

My Uncle Lost \$14M by Treating His Business Like His ‘Baby’ – Here’s the Lesson Every Founder Needs to Learn

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When I was growing up, my parents were in the hotel business. In fact, at one point, they owned three hotels. My dad died when I was quite young, and my mother continued operating the hotels. She did well, but she soon realized that the three hotels were too much for her, so she sold two of them.

She proceeded to invest heavily in the remaining hotel. She expanded the dining room and introduced “sizzling steaks,” which were a huge hit at the time. She completely renovated the “tap” room and introduced daily entertainment for the patrons. People were raving about what a great businesswoman my mother was! However, my mother never talked business with me. She kept everything close to the vest, and I never appreciated what she had done. But then again, I didn’t really care. I was too busy playing sports and chasing girls!

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The second generation

It didn’t really seem as if the second generation was going to play a role in this business. My sisters got married and moved away. My brother became a lawyer and moved to Boston, and I

decided to become an electrical engineer because they were receiving the highest salary upon graduation (not a good reason to become an engineer, as you will see). Somewhere between my sophomore and junior years, I got the urge to be an entrepreneur.

After some research, I contacted a tailor in Hong Kong and pursued importing some of their famous suits. I never implemented it because, in the final analysis, I couldn't imagine myself measuring some guy's inseam! By my senior year, I started thinking seriously about my mother's hotel. One day, I returned from classes and learned that the hotel had burned down. So much for the hotel business!

My uncle as my mentor

My mother's brother, Uncle Ken, had a very successful paper distribution business. In fact, my mother told me that in 1959, he was offered \$14 million for his business. It was always a major event when Uncle Ken came to visit. He would pull up in his Cadillac, and I would carry his bags into the house. He would always give me \$5, and that was a lot of money at the time.

When I graduated college and moved to Boston, I decided that I needed a business mentor if I was ever going to pursue my own business. My dad died when I was young, and my mother never talked business with me – so Uncle Ken was the answer. I called him and we started having dinner meetings every other month or so, and I would pepper him with questions about business.

One evening, I met him at his office and he asked me to wait while he finished a meeting. The office walls didn't go all the way to the ceiling, and I could hear their conversation. They seemed to be talking about buying my uncle's company. I heard one of the men say, "Your company is only worth your equipment, and we value that at \$250,000." I thought, "Wait a

minute, it's 1969, and 10 years ago, the company was worth \$14 million – and now it's worth only \$250,000!"

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The takeaway

This is a true story. As they say, "I can't make this stuff up!" My uncle fell in love with his company. It became his "baby," and he couldn't give his "baby" up – with disastrous results. That five-minute "snippet" had a major impact on my business philosophy. But most business founders treat their companies as their "babies" and hold them far too long. Businesses, like everything else, have a life cycle.

The business lifecycle

Let's talk about the classic lifecycle of a business. The number of years is highly dependent on the particular industry. In a fast-changing industry like high technology, the time from start-up to decay could be a few years, while a slow-changing industry like insurance might take several years.

Every company gets to a level (plateau) where, in order to get to the next level, they require a capital infusion. This usually happens between \$5 and \$10 million in revenue. The company may need new management as the business owner may not have the appropriate management expertise, and the company may require a CFO to strategically handle the financial requirements of growth. The company will need to increase marketing efforts and hire more competent salespeople. The company may need to open regional offices to tap new markets. The company will need more space to house the increased support and administrative staff.

Just before the peak of the bell-shaped curve, where the

business growth has slowed (but is still growing), a decision has to be made on how to implement a new growth surge to get to the next level. If the owner has the ability, the energy and the motivation, she/he can find the capital, either through debt or equity, to fund a new growth surge. If the owner does not have the ability, energy and motivation, hopefully they have put the company in a position to find the “right buyer.”

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If the owner waits until the company’s growth begins to decline, not only will it be more difficult to find the “right buyer,” but also more difficult to procure the funds for organic growth. I can only imagine what my Uncle Ken would have realized from the sale of his company if he had followed this strategy and not treated his company as his “baby.”

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