PERMANENT
EQUITY

Growth Partnerships & The Preservation of Fun

Owning and operating a business is often compared to living on an island. You struggle with internal isolation, finding a kindred spirit with whom to share the challenges you face, the weight of the decisions that have to be made, the anxiety of how much you have at stake, and the general discomfort of navigating uncharted territory. And, no one wants to hear you complain about having an ocean view.

But the other side of the story is that adventures in operating are fun. The people most intrinsically drawn to entrepreneurship are pulled in by some variation of that adventure, usually more so than by money. You can make a decent trade and earn money. But for most owners and operators, it's the challenge of the open sea that pulls you in the first place. No one learns to sail to sit on calm waters; you have to want to do the work. And the most successful entrepreneurs revel in it.

We have the pleasure of regularly meeting owners who possess that entrepreneurial spirit. More than a handful of them have told us they intend to be at the office until their dying day. Their business occupies their mind morning, noon, and night. It's where their friends are. It's a big part of who they are. It's fun. And there's nothing wrong with that.

We've actually completed transactions with some of those people. Which begs the question: why sell a part of your business if you're having fun?

Gaining Optionality

The definition of fun can change for people over time, and it can change for a lot of reasons. One element of preserving fun is giving yourself options. Most owners have at least 70% of their personal wealth tied up in their business. Skin in the game is great motivation, but it's also pressure. Extreme pressure over time generally isn't healthy, and it doesn't always lead to having the most fun (e.g., preserving existing wealth vs. investing in a growth plan).

The most common way we invest is what we call a growth partnership. It's an acknowledgement that the owner still has super strong conviction about the business, believes in its future, and wants to continue contributing (a.k.a. keep having fun). In M&A language, a deal like this is called a majority recap. The seller liquidates 51% or more (but not all) of their shares to set themselves up to have options, personally, and also give the business the ability to operate from a firm foundation unrelated to those personal needs.

While it means owning less, the ambition is that the pie also gets bigger. So it's fun, compounding.

Fun Stuff

We all have work we enjoy, and work we do not. Some people's faces light up about advertising ideas, while others will have the same reaction to circuit variables. We're all built differently, and it's a beautiful thing to see people find a role that allows them to spend the majority of their time on their Thing.

The roles many C-suite executives find themselves in are often poorly defined, if they're defined at all. The Thing they enjoy is often buried under paperwork, meetings, and fire-fighting. And as the company scales, there's also a good deal of learning and experimentation needed to figure out how the rules have changed for the field you're now playing on.

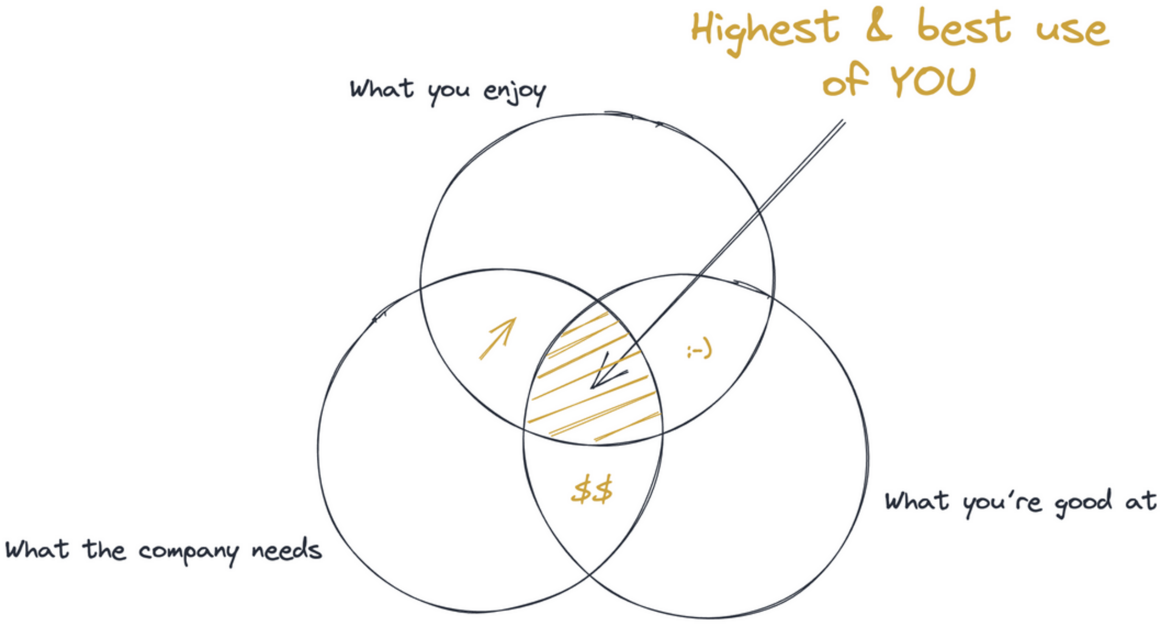
The shortest answer to why people sell when they're still having fun is to preserve the fun – and that comes from moving things off their plate so they can focus on their Thing. Everything else still has to be done, from data analysis to putting out fires. It's just that with partners, you don't have to be the one solving for it all of the time.

Assessing Highest & Best Use of Time

The exercise we walk through with our partners every 6 months is:

- What's on your plate that you enjoy? Why?
- What's on your plate that you want to keep? Why?
- What's on your plate that's draining? Why?
- What's on your plate that someone else could do better?
- What unexpectedly landed on your plate? Why?

It's a simple exercise, but often leads to an hours-long conversation about personal confidence, their Thing, how elements have shifted, how well others have stepped up in key areas, and more. After the exercise, our partners often comment on what a relief it is to talk with people who are on the same team, but who aren't going to overreact to a statement like, "I don't know what to do about X." The isolation is gone, and the horizon is open for making bigger, better plans.



Preserving fun is a key ambition of this exercise. An operator who loves the company is even more effective when they love how they are contributing to the team. The company is more likely to scale because you're naturally talking about unaddressed needs where judgment is critical. And it fights off burnout, freeing the person up to have different answers at different times, whether because of changes in the business or in their personal life.

Armed with that assessment, we can determine how to collectively act with intent. What do the answers mean? What experience and expertise can we collectively call upon to fill in the gaps? What roles are needed versus what exist? How would more time on what the operator excels in and enjoys impact the business? What tradeoffs are we all making without realizing it?

Even when those plans are established, things end up on an operator's plate when they require judgment, meaning that they could change the trajectory or risk profile of the business. Most owners admit having a tough time doing that in isolation. But with partners, we can figure out how to get the strongest overlap of things they love to do, are excellent at, and are extremely helpful to the organization.

Defining Independence

When thinking about investment, owners sometimes fixate on loss of independence. Many entrepreneurs readily admit they are not great employees. On a personal level, the plate exercise goes a long way in helping them maintain a healthy level of independence; no one is doing bed checks or anything. But for the company, independence is a double-edged sword.

An independent company can chart its own course. In one vein, that means avoiding spreadsheet-based decisions or dictated growth. In another, it means constraints that cause banks to limit credit capacity or the organization to have to forgo an opportunity because of cash flow constraints. There are expensive tradeoffs.

The version of independence we advocate for is an organization conditioned to take advantage of opportunity, while fiercely protecting what gave them a competitive advantage in the first place. We are sensitive to actions that could weaken a company's independence, which is part of the reason we don't use debt. Organizations we partner with are able to continue to do what makes them great, but with a bigger foundation beneath them so that when opportunity knocks, they are ready to seize it.