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A New Search Fund CEO's Checklist for Quickly Understanding and Leading a Business

A baker's dozen of questions that will help a CEO thrive

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When a new CEO takes command of a business, they are often overwhelmed with information, tasks, and ideas about the current state of the business and where the company should go. This is especially true for the young, first-time, and inexperienced CEOs often found in the search fund community. We know exactly how this feels because we, too, were once new CEOs grappling with how to understand and lead our companies.

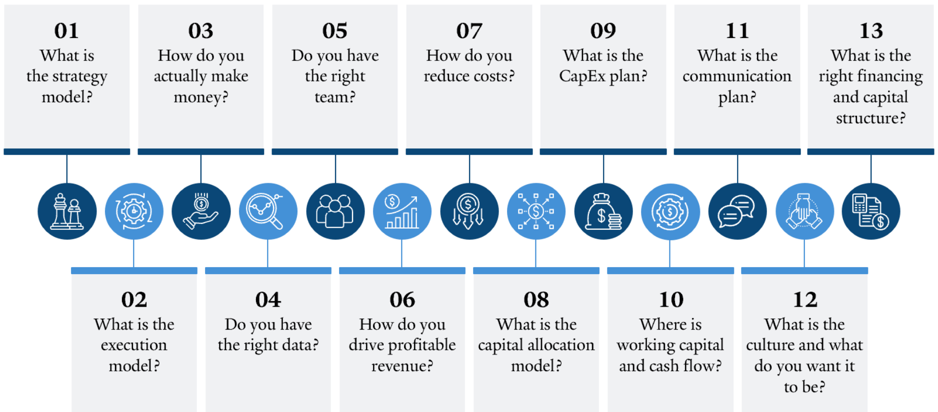
In this case note, we offer a baker's dozen of questions that we have found to be the most helpful when building a business as a fledgling leader (of course, we do not claim that these questions are the only salient ones a CEO must address). There is no need for triskaidekaphobia here; these thirteen inquiries are a CEO's friend and will help them understand and get control of their business quickly and ultimately thrive. We believe it is impossible for a CEO to successfully lead a business without a distinct and intentional point of view on these thirteen questions. These concepts are not new or innovative and are not our own ideas. All MBA students are exposed to these notions in their academic work. We have merely compiled them here for easy reference.

This list is intentionally brief and concise for quick understanding and application. We touch upon the key concepts in the question but do not delve deep since all of these concepts are covered in any MBA curriculum. This is not a hundred-day plan, although that is undoubtedly a useful notion. Rather, we encourage the new CEO to use these ideas to get a firm initial sense of what their new business is about and how best to propel it forward. Because the questions are context-dependent and the answers will reflect a CEO's unique leadership style, philosophies, and goals, we do not provide our own answers. Furthermore, there can be multiple right answers. This is simply a prompt of questions we believe CEOs must have crisp answers to as they embark on their CEO journey.

Our intended audience for this note includes CEOs of small and medium businesses (SMBs) and our students who aspire to be those CEOs. We think of these enterprises as having earnings in the $1 million to $5 million range. These companies typically employ handfuls to dozens of people. They are resource-constrained, often suffering from risky single points of failure, and embryonic in many ways. They usually lack the systems, processes, and infrastructure of the large corporations that grace the Fortune 1000 list. Despite the underdeveloped nature of these organizations, the CEOs we write for are intent on growing, professionalizing, and institutionalizing them. These emerging companies are in the earliest stages of their development and evolution, and to drive them forward, their leaders and future leaders must have answers to the thirteen questions we propose.

Although we frame this case note in the context of a new CEO, we think the questions we offer here are also helpful for veteran CEOs. The thirteen questions (see **Figure 1**) every CEO needs to be able to answer are as follows:

Figure 1: The thirteen questions every CEO needs to be able to answer



01 What is the strategy model? Explore where the company wants to go and how it plays its game.

02 What is the execution model? Specify how the company will achieve its defined strategy.

03 How do you actually make money? Explore the key drivers that impact the company's profitability and value creation.

04 Do you have the right data? Identify the most important information you need to guide and manage the business. This information is ideally prospective in nature.

05 Do you have the right team? Evaluate the skills and cultural fit of the people in place and identify gaps in the team.

06 How do you drive profitable revenue? Examine how the company will grow profitably and the returns and risks on various growth arcs.

07 How do you reduce costs? Focus on any superfluous costs that can be compressed to augment profitability.

08 What is the capital allocation model? Delve into how the company gathers economic resources and what you do with those financial resources.

09 What is the CapEx plan? Detail how you are contemplating maintenance and growth capital expenditures and anticipated returns on those investments.

10 Where is working capital and cash flow? Calculate the working capital needs of the business and how those impact free cash flow.

11 What is the communication plan? Outline how you communicate to various constituents and define the content, channel, and cadence.

12 What is the culture and what do you want it to be? Explore what the current culture is, how you want the culture to change, and what action steps are necessary to achieve that.

13 What is the right financing and capital structure? Articulate how you think about equity and debt resources to support your intended strategy.

In this case note, we will introduce and explain these thirteen questions and provide mini-case studies of how entrepreneurs used each concept in practice.

01 What is the strategy model?

Strategy is an integrated set of choices that positions a business for superior financial returns over the long run.[3] Hopefully, these choices will result in a durable competitive advantage for the company. This is one of the CEO's foremost responsibilities and entails architecting how and where the firm should compete.

