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Interview with James Sharpe

Extrusion Technology

January 2003

Interviewer: Amy Blitz, HBS Director of Media
Development for Entrepreneurial Management

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Preferred Citation:

Interview with Paul Baier, interviewed by Amy Blitz, January 2003, HBS Entrepreneurs Oral History Collection, Baker Library Special Collections, Harvard Business School.

JIM SHARPE

The Early Years

I was born in Michigan but my family moved to New York, so I was raised outside New York City. As a youngster, I had a paper route and sold turtles, and I would sell things around the holidays. When I was a bit older, I had part-time jobs in the local community. I worked in a hardware store and a restaurant. By the time I got out of high school, I was working a couple of jobs and I wanted to go into business. Babson College was one of the few undergraduate colleges that offered a degree in business, so I went there.

Babson College is in the Boston area and my father's company had transferred him to Boston, so my parents told me I could live at home. I really didn't want to do that, so instead I lived on my own and paid my way through college. So I had to go to work right away. I worked for a software company that happened to be located on the college campus. I worked for three years and took extra courses so that I graduated early. After I graduated, I continued working for the software company I had worked for on campus.

A year later I applied to Harvard Business School. The owner of the software company was an HBS grad, so he encouraged me to apply. I was just twenty-one years old. I was rejected, so I decided to continue working for the software company. I was also drafted into the army. After I joined the reserves and finished my obligations, I applied a second time to Harvard Business School. By this time, I had three years of work experience, and I was accepted into the school. When I was packing to go to the Business School, I found my first HBS application and compared it with my second application. I could see that the business school was right to reject me the first time. I needed more maturity.

The HBS Experience

Being at Harvard was a major shift for me. Before I was accepted, I was independent; I had bought a house and I was working. Now I needed to sell the house, move into a college dormitory with a roommate, go back to studying full-time, and I wasn't going to have a job. It was clear to me that I couldn't work while I was at the Business School. Overall, going to HBS was a dramatic change in my career and in my personal life. I wasn't married at the time, but I was stepping out of the software computer field into something unknown. I wasn't sure where the HBS path was going to lead.

The education at HBS certainly gave me a broader picture about what goes on in business. In the software business, I had really been a manager, managing people. I didn't understand how the business worked. Where the revenue came from and how we made money still wasn't clear to me. Even though I had an undergraduate business degree, how business worked still wasn't clear. The biggest thing the Business School prepared me for was an overall understanding of how business works.

HBS also opened the door to more learning opportunities. I worked for Heinz Food Company during my first and second years and got a taste of manufacturing in a big company. I learned what the issues were. During my second year, I had a whole range of opportunities, from consulting and working in manufacturing to working for General Electric. These opportunities would not have been available to me if not for HBS.

Early Career

After HBS, I worked for General Electric for five years. I was brought in by a group executive in Pittsfield, Massachusetts, who wanted a Harvard MBA on his staff. Jack Welch, GE's CEO at the time, told those of us interviewing with the company that if we didn't do well with his name on our backs, we would be out of a job in two months. There were four of us at the interview, and we were flown back to Boston from Pittsfield on a private jet. During the flight two of the people in the plane agreed that the GE interview was the most unusual one they had experienced since we were told to keep our other job offers open just in case we weren't able to keep our GE jobs.

For me, working at GE was a great opportunity. Jack promised an operating position to those who could make it through the first year. That was my biggest motivation for taking the job, and GE came through. I got an operating job after the first year and spent the next four years running small businesses, getting a taste for what it takes to run a business. I also learned what it takes to run a business in a union environment. GE gave me great opportunities. They shipped me off to run a business in Houston for a while and then they sent me to the coal fields of West Virginia. I had a great experience running a small operating business, and I was able to do it on GE's nickel.

During all this, I didn't envision myself as an entrepreneur. I went to GE on a corporate track and thought that was where my life was going to be. I hadn't been interested in small business and I didn't take any small-venture courses in school. I wanted to work in a large company and contribute in a big way to a big company. Honestly, when I left business school, I never imagined that I would be sitting where I am today, at Extrusion Technology.

After GE

The primary reason I decided to leave GE was because I had married a woman who used to be a GE employee; we had worked together in one of the businesses. She went off to

Harvard Business School to get her MBA. When she was about to graduate, we tried to find a career track at GE that would make allowances for employees who are married. It was extremely difficult. In the early 1980s, GE was not equipped to find challenging opportunities for both members of a couple who wanted to be in the same city. The company tried, but we decided that I had to leave GE and that we would find a city where we could both find jobs that suited us. As with many relationships, we compromised about how we would set up our lives. We each made a choice and settled in Detroit.

There were other reasons I considered leaving GE. For example, at GE it became clear to me that I was much more comfortable in and attracted to running a small business within a big company than I was to being a division or group executive. You could say I was experiencing a reverse progression at GE. I started far up at the top in the company, so I was flying around in jets when I first started. Then I went down the scale to the coal mines of West Virginia. I learned that I liked running businesses rather than telling other people how to run them. At GE, however, as you moved up in the hierarchy your job became one of directing other people rather than running businesses. The trappings and responsibilities of being a division or group executive didn't appeal to me. But I didn't leave GE because I was on a fast track in such a big company. The decision to leave was primarily about finding a place big enough for both my wife, Debby, and me to find jobs and raise a family.

A year after I left GE and joined a company in Michigan, there was a recession. I was fired. I was on the unemployment line looking for a job again. I found work with a British conglomerate running a small business in Northern Michigan, about three hours north of where we lived. I was able to take the skills I learned at GE and apply them to this small manufacturing operation. Eventually, I got tired of commuting back and forth and the British company agreed to move me to the Boston area. So Debby and I picked up stakes and moved to Boston.

