, and the CEO and I have together laid the plans for the terminations, messaging to employees, vendors and customers,

and the CEO's hands-back-on role in righting the culture and bringing needed sales in.

## The **INSOMNIA** Factor

What keeps CEOs **AWAKE AT NIGHT**  
—and what to do about it.

### **Will I have the Money when I Need it?**

By Robert Sher

There is nothing more relaxing to a cash starved CEO than the arrival of a nice, big, fat check. Most of us do NOT have insomnia that night, knowing that payables will be paid, and that the doors will stay open.

So when we've been starving for a long time, we start thinking about bringing in other people's money (or more other people's money). We start thinking about it when we should be sleeping. Should it be debt? VC money? Private equity money? Angel money? Family money? Vendor prepayment money? WAIT.

You should know that all the people with money are selfish. Deep in their heart, all they want is a solid (or better) return on their money. They don't care about CEO's dreams and plans in the broad sense. They just want what they want, and what they want is financial results. In particular, they'll want the financial results that you are about to promise them, and they want them on time. Even nice

## **Lead Generation Hits Milestone**

I've been helping a client with building a lead generation team for six months. Just last week the team finally hit a big milestone for appointments. Now we'll focus hitting that milestone every week and continue building.

## **Two Businesses in One**

A high-tech, engineer-led team has a young core business and the seeds for a new disruptive technology that would be VC funded. The critical passage is to create a steady heart-beat for the core business and make the right early moves for the break-out venture.

## **Barrier Removal**

A longstanding client had two key managers on a key project with a huge communication barrier. Both managers were committed and valued, but the barrier was putting a critical project way behind schedule. The CEO asked me to jump in. I did, and after a bit of coaching and presenting a fresh, non-vested perspec-

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people who would make you feel comfortable and may over time feel like your friend and believe in your dream will become difficult and unhappy if they get a less than expected return on their investment.

So with that negative, kind of greedy shadow cast upon the people with money, I'd like to make a couple of points.

Are you certain that you need to ask for money? Life is not easy for those that use other people's money. Other people often give money in small lumps, making you come back and get more over and over again after proving that you're on plan. Debt has to get paid back and hurts the bottom line (interest), and they keep a close eye on your performance too (covenants). Correct: The grass is not necessarily greener for those using outside money.

Are you fully prepared to ask for money? The *smart* money (the folks that invest money for a living and know what they are doing) are really good at sizing up businesses and CEOs to see if they are well run, have the experience they need, and can produce predictable results. You can't start the conversation with them until you have a clear vision, a solid plan, and a team capable of executing that plan well. The people with money entrust their money with the CEO and need to believe that he or she has it all under control and is primed for success. Otherwise, they'll keep looking at alternative places to invest their money. The good news is that having a clear vision, planning, and laying the groundwork for great execution is something that needs to be done even if you don't want a nickel of outside money. As to *dumb* money (widows and lottery winners that don't know business)--stay away. They may give it to you more easily, but they get nervous, upset, confused and then angry more quickly too, and often cause bigger headaches faster.

Will the goals of the money source you've chosen be aligned with your goals for the *entire duration* of the investment/loan? Maybe you do need outside money to achieve your goals. But if your source for money needs an exit in five years, but your timeline for success is ten years, you're bound to have a lot of grief at the five year mark. VC funds typically have a ten year duration, and want dramatic upside opportunity. Private equity firms typically look for an M&A exit in three to five years, and want good enough of an outcome to push up the multiplier. Banks only want low risk borrowers, and will lend you money so long as you're very healthy. Now these are all very broad generalizations, and there are many flavors of each type of money source. Take the time and dig deeply to learn their true objectives now as well as in the future.

Now to apologize to my friends and readers who are bankers, VC's, angels, or who have money. I know that just like CEOs, you have a job and objectives. You take risks and expect appropriate rewards. The fact that you do it well, and avoid bad risks and inappropriate investments (for you) is essential to our economy and the CEOs whom you fund. As people you are nice, and as business partners you are nice when things are on plan. I know that for you its miserable when you're stuck in an investment that isn't working for you. If I had a magic wand capable of getting all CEOs to only look for money when they should, to lay out realistic expectations, and to only look to the ideal source of money, life would be easier for you and everyone. It was in my selfish pursuit of a spicy introduction for this column to grab reader's attention that I called you selfish. *I'm sorry.*

tive, the project and some crucial relationships seem to be back on track.

### **Planning works!**

This high growth client had struggled with recruiting enough talent early enough to maintain the growth at its high levels. As part of the planning process, we figured out numbers and timing, wrote it down and had one top manager responsible for it. Sure enough, 12 starts were in the training room last month as planned!

### **Speaking**

The Association for Corporate Growth asked me to speak over breakfast last month, based on my book, *The Feel of the Deal*. I was asked to lead a teleconference of consultants about techniques to gain clarity about the business quickly with a new client. In a few weeks, I'll be on a business ethics panel talking about ethics as a way to grow a business faster, and in April I'll be the commencement speaker for the MBA program at St. Mary's College.

### **Please keep in touch**

I would love to hear from you and find out what you're up to. Please call, e-mail and visit!