We often use trains as an analogy to convey the meaning of strategy to our students. Simply put, strategy is a question about where the trains are trying to go. If a CEO does not have a very sharp idea of where the trains are going, the business is likely adrift and playing in reaction mode. In contrast, when the strategy model is clearly defined, the business knows exactly what it is trying to accomplish – the CEO knows where the trains are going. How the trains will get to the desired destination is another question, but to address the how, a competent CEO must first address the where.

The strategy model does not need to be a turgid document with overly polished slides and florid language. Rather, a succinct articulation of a strategy might be a few pages with some relevant metrics and data points and a competitive analysis. A vibrant strategy model will tackle how a company is playing the game, what customer segments they are addressing (and what segments they will not address), what products and services are part of the offering (and which are not), and how the company is unique relevant to its competitors. Typically, strategy bubbles up from some type of industry analysis (perhaps using Harvard Business School Professor Michael Porter's Five Forces framework), competitor analysis, and reflecting on a firm's strengths, weaknesses, opportunities, and threats.

A coherent strategy model will articulate what the company is trying to be. A successful strategy prevents scope creep and does not attempt to define its approach too broadly and in an all-encompassing fashion. Excellent companies in the SMB space are as clear about what they are not as they are about what they are trying to be.

Our students often think of strategy as a daily CEO activity. It is not. *Implementing* strategy might be a daily event, but conceptualizing strategy is not. Once a strategy model is established, it need not be revisited for several years – if it is working. If a CEO is playing with strategy models too frequently, it means one thing to us: they do not have a strategy that is working.

Additional resource: Casadesus-Masanell, Ramon. "Introduction to Strategy." Harvard Business Publishing, September 2014, Case 8097.

Courtney Ellenbogen (Harvard Business School 2019) was an investment banker and a private equity investor before setting her sights on entrepreneurial success. During her time at Harvard Business School, she decided to raise a partnered search fund focusing on the healthcare industry. After just a few months of searching, Ellenbogen and her partner acquired their first medical aesthetic clinic in Miami. They now own and operate 11 clinics in 4 states through Aesthetic Partners.

> Faraz and I worked hard to get really clear about what we were trying to build before we set about building it. After we settled on medical aesthetics – a large, fragmented, and growing market with strong business fundamentals – we rigorously analyzed what type of company to build in that broader industry.
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> It seemed to us that the geographic strategy was the most important thing to get right. We wanted to enter markets that were big enough that we could grow to critical mass yet not so highly sought after that the competition for acquisition targets was excessive. We also wanted to be in regions enjoying high population and household income growth rates. Finally, it was also important to us that we be in states that are business-friendly, particularly given how heavily regulated our industry is.
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> This strategic focus led us to Florida and North Carolina, where we feel that we are operating in a red-hot industry in white-hot markets. Of course, we still have to execute, but we think we have laid a great strategic foundation and are already enjoying the benefits of a rising tide lifting all boats.

02 What is the execution model?

As important as we believe strategy is, it can be a hollow concept without being paired with a rigorous execution model. Strategy and execution must coexist for a business to thrive. To expand the train analogy used earlier, we think of the execution model as how the trains will get where they are going on time. Strategy defines the destination, but equally (if not more) important is how the strategy will be operationalized.

When thinking about the execution model, CEOs need to have a point of view on whether a firm will perform certain operational functions proprietarily or outsource. They will need to define whether a business relies on people or technological-centric processes. Additionally, they will need to articulate whether execution will embrace a one-size-fits-all approach or accommodate bespoke customer needs. We will not opine on the right course because many methodologies can work, and the best choice depends on a firm's strategy. In our view, the methodology itself matters less than consistent fidelity to the accountability principles inherent in any good execution philosophy.

The execution model is how companies go about delivering on the promises they make to various constituents, the two most important being customers and team members (employees). A vibrant execution model provides for the fulfillment of customer promises on an error-free basis – the trains get to where they are supposed to go on time and safely. An inferior execution model requires rework and intervention, and the trains do not arrive on time. When an execution model is humming, operations unfold gracefully and seamlessly, and what could be chaotic has order and flow. When an execution model is faltering, things feel clunky and ungraceful, and frustration permeates the environment.

We sometimes feel that execution is the forgotten cousin of strategy. Strategy smacks of ponderous boardroom sessions and lofty intellectual engagement. In contrast, execution can be viewed as pedestrian and requiring less brain power. We love thinking about execution, but unfortunately, execution is rarely rewarded and frequently punished. Nobody applauds when it is working well, but when it falters, everybody screams. Think of flicking a light switch: nobody is surprised or delighted when the light pops on, but when there is a power interruption, however infrequent, people quickly become annoyed and vent.

We think of execution as the backbone of a firm. Strategy, in our opinion, is an episodic encounter when it is on track (a CEO should rarely need to change where the trains are going), but execution in a small business requires time, effort, and commitment on a daily basis to ensure the trains will arrive at the desired destination on time.

Additional resource: Harreld, J. Bruce. "Executing Strategy." Harvard Business Publishing, September 2014, Case 8136.

Michael Roberts (London Business School 2019) began his career as an auditor with Deloitte before moving into multiple private equity investing roles. After business school, he raised a traditional search fund. Following a brief, 8-month search, Roberts completed the acquisition of 2020 Innovation, a training and support company that serves accounting firms throughout the U.K. with a membership-based business model.