By then, I had an inkling that I probably wanted to run my own business. In the five years since I had left GE, it was becoming clearer to me that I wanted to have control; I wanted to do things my way. I wanted to try out some things that neither GE nor the big British company would let me do, such as new personnel practices. I thought that if I owned my own business, I could try these things. For example, at both GE and the British company, I was restrained as to how I could reward and motivate people and involve them in the business. Things like benefit policies were hierarchical. In other words, the people at the top of the company received better benefits than the people who were out on the shop floor.

I didn't believe in that kind of philosophy and I thought that I would feel more comfortable if I could reward people my way. Take, for example, what happened at the British company. First, there were restrictions on how much we could pay people. Then, when times were tough, the company mandated salary freezes. I don't agree with salary freezes. I think that people who are working need to be paid and that if we have to cut back, we should terminate people and give raises to the people who are left. I didn't get much support for that thinking in the bigger companies.

Finding the Opportunity

From an ethical standpoint, I didn't feel comfortable shopping for a business to buy while I was working for the British company. So six months before I was going to leave, I gave them notice about my plans. I told them, "I'm going to go off and find a business to buy. I want to give you enough notice so that you can find a replacement for me and make the transition work effectively. I also want to make sure that my bonus is in place." I even let them know that I was going to use the bonus to buy my business. Then I told them, "My decision is complete now. I'm

not going to change my mind, so we're not negotiating." Doing this set the stage for me to be comfortable about not focusing on the business I wanted to buy until I actually left the British company.

I left the British company at the end of 1986, and on January 1, 1987, I was able to focus on finding a business to buy. Buying a business was one of the most difficult processes I have ever been through in my life. I thought walking on the unemployment line in Detroit during an auto recession was hard, but this was much, much worse. At least when you're looking for a job, people want to hire you. When I was shopping for a business, people didn't necessarily want to sell. People sell companies under some sort of duress, since when someone says, "I'm interested in selling my business," it usually means something isn't working right.

There is a totally different dynamic between looking for a job and shopping for a business, and it is extremely stressful. I went through highs—times when I thought, "This is the business that I'm going to buy. I know where I'm going to park my car. I know what I'm going to do the first day. This is really going to work."—and lows, such as finding that there was no financing available or, as happened in one case, the owners changing their minds and deciding not to sell. I was on a roller coaster for eleven months, going through the process of finding businesses, figuring out how to finance them, figuring out how to negotiate, waiting, making sure the process was happening, and always working on more than one thing just in case a deal fell apart, which invariably happened.

My decisions about which companies to pursue were based on a few criteria. First, the company needed to be a manufacturing business. I didn't want a services business because I didn't know much about services. Second, the business had to need fixing. It had to be in trouble. I didn't have much money, which meant that I had to look at businesses that were sick. I couldn't even find anybody to loan me money. I had all my life savings tied up into doing this, and when we moved from Michigan to the Boston area, we downsized our lifestyle—getting a smaller house than we had in Michigan, for example—so that I could put aside more money. Whichever business I bought, it needed to be at either a breakeven level or worse for me to afford it. I just didn't have deep pockets and I couldn't raise any money.

The third criterion was that I needed to be able to do it on my own. I needed to be the 100 percent owner, with no partners. I had worked with a partner earlier in my career looking at businesses to buy. The experience did not go well. My partner had a different agenda than I did. It was a good lesson for me about how I should really be on my own so that I could stick with my own agenda. And another criterion was that the business I bought had to have forty people or so. I'm not a business starter. I'm not really a creative guy who says, for example, "I have three concepts I want to make real." I'm a good manager of businesses that need turning around, and that's what I was looking for.

I was also looking for a business that, while not profitable, had assets. Luckily, in a manufacturing business there are a lot of assets. That means that many banks will loan against the assets. If I had looked at a services business, such as a consulting or software business, there

would not have been assets and nobody would have lent me money so that I could buy out the owner. I was looking for a manufacturing business that had assets with value. I was going to finance the acquisition by having a bank loan me money for the assets that had value so that I could pay the owner. Then, in most of the transactions I arranged, I was going to pay the rest of the purchase price to the owner with future earnings from the business. That was how I was going to construct the financial transaction. Around this time, leveraged buyouts were popular and so what I wanted to do was not unusual. I would put in all the money I had, get banks to loan me money, and get the owner to agree to a portion of the sale coming from future earnings.

Buying Extrusion Technology

To begin my search for a business to buy, I drew a circle with a fifty-mile radius around my house and I listed all the companies in that circle. There were 600. I contacted the owners and I was able to visit or see sixty of the companies. I made offers on twelve, raised financing on three, and ended up buying Extrusion Technology. The reason I bought Extrusion Technology was that it was available. There was no strategy. The other companies I considered before Extrusion Technology were in completely different businesses. Those deals fell apart and I had a fourth opportunity in the hopper, which was a plastic injection molding business. I had learned that I needed to keep things in the hopper and just keep moving through the process. I can't claim that I used a well thought-out strategy to go into the aluminum extrusion business. The company was just there.

I had written letters to the owners of each of the original 600 companies, saying, "If you're interested in selling your business, I'm interested in talking to you." The head of Extrusion Technology called me on his way home from work one evening. We negotiated for about a month and it took about two months to do the financing. All along, I continued looking at other businesses because I had been down this road before. I knew that I had to keep other irons in the fire, so I was continuing to make offers and that helped me stay objective when it came time to negotiate with Extrusion Technology. So, eleven months and twenty-one days after starting the process of shopping for companies, I closed on the business, passed the papers at the bank, and owned 99 percent of Extrusion Technology. It was a \$2 million transaction. I paid \$100,000 of my money, I borrowed \$700,000 from the bank, and I promised to pay the rest to the owner over the next five years.

The person I bought the business from was the son of the founder. His father had started the company in the mid-1940s after coming back from World War II. The business hadn't done well in the ten years before I came on the scene. In fact, the business filed Chapter Eleven in the early 1980s. The son had convinced his father that they could make changes that his father had been unwilling to try, and the son eventually took the company out of bankruptcy. He made some changes in the business strategy and paid the debtors off. The problem was that his father was still in the company and it was very difficult to work with his father still in the business, looking over his shoulder. Also, the son was more interested in doing things with computers. He didn't necessarily like the people part of managing the business. He was a very competent computer

programmer and had done a lot of system development for the company, so he wanted to go off on his own to do that.