> Our investment thesis initially focused on growing the number of members subscribing to our bread-and-butter service. We planned to simply do more marketing to drive growth – more of the same to more customers. However, we learned as we got deeper into diligence that adding new services would create an even more differentiated business.
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> With that awareness, as soon as I felt I had my feet under me and a solid grasp of the base business, we set about adding new services. The first new offering we launched went well enough, but it was clear that the approach we had taken was not sustainable. We needed to tighten up our execution considerably.
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> The key learning was that any change in a small business impacts every function in the company – and this dynamic is exacerbated as the company scales and becomes more complex. For example, our marketing team was used to operating in an environment where they marketed one service to one customer profile. But, as we added new services, their work became more complicated – to which customer are we marketing which service? All functions experienced their own version of this elevated complexity.
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> We decided it was essential to templatize everything. We reviewed all of our processes and rigorously documented how they work, such that when we introduced new services, we could easily reference back to each standard operating procedure and adjust, as necessary. These documents also ascribed personal responsibility for the specific action items. I made it my job to hold everyone accountable and to chase them when necessary. This isn't glamorous work as a CEO, but it is crucial.

03 How do you actually make money?

It might seem obvious that all CEOs completely understand how their company makes money and creates value, but we do not believe that is accurate. We often see businesses devote time and energy to unprofitable products, services, geographies, and customer segments that do not create economic value for the firm. A CEO intent on building a profitable emerging business must clearly understand the drivers within their firm for creating shareholder value.

For example, consider a movie theater operation. An informed CEO will be able to clearly communicate whether the business is making money from ticket sales, advertising, or food and beverage sales, which has higher contribution margins, and where breakeven dollars and units lie. Furthermore, our cinematic CEO should know which shows are most profitable by day of the week and time of the day. By being aware of these facts, a CEO can devote time, energy, and corporate resources to the specific activities that most contribute to making money and creating value. Additionally, armed with this understanding, they can drop or minimize those products, services, and activities that are not profitable and do not create value.

By truly understanding how a firm makes money, a CEO can avoid the trap of being focused on revenue dollars and embrace the more rational approach of concentrating on profit dollars. Moreover, equipped with this information, they can have a better sense of which customer segments are accretive to profits and which customer groups sap profits.

Understanding how a business actually makes money can be more complex than it seems. There are many industries where the explicit service offering is not what drives economic value. For example, assisted living facilities might initially appear to be managing services for elderly residents, but upon further examination, it becomes apparent that assisted living operators make money on real estate transactions and should do everything possible to support and enhance the real estate values and associated fees in their projects.

Part of understanding how a company makes money is breaking down a customer transaction into the simplest and most basic monetary terms – when a customer transacts on a single item, what are the revenue, cost, and contribution dynamics. This is often referred to as unit economics. For our movie theater operator, what is the attendant math for selling a single ticket? How does revenue work, and what are controllable, variable, and fixed costs? The answers to these granular questions will illuminate where money is made.

Additional resource: Eisenmann, R. Thomas. "Business Model Analysis for Entrepreneurs." Harvard Business Publishing, October 2014, Case 812096.

Lori Harrington (Harvard Business School 2020) is professionally trained as a chemical engineer. She spent several years in various engineering capacities with Chevron before going to business school to explore different career opportunities. While in business school, Harrington raised a search fund, which led to the early 2022 acquisition of Anterra Technology, a software company serving the construction industry.

> While Anterra is a software business with out-of-the-box advanced reporting, we also offer our customers customized reporting. This highly tailored service provides clients with unique insights and increases customers' willingness to pay on top of their base subscriptions. It became clear early in my tenure that through these services, which are billed hourly, we were delivering a tremendous amount of value to our customers and not always capturing as much margin as we really should have been. I discovered an incongruence

between the value of the deliverable we were offering and the relatively low price point we were charging for it. In short, we were giving away margin.

Recognizing that reality, I was faced with the question of how to extract more margin that is commensurate with the value of our service. The obvious solution would be to simply increase the hourly rate we bill for creating these reports. However, that approach would have been shortsighted for two reasons. First, after delivery of a report to a customer, the reports live on our software platform and, therefore, still need to be maintained. While we could charge hourly to maintain them, that is a lot of overhead to track, and we don't want our customers to feel that we are nickeling-and-diming them. Second, by shifting the narrative to a custom feature that is an annual subscription cost on top of their base package, we are able to do value-based pricing instead of cost plus.

With that insight, we undertook a fairly ambitious overhaul of our custom feature pricing, moving to a subscription model to ensure costs are proportionate to efforts. Our customers seem more than happy with it, and we are thrilled with an economic model that better aligns with the recurring revenue and related cash flows we are after.

04 Do you have the right data?

CEOs, especially new ones, are often inundated with information and data. Companies usually generate reams of reports and numbers. What is tricky for a CEO is getting the correct data on a timely basis to lead and manage their business. At times, they get too much of the wrong data and not enough of the right data. Furthermore, the right data at the wrong time is not that helpful.

We believe data is crucial when trying to lead a business. We do not recommend relying on intuition or gut alone. Data tells the truth and allows CEOs to make unemotional and dispassionate decisions based on facts. We all suffer from biases and preconceived notions, and it is only with the right data at the right time that we can make decisions that tilt the probabilities toward desirable outcomes.

When discussing data, we separate information into two buckets. Some data tells a CEO what happened in the past. We consider this to be rearview mirror information – it is already behind us. Other data hints at what is likely to occur in the future. This is windshield data – it is in front of us.

CEOs live in a GAAP* world. GAAP is the common language businesspeople speak. We are fans of GAAP financial statements because they are a tidy way to look at a business's historical performance. But this is rearview mirror information and a trailing indicator. What we love even more than GAAP financials is live, real-time, operating data that hints at what the next period's GAAP financials will be. This is equivalent to looking out the windshield. For example, sales backlog portends next quarter's GAAP revenue. This week's employee overtime predicts next week's cash requirements and the month's GAAP payroll expense.

We advocate for CEOs building a balanced scorecard that contains the appropriate rearview mirror and windshield data. More data is not always better. More can be distracting or irrelevant. The correct data at the right time is the goal and can be a potent tool for the CEO. We suggest CEOs discover the right dozen or so pieces of information they need on their balanced scorecard and diligently work to get that information on a timely and accurate basis. Hint: the right data gives the CEO visibility on the items that matter to

* Generally accepted accounting principles

making money for the firm, as we discussed above. All things being equal, CEOs should focus on windshield data so they can devote time and energy to activities that can positively impact future results.

Additional resource: Simons, Robert. "Building a Balanced Scorecard." Harvard Business Publishing, March 2018, Case 117109.

Austin Settle (Stanford Graduate School of Business 2020) began her career on Wall Street. She then attended business school with the intention of pursuing entrepreneurship through acquisition. While at Stanford, Settle developed a detailed thesis regarding the consolidation opportunity in medical aesthetic clinics. Settle conducted a self-funded search and acquired San Diego-based La Jolla Cosmetic in early 2022. Shortly thereafter, she added Seattle-based RejuvenationMD and now serves as CEO of the parent company.

> A key question I wrestled with when I acquired my first clinic was how to calculate the true gross margin for each of our treatments. This sounds like a straightforward exercise until you take into account that each of our approximately 100 treatments has its own combination of product cost and labor cost. And then, there are promotions and bundle pricing packages to contend with on the revenue side. This complexity was exacerbated by a team that did not necessarily understand the myriad variables going into the system.
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> I approached the problem in two phases. There were all the questions surrounding the right data – how to source it, where to store it, and how to present it. Then there was the harder part – the change management. The former was reasonably easy. I had a good handle on the key inputs, how they should be analyzed, and what a good dashboard should look like. The change management was the much harder part. Consistently producing flash reports with meaningful and timely data proved to be challenging. Moreover, establishing the norm that we would have difficult conversations about underperforming results was not entirely embraced at first. Now, though, this has become the core of what we do as a management team. We scrutinize data and actively debate shortcomings. The results are speaking for themselves – each of the last three months were records.

05 Do you have the right team?

New CEOs who acquire a business to operate can potentially hamstring themselves in two ways. First, they may try to do everything themselves. Entrepreneurs and CEOs are often depicted as independent and swashbuckling heroes – solo players with superpowers that make them different from and better than others. In reality, CEOs are just like everybody else; more importantly, they are part of a team that helps navigate a business forward. Any CEO who falsely believes they are a superhero and are bearing the company's weight on their shoulders is doomed to fail or have a miserable journey. Building a business is a team sport. No individual can have the skills, time capacity, and stamina to do everything necessary to propel a company to greatness.

Second, they may not have the right people on the team when acquiring the business – and they may be uncomfortable with fixing that problem. CEOs often get dealt a team with the purchase of a business – they do not have the luxury of selecting each individual player. While this is not necessarily bad – there are often fantastic people at an acquired company – it does not mean everybody on the team is a match for the new CEO's vision and strategy. We encourage neophyte CEOs to do nothing initially when buying a company and embark on a listening and learning tour. This will allow the greenhorn CEO to meet and evaluate the team on two dimensions: skills and cultural fit. The CEO should then digest and synthesize the information gained from listening and learning and then act. This might mean promoting some legacy team members, swapping job functions amongst people, coaching some employees on newly established expectations, and dropping others who clearly lack skills and cultural fit.

Building an excellent business is a difficult task under the best circumstances. But, if a CEO is trying to professionalize a budding business with the wrong people in the wrong positions, the task becomes infinitely more challenging. When a CEO has the right team, everybody is moving in a unified direction, and there is foundational trust and harmony amongst the group. The team has a collaborative and cooperative tone. People buy into the mission and strategy. When the wrong people are on the team, everything is more challenging and painful. There is no unanimity on mission and strategy, and communication becomes more critical and frequent and has undertones of confrontation.

The sooner a CEO assembles the right team, the better. We know terminating someone is awful, and we hate doing it. But if a person cannot grow with the company or is preventing others at the firm from flourishing, it is not possible to have them remain. Having the right team in place is a prerequisite for a CEO to accelerate their company.

Additional resource: Hill, Linda A., and Maria T. Farkas. "Note on Building and Leading Your Senior Team." Harvard Business Publishing, June 2002, Case 402037.

Ryan Turk (Tuck School of Business at Dartmouth College 2020) began his career in the U.S. Navy, serving as a submarine officer for seven years. Turk then went to business school with the express intention of acquiring a business that he would lead as CEO. He acquired Radiation Detection Company through a search fund in late 2020, just six months after completing his MBA.