I came along at the right time. The business was back on an even keel. It wasn't making much money, but the son was ready to move on. Also, selling the business gave him an excuse to handle a family situation that was difficult for him. He was, however, concerned about what I would do when I took over. It was the late 1980s, when leveraged buyouts were common, and one of his concerns was that I would buy the business, load it up with a lot of debt, declare bankruptcy, and wipe out his position so that he would be left with nothing and I would still own control of the business. To protect himself, he negotiated that he would maintain 1 percent ownership of the company and that if I defaulted on any of my bank covenants or payments to him, all of my shares would go back to him and he would get the entire company back. He would then liquidate the company, get back what was owed to him, and then give the company back to me.

So it was always hanging over my head that he could come back to get the money that I owed him *and* that I didn't have the option of going into Chapter Eleven and taking out his position. I wasn't interested in doing the latter, but he really protected himself, just in case. I was certainly motivated pretty much every day for those five years to make sure that I was successful in both paying down the bank and then paying him off. I was especially motivated as the years went on because I had developed a business that was more and more successful and I didn't want to give it back to the owner.

Running the Business

I was a little blind walking into this company. The owner had put a fairly severe restriction on my due diligence process and would not let me talk to any employees. That was not something that was a big challenge, though. While working for bigger companies, I had been parachuted into some fairly difficult situations and I never got to meet anyone. I would show up one day and say, "I'm your new president." I learned that in any small operating business, there are lots of opportunities to cut costs and there are lots of policies and procedures in place that are ripe for improving. Although I didn't know what these would be, I knew they would be there. So, for me, it was not important that he hadn't let me talk to anyone in the business. I also couldn't talk to any customers. He did, however, give me full access to all the numbers and I was able to do some investigating so that I felt comfortable that I could run the business.

I knew how to run a business so, to me, not knowing everything about the company was not a risk. The part that was charged with risk was dealing with all the covenants and restrictions set by the bankers and lawyers. I wasn't familiar with that part, but I understood that I would have to maintain a certain level of liquidity and that my profitability needed to stay at predicted levels so that, basically, I could pay back the bank loan. Overall, after shopping around for eleven months, I just felt really great about finally doing what I was good at, which was running a business.

The day I closed on the sale, I spent about two hours at the bank signing paper after paper, contract after contract. The pile was five inches thick. I was totally bored. I wanted to get to the next day, running the business. When I woke up that next morning, I finally had a business and I was excited. My first meeting with the employees was old hat. I had been through a number of those kinds of meetings before. My experience allowed me to think about how the meeting would go. It was very brief. I introduced myself and I didn't say anything about my background. I promised that I would be around to talk to everybody in the business over the next week and that for now, things would stay as they were. So I set the stage for calm. I told them, "I don't know much about the business and I need to learn more before I can make any decisions. Keep doing what you're doing. You're doing a great job." Then I thanked the owner and he left.

I knew from my previous experiences that people worry. I knew too that my background might intimidate them. They didn't need to know my background because it wasn't important for me to do my job. As with all employee meetings that I'd held in the past, no one asked any questions. People don't want to ask questions. It's not a Harvard Business School class where students are competing to make the smartest comment and go at it with one another. They're embarrassed about asking a question in front of their buddies who might laugh at them. So, I didn't anticipate any questions. I knew that if there was any dialogue that would occur, it was going to be me speaking one-on-one with employees.

I also used the meeting to promise all the employees that I would be around with a Polaroid camera taking everyone's picture so that one week later I would have memorized their faces and would be able to hand them their paychecks personally. That kind of commitment showed them that I was interested in learning who they were. I had done this before, at other companies, and it worked well for me. Indeed, a week later I handed out everybody's check and nobody got the wrong check. I continued to hand out checks for years as a way to ensure that I was in front of our employees every week, hearing what their problems were, understanding what issues they were working on, and knowing what they were doing.

First Days

There were many things I had to deal with right away when I started. There was a Teamsters union that I had to deal with. There were some very large customers that had been with us for a number of years and I had to determine whether or not we would continue to do business with them. We had a number of vendors that had supplied us for many years and I had to think about and deal with them. We had employees who had been here for many, many years and I needed to figure out what I could do with them. Of course, I also had a huge amount of debt and I knew that if I didn't pay the debt off and I didn't pay the owner off, I'd lose the business.

The owner tried to help with some advice. He had grown up in the business, so he told me I should run the extrusion press for a week. He said, "Once you figure out how to do that, you should run all the rest of the pieces of equipment in the business. I also strongly recommend that you get rid of the union on the first day." He also told me he'd be available to help anytime I wanted. As it turned out, it just wasn't my style to go out on the shop floor and run a piece of

equipment. To me, the people in the business are really good at doing those things and my role is to provide direction. I thought that I should spend my time asking questions and figuring out where we were headed. I wanted everyone in the business to know that they had their job to do and I wasn't going to do it for them.

My approach to management was a lot different than what the employees were used to. That became clear to me after a couple of weeks of people lining up outside my door and asking, "What do we do next, Jim?" I had to turn the questions around and ask, "What do you think we should do next?" They would have great ideas, and I would say, "Well, it sounds like that's what you should do. Go ahead and do it." For thirty years, they had been working for a family that wanted them to ask first before they did anything, so I was a totally different kind of manager for them. They were pretty nervous about not working for a family anymore, and who I was and where I had come from. They didn't know anything about me and they were anxious. But we grew together.