> I inherited a management team with an average company tenure of 10 years. There were two children of the seller and a father-son duo. Suffice to say that it was not A players across the board.
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> When thinking about how to construct my team, I ask myself two questions, in this order. First, does this person meaningfully add to the culture? Second, is this person good at their job? If the answer to the first question is no, then the person must leave. That is clear. I decided to fire our VP of sales, the seller's son, when I was in my second month as CEO. Although it was a difficult and terrifying decision to implement, the organization's response was incredible. It became clear to my team that I am serious about making personnel decisions – even big and costly ones – on the basis of our values and in service of our culture. This has unleashed immense fidelity to what we stand for as an organization.
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> Going back to the first question, if the answer is yes, but the answer to the second question is no, I dig deeper. Is there another role in the company that might better fit the employee's skills and interests? This is where a CEO can really earn credibility as a leader. If there is a culture carrier who is beloved by their colleagues and I can find them a different role that more authentically aligns with the gifts they can bring to the organization, it is wonderful for everyone – the employee in question, their colleagues, the management team, and me. I had just that experience with a woman I had heard was not performing well in her

customer service role. As I got to know her better, I learned of a degree she had received in creative design and visual arts. I gave her some sample projects to see how she would do in a marketing capacity. She flourished. Today she is very successful as our marketing coordinator, and I will not be surprised if she ascends to V.P. of marketing one of these days.

06 How do you drive profitable revenue?

In contrast to crafting a broad strategy (an episodic event), CEOs think about profitable revenue growth on a daily basis. Understanding how to grow profitably is a key CEO consideration. We have all witnessed revenue-obsessed leaders pursue all growth opportunities willy-nilly with catastrophic consequences. Successful CEOs fully understand how to grow strategically and are selective about their growth initiatives. We think about this as a customer-gathering function – how a CEO intentionally brings certain desirable customers into the business. CEOs should have a tight picture of what desirable customers are by target size, industry, geography, offering needs, and price points. We are ardent believers in the maxim that not all customers are good customers.

For example, one crucial element of growth is customer acquisition costs. CEOs need to comprehend how much capital is required to add one dollar of incremental revenue on a fully burdened basis. Understanding the complete investment in growth and the incremental contribution margin from that growth allows CEOs to calculate the economic return on growth investments. Of course, this return needs to be higher than a firm's weighted average cost of capital to create economic value.

Additionally, CEOs need to have a view on whether growth will be accomplished through a direct sales force, a channel approach, or a marketing tactic. Furthermore, they can pursue revenue growth through organic sales, inorganic activities (acquisitions), or price augmentation. New CEOs need to have a clear picture of their choices of how to grow their business profitably and what the risks and probabilities of doing so are. Just as important as knowing how they want to grow, intentional CEOs should have a tight image of how they will *not* grow. For example, product and service creep can lead to dilution at a firm – being mediocre at many things instead of being amazing at one or two. Growing in multiple far-flung geographies is much more difficult than greater penetration in a tight geographic zone.

Pricing is another area that must be considered carefully. It would be difficult for us to overstate the value of carefully scrutinizing the company's pricing strategy. In our experience, first-time CEOs are often understandably averse to the notion of putting customer relationships at risk by charging more than the company has historically. Indeed, their teams will be equally uneasy – and vocal – about the risks of increasing price. We vividly recall the fear we experienced ourselves when pushing through price increases for the first time; we were convinced our phones would be abuzz with irate customers. However, if the price increase is thoughtful and well-communicated, new CEOs almost always conclude that their worst fears were unfounded.

Profitable revenue growth is hard; without a deep understanding of how to do it intentionally, it becomes even more problematic. New CEOs need to assess the math of profitable revenue growth and its risks and probabilities coupled with the company's capabilities.

Additional resource: Charan, Ram. Profitable Growth Is Everyone's Business : 10 Tools You Can Use Monday Morning. New York, Crown Business, 2004.

Varun Chanrai (INSEAD 2013) and his business partner founded [Storal Learning], a consolidator of British nurseries, in 2016. Beginning with the initial acquisition of a single site in Maidstone, Storal now owns and operates 26 nurseries throughout England.

When we acquired our first nursery, we had the unique luxury of being afforded the time to fully immerse ourselves in the daily operations. By living day-to-day in a nursery, rather than sitting in a corporate office, we learned to better understand what drives quality – for our customers and our employees – which informed the way we think about profitably growing our business.

In the nursery business, customer demand is a function of geography first and foremost. It must be convenient for parents of young children to pick up and drop off daily. Second, the setting must be appropriate for child development. The space must be clean and the rooms very intentional in their layout. Last, and most importantly, prospective parents want to see happy and passionate teachers actively engaging with the children in their care.

Fully internalizing these demand variables, we went about growing both organically and inorganically. With respect to the latter, we became hyper-focused on not just the market but also the site selection of target locations. Regarding organic growth, we invest proactively in the areas that really matter to parents, thereby elevating the perceived quality of the setting in the eyes of current and prospective customers alike. These small investments, typically measured in the few thousands of pounds, often allow us to justify meaningful increases in our tuition as we improve the nursery environments, up front investments that a single operator managing for a certain level of dividend might have been unwilling to make.

Where we really see the growth, however, is once we've had a chance to develop and upgrade the staff. As children and parents have ever-better experiences with their caregivers, they refer more and more prospective customers, and demand for our nurseries almost invariably develops into a waitlist, even at the higher prices we are charging. It is a beautiful, virtuous circle when we get each of our nurseries to that special place.

07 How do you reduce costs?

Managing costs often plays second fiddle to revenue growth, just like execution lives in the shadow of strategy. Despite its unglamorous position, we love thinking about cost reductions and believe all CEOs must closely examine costs in an SMB. What is so magical about cost reductions, like price increases, is that they are one hundred percent accretive to profitability – a dollar saved is truly a dollar earned. Beyond the current period profitability, cash flow, and margin implications is the impact of a dollar saved on a firm's enterprise value. If a company can reduce cost by a dollar, and the business's EBITDA[†] multiple is six, the firm's enterprise value goes up by six dollars. This math is so compelling that we believe understanding how to reduce superfluous costs is an activity and time investment worthy of a CEO.

Of course, cost reductions tend not to stand on their own. No business can thrive by only compressing costs without ever growing revenue profitably. But intensive cost management can and should live in tandem with profitable growth. And when this does occur, the financial impact can be potent.

[†] Earnings before interest, taxes, depreciation, and amortization

When considering cost reductions in a small business, we draw an analogy to a garden. Gardens tend to accumulate weeds over time if they are not continually and aggressively managed. Businesses operate identically. If costs are not perpetually controlled, they tend to creep in and manifest.

CEOs should routinely scrutinize costs by expense line item and vendor account. Additionally, they need to contemplate where costs can and cannot be compressed. We are especially fond of reducing non-customer-facing costs that do not impact the customer promise and experience. However, no costs should be considered sacrosanct. One draconian philosophy to at least consider is zero-based budgeting, where all expenses are assumed to be zero and need to be justified (as compared to reflexively accepting a prior period's expense as a given).

We embrace a three-pronged approach to cost management. First, a CEO can ask whether they absolutely need to incur the expense. Second, they can attempt to reduce the price of a necessary expense (we are perpetually amazed how quickly vendors will materially reduce costs when asked for a price reduction). Finally, when considering expense management, CEOs should reduce the frequency of services (effectively a cost cut). For example, if a refuse company empties a dumpster weekly, find out whether it can be done monthly instead without disrupting operations or customer service.

While CEOs tend not to gloat about their cost reduction skills and strategies (compared to their growth), we believe engaged and competent SMB CEOs exercise this muscle regularly.

Additional resource: McCormick, Tim, et al. Strategic Cost Reduction: Cutting Costs without Killing Your Business. Dublin, Chartered Accountants Ireland, 2012.

Tim O'Donnell (University of Chicago Booth School of Business 2018) worked in finance, first as an investment banker and then as a private equity investor, before raising a search fund. In early 2022, O'Donnell acquired two Chicago-based businesses in the environmental testing industry within three months of one another. He serves as CEO of the recently combined company.

> When thinking about cost management, the first step is gathering a detailed understanding of the profit and loss statement. So, my priority out of the gate was getting clean and reliable financial statements in place, allowing me to properly analyze my cost structure and see where opportunities to rationalize might exist. There are straightforward levers to pull, such as sourcing product from different vendors or putting larger expense items out to bid. But a layer deeper there are also ways to streamline operations and leverage economies of scale.
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> Operationally, for instance, I found that we were sometimes running our equipment at half capacity in multiple batches, simply because our machine operators hadn't connected the dots. Running a single batch at full capacity drives significant cost out of our business.
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> From a corporate overhead perspective, I also found lots of low-hanging fruit that was a result of operating two very similar businesses. For example, we operate in a highly regulated environment, which requires regular audits and expensive fees for licensing and accreditation. Simply cutting that work down from two to one, by virtue of our newly consolidated business, we will save upwards of $100,000 annually. And that is just the tip of the iceberg.

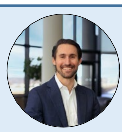
08 What is the capital allocation model?

CEOs play multiple vital roles in an emerging SMB. They are often the primary sales engine, the de facto chief financial officer, the key operations engineer, and the owner of all things human capital. One of their most important functions is that of chief capital allocator. CEOs have three primary sources of capital: issuing equity, raising debt, and free cash flow from operations. With those funds, they have four potential uses of capital: buying back equity, extinguishing debt, deploying capital into the business, and issuing dividends. CEOs need to have an intentional philosophy about their capital allocation model. This is the essence of capitalism and running a business – sourcing funds and allocating them towards their best risk-adjusted uses. The right capital allocation framework can mean the difference between running in place and building a valuable enterprise.

We think of capital allocation as being akin to strategy. It is not something that small-company CEOs ponder minute by minute and day by day. As sitting CEOs, we never had a capital allocation meeting scheduled on our calendars, but our capital allocation ideology permeated every decision that we made and formed the underpinning tenets of our businesses. For example, CEOs need to contemplate whether they will finance their business with debt, equity, or free cash flow. This simple decision impacts risk, dilution, and the potential growth rate. More importantly, CEOs must know how they will deploy capital. Dividends and debt extinguishment might truncate potential growth but placate investors and creditors. Repurchasing shares can be a high-return investment and lead to accretive ownership. Finally, investing in the business's operations through acquisitions or organic growth can lead to high incremental returns on deployed capital. These somewhat simple decisions chart the company's financial course. CEOs should think about and measure capital allocation in the context of driving the highest risk-adjusted, incremental per-share returns.

Capital allocation is largely an intentional endeavor. CEOs need to think about this topic prospectively since it centers on a company's valuable cash flow. Of course, unexpected opportunities periodically pop up – like the ideal acquisition – but CEOs should have an underlying view on capital allocation and not live in a reactive mode.

Additional resource: Thorndike, William. The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success. Boston, Mass., Harvard Business Review Press, 2012.