Still, it was a business, not a family, and the employees needed to understand that there was no guaranteed security. I had lots of experience dealing with cutbacks and slowdowns in businesses and I knew it was very probable that we would need to have a cutback and, perhaps, terminate some people. That's one reason I have always resisted talking about a sense of family within a business. In a family, you don't fire your brother or lay off your sister. In all the businesses that I've run, I've run them pretty much on a professional basis and I wasn't going to change that now that I owned my own company. I didn't intend to establish a family business and I was looking for an operation that would be run professionally. So I didn't make promises. Even now, when we're asked about layoffs, our response is "There are no layoffs *today*," so that people aren't thinking, "You promised us this," or, "You promised us that." I didn't want to raise people's expectations.

At the same time, I knew that for the most part I would be living with and working with the crew I had inherited. Factory work like ours was probably one of the lower-paying kinds of positions in the Boston area. After all, we were surrounded by Lotus and other big software companies. Burger King paid more than we paid. So this factory was not a great environment to work in. It was a manufacturing operation; it was dark and hot and, in some cases, dangerous. I knew that kind of environment and was comfortable with it. The employees had been with the company for many, many years. As I moved forward, the employees were going to be the people who grew and changed with the business. My goal was to understand who they were, what they could do, where they would fit, how they could be motivated, and how they could participate in the future of the company.

From time to time, we would have discussions with employees about things like abuse of overtime or people not coming back to work on time from their breaks. I would always say, "Remember how this works: I give you a fair day's pay; you give me a fair day's work. That's how this is supposed to be. If you don't like the pay, we need to talk about it. If you don't think it's fair, we need to talk about it. But that's the arrangement we have." That mindset was part of my unwritten contract with the employees and the discussions were a good way to reinforce it.

When I looked at the resources in the business, I saw that, by and large, I had people who had been with the company many years and understood the business much better than I did. I knew, from my previous experiences, that I would get the most out of working with existing employees rather than bringing in a team from the outside to make change. I wasn't comfortable bringing in someone from the outside. I was there to make change *and* to work with the people who were there. So for all the years that we've grown the business and changed its direction, we've kept people by encouraging them to move around within the company. It gave me great joy to give a variety of people in the factory opportunities to move up through the organization, handle customer contact, and, in one case, manage the factory. In another case, someone was given an opportunity to manage a large customer group. Working with the existing employees worked well for me.

Paying Off the Debt

I paid \$2 million for the business, of which \$100,000 was my own money. I still owed \$1.9 million, so I needed to pay back a lot of debt. The payments were set up on a schedule and I needed to work pretty hard to ensure that our margins were high enough to improve profitability and pay both the debt and the interest on the debt. The strategy for paying down the debt and how much we had to pay never changed from the time we signed papers at the closing. I had negotiated a twelve-month holiday of not having to pay anything so that we could get our feet on the ground and then move forward, but otherwise, the repayment plan never changed from the time we did the deal to the time we paid off all the debt. Making sure that the plan was happening was important.

Many of the strategies that had worked well for me in previous businesses, such as raising prices, looking at margins, looking at the customer base, and looking for opportunities to save costs, were all available to me. I predicted that those opportunities for improvement would be there, and they were. In the first two or three years, we worked on finding those improvement opportunities and changing the business by raising prices, improving the margins, and winnowing out the customers that weren't making money for us.

About two years after I bought the business, we entered a recession. We had to do some cutting back and lay off some people. It was our first taste of a layoff. Employees got to see how we handled it and it was handled fairly. They also saw that when the recession was over, we began to bring people back. We were able to go through the recessionary times and a period of recovery and still pay off the debt a little bit at a time. We had a big balloon payment for the old owner in the fifth year, so we refinanced with the bank to pay him. We were able to refinance because, by then, the bank was comfortable loaning money to us.

It took six full years to pay back all the debt on the business. We still had a loan with the bank but now the old owner was out and I had 100 percent of the company. He took us to the Ritz when we gave him his final payment. He brought the original letter I had sent saying that I wanted to buy the business. I paid him the \$400,000 check and then I asked him a question I had

wanted to ask for five years. I asked, “If I really had broken one of the covenants, would you have come in and taken over the business?” He said, “Absolutely not. I never would have come back.” What a surprise! I had spent five years worrying about losing the business back to him and he never would have come back. His decision to put that covenant about re-acquiring the business into the transaction was a good strategy. It kept me on my toes; it was the right thing for him to have done.

Bringing Debby in as Controller

My controller quit the company after about a year and moved on to another local company that was larger. He had been doing a good job but he felt that there was a better opportunity for him somewhere else. At the time, my wife was shutting down a business that she owned and was beginning to look for a job. It dawned on me that perhaps she could be the controller at Extrusion Technology. I went to my advisory board and they counseled me that although I had made some really good choices in paying the bank off, working with customers, and moving on with the union, this decision would probably be my first big mistake.

I decided to bring her into the company anyway. Debby and I had worked together before, so we knew each other’s working styles. When I brought her in, I made it clear to everyone that she was the controller of the business, not necessarily the co-owner. We clearly identified what her role would be and we told them that when I wasn’t in the office, people should not go to her to ask questions about things such as what to do with a customer or what to do about a machine that’s not working. We were clear that she had a role to play and that was it. Debby and I also decided that if things were not working out in six months or a year—in other words, if we were not perceived as having a professional relationship in the office—then we would make a change.

I was very sensitive to the fact that the business had been family run before and that there had been a lot of abuse from the old owners. In the end, it worked out great. One of the most wonderful parts of owning my own business has been being able to have my wife participate in it with me. As a couple, we were able to realize one of the primary reasons for me owning a business, which was to have the flexibility and balance of having a family life and a business at the same time. For example, I didn’t have to fly off to visit customers if I didn’t want to. I could make those choices on my own. I could be available for my family.