John Yanchek (Middlebury College 2012) began his career in investment banking at Goldman Sachs before moving into a private equity investing role at ArcLight Capital Partners. After three years in private equity, he decided to raise a search fund with his close friend and former Middlebury hockey teammate. Yanchek and his partner acquired Montis Financial, a Massachusetts-based registered investment advisor, in late 2021.

> We spent an incredible amount of time thinking about our capital allocation framework early in our CEO seats, at first conceptually in nature. We understood the theoretical frameworks and modeled out various scenario and sensitivity analyses. However, before long in the CEO seat, we discovered that capital allocation is actually really hard in a practical versus a theoretical setting. With our professional backgrounds, we thought it was going to be the easy part!
>
> Take our current situation, for example. We are trying to figure out whether to hire a CIO (Chief Investment Officer), a COO, a CFO, and a Head of Relationship Management. Each of these roles are critical for achieving our long-term commercial goals. But the critical

question is around prioritization in a world of finite resources that we live in as a small business – and the answer isn't obvious. While it is reasonably straightforward to model the return on investment (ROI) and internal rate of return (IRR) on a revenue-generating hire such as a Financial Advisor, it is much harder to run the same analysis on positions where the value-add is less quantifiable and directly measurable. How do we accurately assess the economic benefits (i.e., the numerator in the ROI calculation) to compare and prioritize effectively?

We are facing a similar set of vexing questions on the acquisition front. We are courting a number of acquisition targets with very different financial profiles. While we think any of them can be accretive, there are real questions about which – and how many – to prioritize. This goes in the bucket of good problems to have, but we want to be confident that our finite capital is being deployed in the most efficient and effective way across the entire potential investment universe.

09 What is the CapEx plan?

Many CEOs of small businesses are revenue centric; they love to focus on and boast about growth and topline prowess. Slightly more sophisticated CEOs shift their attention to profitability, often measured by EBITDA. We think the most evolved CEOs focus neither on revenue nor EBITDA but on free cash flow from operations – the funds a company generates and has available to satisfy capital partners (owners and creditors) and pay taxes. One of the biggest drags on EBITDA in its conversion to free cash flow from operations are capital expenditures – non-operating investments in the business that do not run through the profit and loss statement and are instead placed on the balance sheet.

SMB CEOs need to understand their CapEx plan fully and its implications to free cash flow. We have foolishly been attracted to the mirage of high EBITDA businesses only to discover that EBITDA to free cash conversion rates were low due to the deleterious effects of CapEx.

When thinking about CapEx, CEOs should consider its two vectors – maintenance CapEx and growth CapEx. Maintenance CapEx is undesirable because it represents an investment in the business without corresponding growth or anticipated incremental returns. For example, when a company replaces a vehicle in its fleet because the vehicle no longer has utility, this is maintenance CapEx. No growth or return is anticipated as a result of the replacement vehicle. Rather, the company is investing capital into the business to stay in the same place. Unfortunately, maintenance CapEx is a reality and part of many businesses. Alternatively, growth CapEx is about expanding potential revenue and anticipating a financial return on capital expenditures. In our fleet example, growth CapEx would entail expanding the fleet and enjoying incremental revenue and profits (and free cash flow). When considering growth CapEx, CEOs should rigorously calculate and evaluate the incremental returns on the investment dollars and maintain minimum thresholds for making a capital expenditure.

We endorse a three-step approach to capital expenditures. First, consider how to avoid and minimize maintenance CapEx (although GAAP mandates this as a balance sheet item, it feels and acts much more like an operating expense). Second, think about ways to grow profitably and create value without material growth CapEx. Finally, deploy growth CapEx to the most attractive projects with the highest risk-adjusted returns that additionally meet the minimum return threshold.

CapEx is dilutive to current period free cash flow (but might result in incremental cash flow in future periods), and in businesses where CapEx is material, SMB CEOs must have a plan and philosophy about CapEx dollars. Running a business with high EBITDA and no free cash flow from operations is not fun and might not be creating value.

Additional resource: Berman, Karen, et al. Financial Intelligence for Entrepreneurs: What You Really Need to Know about the Numbers. Boston, Mass., Harvard Business Press, 2008.

Manvendra Saxena (Kellogg School of Management at Northwestern University 2018) conducted an incubated search with Broadtree Partners beginning in 2018. Saxena acquired two California-based street sweeping companies in 2020, and he went on to acquire another comparable business in 2021. Saxena grew the parent company to be the second largest pure-play street sweeping company in the country. Saxena served as CEO of the parent company until successfully exiting in 2022.

> There are some really attractive elements of the business I bought, namely the very long-term contracts with great municipal customers. But there is also a significant drawback: the CapEx required to deliver on the contracts is massive. The street sweepers we were regularly purchasing cost $300,000–400,000 each. Moreover, in California, there is an environmental regime that precludes operation of trucks with engines older than 2011.
>
> Naturally, this was not a surprise when I bought my first business. I knew that there was going to be millions of dollars of CapEx required early in our ownership, and I understood how much maintenance CapEx versus growth CapEx was. Ultimately, the key question became how to optimize these investments.
>
> I had the good fortune of buying from a seller who was expert at finding used equipment that could be purchased responsibly. I followed him around when he went to look at new trucks and soaked up all the learning I could from him. I ultimately became very knowledgeable about used equipment procurement and, equally, about how to sell our old trucks successfully. Delving deeply into this critical aspect of the business allowed me to navigate the challenging CapEx dynamics in a way that unlocked significant shareholder value.