Maintaining a good balance between work and family has always been very important to us. Five days after I bought the business, our first child was born. About a year after Debby joined us, our second child was born and he stayed at the business. I changed his diapers in my office and Debby breastfed him. Our son spent his first six months growing up at the office and it was great. I was able to have this business, be home at night, and, since I do all the cooking in our family, be home for dinner and breakfast. I was able to change away from the large corporate lifestyle of travel and being on the go to achieving the lifestyle I wanted. Having my wife working in the business made it even more special. We hardly ever talked about business at home and that discipline enhanced our relationship. Debby also knew that she wanted a part-time position. She’d had her career for five or six years after HBS. She had already had a taste of running a

small business. For her, Extrusion Technology was a good match for her goals. For me, I gained a colleague with great skills.

Most of the people in the business had been there with the previous owner and were somewhat skeptical initially about how things would work out with Debby being in the business. But Debby was very professional. She acted professionally, we were professional in the office, and we worked hard at maintaining the business as a business. We were audited by Deloitte, so we had a full audit. There were no cars on the company expense accounts. I didn't have an expense account. We clearly kept business and our personal life separate and that was well appreciated by the employees. They were open to giving her a chance and after six months they knew she was doing her job well. That was all they cared about, which was that she was a contributing member of the organization.

Setting Strategies

One thing I was missing from working with a bigger company, though, was being able to talk to others who would challenge me about where the company was headed. I missed having someone to report to about how the company had done for the last quarter and whether we had done well meeting the goals we set for ourselves. As a result, I tried to replicate those kinds of interactions by pulling together a board with an old business school friend, a very senior entrepreneur who was successfully running a family business, and an appraiser in the New England area. The board helped me bridge the gap from being totally on my own to having somebody to report to for a couple of years. After two or three years, the most experienced one among them came to me and said, "You know, we're talking about the same stuff. You've gotten most of the advice that I can give and you're doing fine. I don't think you need us anymore." So I let them go and didn't replace them. But I found other ways to learn from other people. I joined consortiums. I gave speeches and lectures. The advisory board was good for me for a while, but I didn't continue it through the life of the business.

Other than setting up a board in the beginning, I didn't talk much about my strategy. Frankly, I didn't have a well-thought-out strategy. My strategy was to pay off the loans, get the business running, and make it profitable. The strategy was not necessarily to find new niches or to grow the business. I wanted to clean up the business and do as good a job as possible at what we were already doing with the people that we had. Those were my near-term and fairly long-term goals since I knew it would help me pay off the debt. The sequence of events was to get the costs down, raise prices, get the inventories down, free up some cash, and let the rest happen. The revenue came. I didn't really focus much on revenue, which I think helped, but the revenue came anyway. I think that my focus on costs helped the banks be comfortable that I was focused on paying off the debt since that was what was important.

In terms of the union, I knew from experience that I could run a business either with or without a union. From the very beginning, as far as I was concerned, it was not all that important whether or not we had a union in two or three years. My goal was to move away from the union if we could, but to live with it if we couldn't. I was going to try to move away from the Teamsters

Union, but if I wasn't successful, I would have been comfortable running the business anyway. I never counted on the union going away. And I certainly wasn't going to take the original owner's advice and shut down the union on my first day.

I wasn't able to use incentives to persuade employees that a union wasn't necessary. We didn't do any profit sharing until we were making money and that wasn't until about six or seven years after I bought the business and the owner had been paid off. I hired a consultant to help us with the process of moving the union out. His first question was about my motivation. What did I want to do? He wouldn't help businesses get rid of unions if the result was to create a situation that was worse for the employees, so he was a good consultant. Then he helped with advice about how to work through the process.

In the first year, I planted a number of seeds with the employee groups arguing against the union. I explained how the process of decertifying from the union had to occur. My consultant told me what I could say and what I couldn't say. I told the employees that rather than paying attention to anything I said, they should watch what was actually happening in the business. When it came time for the contract to expire a year and a half after I bought the business, the Teamsters Union declined to negotiate and walked away from the business. By then, the employees had developed confidence that I would be watching out for their interests more than a union would. It was pretty clear that they were open to the idea of not having a union when some of them signed a petition saying they wanted to decide whether or not we should have the union.

The exit of the union was kind of a non-event. I could not have handled it so smoothly if I dismissed the union on the first day. If I had followed the previous owner's advice and gotten rid of the union on the first day in a lockout, I might have had a strike and nobody working. That was much too high a risk for me to take. Instead I worked behind the scenes and made sure I did everything legally and according to the book. All the way through the process, I knew that if I was not successful in moving the union out, I still would have the employee group and I could still work with them via the union because I had previous experience working with unions. Now I think that this company will probably never have a union. The experience employees remember is that the union bailed out on them and never supported them when it came time to have a contract negotiation. The union's exit was a win-win for everyone.

The lesson I learned from dealing with the union issue was that it is possible to change momentum as long as you follow the legal guidelines. I received advice from a number of people saying it would be impossible to move the union out. Now I help other companies by telling them my story, sharing with them what I have learned, and advising them that making the union go away is possible. It has given me great joy to know that four or five other companies have used the same consultant I used to successfully move away from their unions or, during an organizing campaign, to thwart a union's entry.

Enhancing Profitability

To me, cutting costs was a standard procedure. I signed all the invoices and checks that went out every week, which gave me a great opportunity to look at how much we were spending and what we were spending money on. I was gaining a good sense of where we were spending money and finding unnecessary costs such as paying for a copier maintenance program on a copy machine that never worked. I would hear, “Oh, we forgot we had that contract.” I could also ask, “Why are we paying outside contractors to come in and do work that we could be doing on our own?” Just by continuing to question these expenses week after week after week was a good way to find costs in the business that could be taken out. I also asked questions that encouraged employees to make and find savings on their own.

Getting costs down is only half the strategy for addressing the revenue-and-cost situation. Raising prices was the other half. I looked at our pricing models and tweaked or changed them to ensure that as our labor costs went up, we were passing the cost through to our customers. What I didn't spend a lot of time on was going for more sales volume. In many leveraged businesses, one way to pay the debt off quickly is by growing sales volume. The problem is that along with an increase in volume comes a huge amount of debt to support the receivables and the inventory. In fact, one of my competitors called me and said, “I have a business just like yours and if I can get my second shift running, I can blow this business out of the water.” I knew from years of hard-won experience that getting new sales volume in any business is really hard. It can take a long time, longer than the banks might be able to wait. I focused instead on raising prices and reducing costs as the way to get the profitability improved. Indeed, that competitor went out of business a year later; even though he had lots of new business he wasn't profitable.

Another way I had to think about the revenue problem was to figure out how to handle my customers and vendors. On the one hand, if I went out to my customers and said, “I'm the new owner. What can I do for you?” I may not have been able to make it happen. I didn't know what all the problems were. Also, some of the customers were fairly large and they might say, “We have all our business with your company and we don't know who you are. Maybe we need to look for another vendor.” I didn't visit customers much in the first year. I continued to work behind the scenes and let our sales organization work with our customers. I would say that 80 percent of my customers were unaware that there was somebody new at the helm of the company.

For our vendors, I took the same approach. I didn't make a big issue of the change in company ownership because, rightfully so, they might have worried about being paid. A year after I took over, one of our vendors discovered that there was new ownership and made us give him a balance sheet and income statement. He said, “This is terrible. You're leveraged twenty to one. We can't extend you credit.” But he changed his mind when we pointed out that for the last twelve months we had paid him in ten days, taking a 2 percent discount for early payment, rather than paying him in sixty to ninety days, which was typical among his customer base. He said, “You're right. I guess you have been a good credit risk. We'll let you continue.” If he had found out about the change in ownership on the first day, I would have run into problems. The same

could have happened with the customers. If I had gone to them to say that the company was under new ownership and we want to collect on our invoices sooner, they might have panicked and thought, “You’re in trouble. You’re taking our money and paying off your debt.” So when I came on board, I didn’t rock the boat. I did not spend time with either the customers or the vendors trying to change things.

What I looked at in relation to revenue was our inventory. I found that we had a tremendous amount of raw material in the form of billets. Early on, I asked the previous owner about his strategy for buying billet. He said, “I buy the aluminum once a quarter and I put in for as much as we need. We never run out. I just buy it and I leave it downstairs.” When I came in, I noticed we had three to four months-worth of inventory on the floor. I knew how to deal with that, which was to cut back how much we were buying. Indeed, six months after I owned the business, we ran out of billet for the first time in the thirty years since the company had been founded. We’re an aluminum extrusion company, and without billet we can’t make product. My employees just made hay of the mistake. They said, “This guy comes in and he doesn’t know what he’s doing.” We successfully got through the problem though. We found a supply of billet. Still, the episode was a good lesson for me about how far you can cut and where you can cut. We recovered and that is what was important.

Improving Operations

It was about a year after I took the helm that I began going out to visit customers. One of the first things I heard from them was that our quality was bad. I spent the next two years focused on improving our quality. I talked with employees about what we could do to improve quality and we developed to do this, became ISO certified, and went through a fairly rigorous process of changing how we viewed quality.

When that was completed, we began to look at streamlining our operations and looking at what is now called lean manufacturing. Basically, we just changed the way we did things. In fact, the biggest strategic change we made that I hadn’t really planned for was to reduce our lead time from eight weeks to two to three weeks. That improvement required lean manufacturing. A number of techniques we put in place over a five-year period were remarkably successful and changed the paradigm in the industry, providing a high-quality product in three weeks instead of eight. The results were dramatic. We had a tremendous increase in sales and customers who wanted the ability to receive our product in such a short period of time.

Another big success we gained from the quality initiative was developing the capability and capacity within the company to accept change. Our quality system was based on a premise that everyone agreed to, which was continuous quality improvement. Everybody in the business had a new way of thinking, which was, “We are used to changing. Nothing is the same. We’re always improving. We’re continuously looking at our operations.” When we finished the quality initiative and moved on to fairly dramatic changes that would be necessary to run our business on a day-to-day basis, the organization was ready for it. Some of the changes involved how we scheduled machinery and how we bought from vendors.

Around here we change all the time and it's normal. In most organizations, change is really traumatic. We just made constant change the way we do things and it has really helped everybody understand that there are always improvements to be made. We also made it clear that if you tried something new and it failed, that was okay too. If you make mistakes, it's OK. No one gets fired for making mistakes and we can move forward.

Finding the Best Customers

Seven or eight years after I bought the business, during the mid-1990s as we initiated lean manufacturing, we discovered that we had a fairly unique product offering for a very specialized group of customers. The new customers were much bigger than we had dealt with in the past and they had much higher demands, requiring much more value-added service. I have to say that the biggest challenge in changing the strategy in an existing business is dealing with the customers you grew up with. Eventually, our relationships with many of the original customers were no longer profitable and took a lot of our time but didn't fit into the new mix of customers we were focused on. We worked very hard with each of our older customers to help them see where our business was going. We gave them lots of notice, we found other vendors to work with them, and we slowly fired them, one at a time.

It was traumatic for our organization. It was very difficult when customers would call back and say, "The new vendor you found for us is not performing. Can you give us one more shipment?" Of course, we would help them out and work with their new vendor to give them a shipment, but it was a real hard process. By that time I had become very involved with almost all of our customers. I knew who they were from problems and successes we had with them and from delivering things to them when they really needed it. To go to them and say, "We're no longer going to support your business," was difficult but needed to be done. Most businesses, especially in our size range and in our markets, don't make this transition very well.

What I did was look at the variety of products we were selling to our customers and figure out if there were any commonalities in the products. I believed that we could be successful if we took two or three areas of products that we were providing to a particular customer base and offer the products to more customers in that category. So I found some niches in the markets where we could offer our services. I also looked for customers who would want us to do more and more for them. Mostly I listened to what they said to figure out what they wanted us to do for them. Many said, "We need you to do what you're doing but we also need you to do more value-added work on the product. We don't want to bring the product in and then send it someplace else to finish it. We want you to do all the work so that when we get it, it's done and we can put our circuit board on it or whatever."

Accommodating their requirements was a real challenge. When I went to the manufacturing manager and said, "We're going to have to assemble some springs and screws onto this part," he would say, "We can't do that. Our fingers are too big. We can't put stuff together like this." Today we can do that kind of thing for 90 percent of our customers, but the transition from

thinking of ourselves as a basic manufacturer to thinking of ourselves as an assembler providing added value was challenging.

Our new customers pulled us along. I found niches, listened to what our customers needed, and refocused the business to suit them. I also found that we were able to maintain better margins in those niches where our product was a very small percentage of the total value of the customer's end product. So when our customers sell a circuit board and there's an extruded aluminum panel attached to it, we're less than 1 percent of the product value. When people are looking for cost reductions in their company, they're not going to look at us. We are able to maintain higher profitability in those customer bases and so we have worked hard on finding that group. The bad news is that those customers were the telecommunications customers and that market took a dive two years ago.

Overall, though, we've been lucky because in the niches we are focused on there aren't very many competitors. We moved away from a fairly competitive commodity market where we were selling just manufacturing services for aluminum extrusions; we moved from that to a highly focused, value-added kind of system. At the same time, many of our customers wanted to reduce their vendor base by having their vendors do more for them. So all of our changes happened when our customers wanted us to do more because they were cutting back their vendor base and were expecting us to manage what they had managed in the past. In the past, when they might have painted a part that we shipped to them, we were now giving it to them fully painted. We moved up in the food chain, so to speak, to support our customer base.

The risks inherent in our new strategy were that we were focused on a single market. Our new customers were big companies and if one or two of their programs went south, we would have had a problem. Also, we were always dealing with the risk of competition. I now live every day looking over my shoulder, wondering if our competitors have brought in somebody who can do a job better than we can. The threat of competition fuels a lot of our decisions about making improvements and changes to stay ahead. In fact, our primary competitors are not other aluminum extrusion companies but companies who make plastic parts or sheet metal parts. Still, we're in a nice position relative to the approximately 150 other big extruders in the United States.

Exiting the Business

When I bought Extrusion Technology, the sales were about \$3.5 million. By the mid-1990s, we had grown to six or seven million dollars. Now remember, the strategy all along was never to grow the business but to be profitable. By the mid-1990s, we were profitable. On our \$6 million in sales, we were probably turning a profit of between \$500,000 and \$1 million a year. As our lead times reduced and we began to focus on these niches, our sales grew in a five or six year period from \$6 million to \$8 million to \$12 million to \$24 million to \$36 million.

We were totally unprepared for that level of growth. I hadn't planned on it when I had the vision of finding a business that could fit with my lifestyle. I was spending more time with the business

than I expected. The business was reacting well to growth. We were serving customers well. In the year 2000, we had \$37 million in sales and our EBITDA was \$12 million. Our profit was three times more than sales were when we bought the business. From a profitability-and-sales standpoint, you could say we were wildly successful. In my mind, however, I was caught in a business that was growing and I was not spending as much time with my family. Debby and I were stressed. It was not what I had signed up to do. The business was running fairly well but the things that needed to be done to continue the business on a growth path were not necessarily things I wanted to do or was good at.

So I sat back and looked at my lifestyle. Debby and I asked ourselves, “Is this where we want to be?” and we concluded that it wasn’t. We talked about how difficult it would be to leave the business and move on. We didn’t spend a lot of time thinking about what we would do next but we decided we just weren’t the right people to be running the business as it grew. We were concerned about the employees who had grown up through the business. But I was the one saying, “I’m not going to get on a plane and go to California to find new customers,” because I wanted to be home with my kids. In July of 2000, we announced to the employees that we had put the business up for sale. Debby and I cried as we talked to all of our employees. There were no questions at the meeting, but the next day people showed their support for what we were doing. They knew that we had worked hard. They said, “You deserve it; you’ve been working really hard. We’re happy that you’ll be successful. We’re a little worried about what’s going to happen to us but we’re happy that you’ve made this decision. We’ll miss you.”

We kept the employees informed during the process of bringing in buyers, selecting the final buyer, and, finally, negotiating. The employees were involved throughout the process. The process took a long time. As it turned out, the telecommunications market went south and our prospective buyers could not come up with the financing. We had to take the business off the market. After sales of \$37 million in the year 2000, our sales dropped to \$15 million in 2001 and \$10 million in 2002. We’ve kind of hit the bottom. During all this, we have not made any significant investments in equipment. We had become a virtual company, so we outsource a lot of activities for our customers. We were able to remain profitable, but we had to do some layoffs. We had grown to maybe 100 people and now we’re at seventy. We’ve been able to use our vendor base and develop the capacity planning we put in place so that we managed the cutbacks effectively.

Personally, I still have to decide where I want to go. I was ready to walk out the door and now I can’t. The person to whom we chose to sell the business has agreed to buy based on a seven-year plan. Any time over the next seven years, we can initiate a transaction with the buyer and, in the meantime, I am able to bring in someone from the outside to put a sales force in place and put some control systems in place—things the final buyer would have done anyway. We put an MRP system in place to keep track of our costs, because even though Debby and I knew what our profitability was every month, it’s really tough for an outside investor to have a good sense of what the numbers are if they can’t see them on paper. I can build up our staff, bring in some people from the outside to handle our customers and handle new business, and sign up

manufacturers' representatives to put feet on the street in California. I can bring in a sales manager to go out to California and I can still be at home to make dinner at 6:00 at night.

So, that's the path that we're on: rebuilding the business to grow. We're putting resources in place to make sure that in a couple of years we can eventually sell the business to the buyer who was there two years ago. Everybody in the business is aware of our strategy; we talk about it all the time. The new president is on board. He is focused on the strategy and so are the employees. Some of our customers are aware of the strategy and are supportive of it. When the telecommunications business went south, many vendors in our situation were overextended with inventory and receivables, so they went bankrupt. Many of our customers became nervous and asked whether or not they could count on us. We would tell them about our plan and it gave them great confidence that we'll be able to serve them...and we will. The customers are supportive because they're comfortable knowing that there's a financial backer behind the company, that we have a plan to continue to grow, and that we're stable. The situation is win-win for everyone.

The company is growing successfully now. We've spent the last year and a half redirecting our marketing efforts to focus on not just telecommunications but also medical, global positioning, a variety of instrumentation cases, and other electronics. Diversifying our focus is healthy for the business. It's the direction the business should go and it's the direction any new owner would have taken the company. We've also signed up new reps. Our selling cycle is relatively long but we remain profitable. We've come through the bottom of the recession and we're headed on up.

Letting Go

The biggest disappointment in selling the company is leaving all the employees and not being able to assure them that things will be OK for them. It has been pretty hard. I think about what I have done in the business that was important to me and I have to think about which things should continue and which things the new owner might change. I've had to help the employees understand that things might be different. In that regard, it has been great to be here during some of the transition. Had we sold the business when we had planned to, it's very possible that the business would have been shut down when the recession hit. We would have had so much debt and might have been so overextended that the financial partners would not have let the business continue. My being here in the difficult financial times that we've had is probably the best thing that could have happened.

Going forward, it's difficult for me to let go of things. The new president has come in and said, "I don't like our logo or the colors of the company, so we're going to change all that." I've said, "OK. That makes sense to me." He said, "We have to have a sales force here and we have to be out on the West Coast." I've said, "You're right. Go do it." I've had to give up some of the ego I have invested in the business. Giving up on some of the things that were tenets of running the business is something I face every day. I have to face that things are changing. I have to face that the changes are healthy for the business, the right things to do, and I have to face the fact that I won't be a part of it. Giving up control is always hard.

On the other hand, I don't want to run the company from my grave or when I'm not here. The best legacy for me will be that, when the new owner buys the business, the employees will continue to grow and learn new things and be part of something successful. That's the legacy I want. My being out of the picture is probably the best thing that can happen for the company, including the employees, our customers, and the new managers who are coming into the business.

I didn't put very much money into the business. Now I'm worth a lot. Even so, I don't have any money that I can do anything with. Most of the money gets reinvested back into the business. We didn't necessarily decide to own a business to become personally wealthy. We haven't done much with our money because getting wealthy wasn't what we wanted to do. We haven't changed our lifestyle. Our kids still go to public school. I still make the meals. We haven't changed our lifestyle dramatically. I bought a business, not necessarily to make a lot of money, and certainly not to grow the business, but to have a lifestyle that was conducive to balance in my life. We decided to sell the business because we were out of balance. Now we're getting more into balance and we'll be more in balance when we're no longer involved in the business.

Summary Reflections

My life has been a series of significant changes: working in a small software company after college and making a major change by going after my MBA; working for a big company was another big change; leaving the confines of the big company and working for a British company was a big change; starting Extrusion Technology was a big change. Whatever comes next for me, I predict it will be a big change. I'll want to use what I've learned, but maybe apply it in different areas. I don't spend a lot of time thinking about my next step. Just like when I announced to the British company that I was going to be buying a business, I feel very responsible to spend my time doing what I need to do every day with Extrusion Technology and not speculate about what else I could be doing. I have a job to do.

Our oldest child is now fifteen years old, so it has been fifteen years since I bought the company. He's in high school. His younger brother, who is thirteen, just had his Bar Mitzvah, so he's enjoying life as a teenager. We adopted a child when she was five; she's twelve now, and she is a real challenge for us. We've not only had challenges in the business but also at home. Luckily, the business has allowed Debby and me the ability to do things we might not have been able to do in other careers. We've been able to travel with the kids and support their sports activities and support them at home. The kids have no interest in coming into the business, so we haven't considered them when we considered our exit from the company.

Looking back, the biggest risk I could have taken was setting out to own a business without understanding who I was and not having a good sense of what skills I had: what I was good at and what I wasn't good at. I might have become too focused on doing something that I might not succeed at or going into an area where I would fail. For me, owning a business was not a big risk. I worked hard at understanding what I wanted, what I was good at, what I wasn't so good at. I decided I was not good at traveling around and developing a business that would grow. I

understood that and I have done well. I understood that I was comfortable with a manufacturing operation and I stuck with it. Going through life and learning as much as I can about who I am was probably the best process I went through. My best advice for anyone who wants to own a business is to know who you are. Spend time thinking about what you're good at and what you're not good at, because if you don't, it's easy to make mistakes.

To me, success is achieving balance in my life. Success is not related to the business that I run or the number of kids I have or the size of my house or the car that I drive. To determine success, I ask myself, "Have I been able to strike a good balance between taking care of myself, taking care of my family, and taking care of the business?" Sometimes I lose the balance, but maintaining it has been a real focus for me. If I look back in five years and find that I was able to get back balance, then I'll have been successful. My proudest accomplishment is that all the people in the company are doing jobs they like and are happy doing their jobs. Some of them may have moved up through three or four different jobs, which has positively impacted their lives. That makes me feel great.

But I don't think I'm an entrepreneur. I don't view myself in the same category as people who start businesses on their own based on an idea or who really slug it out starting with no resources. To me, I'm a business builder. If I have to give advice to someone who wants to follow a path like mine, I would say that in addition to knowing who you are, make sure you've had some practice. I needed to make mistakes. I needed to figure out what worked and what didn't work. It took time for me to do that. I made decisions to enhance my learning rather than going off too soon to do exactly what I wanted to do. The ten years I spent before purchasing the business were very valuable to me in developing my confidence and understanding how things work. I went through at least one recession and layoffs. Those skills were invaluable to have when it really counted, when there was money on the line, when it was my family and my house that were on the line, and when I had to achieve the balance that was so important to me. I think it is hard for people to be patient and take the time to learn the requisites of the job before they go ahead, but I think it's a key ingredient to success.