10 Where is working capital and cash flow?

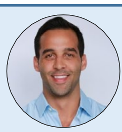
The academic definition of working capital is a simple one: take current assets and subtract current liabilities; the difference provides a firm's working capital. However, such simplicity disguises the importance of the calculation. Few young, first-time, and inexperienced entrepreneurs (and even seasoned operators) seem to truly internalize the influence and importance of working capital growth on free cash flows in a business. Working capital can be a bedeviling topic even for a seasoned CEO, but it can be downright perplexing for a new SMB CEO. We have all encountered companies that are growing dynamically and are profitable on a GAAP basis but struggle to meet payroll and vendor obligations. Working capital dynamics are usually the culprit in this situation.

Like CapEx, positive changes in working capital are dilutive to free cash flow and nibbles into the conversion of EBITDA to free cash flow from operations. Although changes in working capital are not an expense that hits the profit and loss statement, it might as well be because it can consume cash. Working capital–intensive businesses are usually trickier to manage and require more financing consideration than working capital–light businesses or the dream of a negative working capital business.

When a new SMB CEO assumes a business's leadership, they must quickly analyze and understand the working capital dynamics of the business. For example, there is a big difference between booked revenue paired with accounts receivable and cash collected. Furthermore, many small business CEOs know the drill of rapidly scanning return addresses on the day's mail delivery, looking for customer names with large receivable balances.

Once CEOs calculate and understand working capital dynamics and needs – how much working capital is required to grow – they can begin to focus on compressing working capital by all means to improve cash flow. The less working capital a business requires, the better. Being caught in a working capital bind is enervating and no fun. The best way to avoid the vexing challenges of working capital is for a CEO to do the math and be fully aware of the working capital situation. This allows them to prepare and invest in improving the working capital state.

Additional resource: Jassy, Andrew, et al. "Cash Management Practices in Small Companies." Harvard Business Publishing, December 1998, Case 699047.



Nick Seger (Kellogg School of Management at Northwestern University 2019) grew up in a family business and always aspired to build a similarly entrepreneurial career. After six years in financial services, Seger went to business school with these entrepreneurial aspirations in mind. He raised a search fund during the second year of his MBA program. After a two-year search, Seger acquired Austin, Texas–based Sunscape Landscaping and serves as the company's CEO.

> The seller I bought from did not have a financial team in place. I was assured through diligence that the business was easy to manage from an accounting standpoint. He didn't seem worried about it, so neither was I. That proved to be an oversight.
>
> In the early months of our ownership, we were generating record revenues and profits. I was thrilled. That is, until one week my new controller advised me that we did not have enough cash to make payroll. I was baffled. How could we be generating this record EBITDA and still be burning cash?
>
> It turns out that in his haste to perform in the new role, my controller had been quick to pay all of our vendors punctually while at the same time being reluctant to chase our valued customers for payment. The net result was that receivable days stretched to 57 and payable days contracted to 37. As a result, what had once been a business with fairly attractive working capital dynamics had gotten upside down. In a growing business, with a cash cycle like the one we had gotten ourselves into, the faster you grow the more you burn cash – and we were growing fast!
>
> Thankfully, we identified the issue just in time and were able to manage through the liquidity crunch. We now have a robust receivables collection practice and a rolling 13-week cash forecast that informs when and how we pay our vendors. Cash is accumulating once again.

11 What is the communication plan?

SMB CEOs have many constituents to address: customers, team members, vendors, shareholders, creditors, regulators, competitors and industry participants, and their geographic communities. Sharing the company message with all of these various parties is an important CEO role and can mean the difference between constituents buying into a vision and strategy or not. As CEOs, we painfully learned that our communication skills were rudimentary and unsophisticated. We approached communication casually and haphazardly instead of proactively and intentionally. We think a communication plan is especially important for a new CEO who acquires a business and is attempting to establish trust and buy-in from various groups. Whether a CEO wants to be or not, they are the chief communications principal in a small business. Furthermore, all constituents will look to the CEO as the most reliable source of information.

When thinking about the communication plan, CEOs should consider what content they are sharing, to whom, with what frequency, its character (positive or downbeat), and what channel is being used (verbal, written, in-person, webinar). We advocate for establishing a systemized approach for communication and messaging – building a grid where the CEO details who hears what and when.

Of course, the basic message for all constituents is similar, but some groups will receive more detail and others less. We think CEOs need to overcommunicate in multiple formats to even hope the message sinks into the minds of intended groups. Sharing corporate goals once with team members in writing at the beginning of the year is not nearly enough for the message to be ingrained and resonate. As CEOs, we were perpetually surprised by how frequently we needed to communicate a simple and consistent message for it to gain traction and be understood and retained. When it comes to communication, once is never enough.

SMB CEOs have the power of the megaphone and can be persuasive and impactful with their communication interactions. We think of communication, a part of culture, as some of the glue and cohesiveness that brings an organization together. This is especially true as a company scales and expands geographically. However, to maximize this opportunity and to be inclusive with all constituencies, CEOs must have a deliberate communication plan.

Additional resource: Neeley, Tsedal, and Tom Ryder. "Lighting the Fire: Crafting and Delivering Broadly Inspiring Messages." Harvard Business Publishing, March 2016, Case 416046.

Kush Das (Georgetown University School of Law 2015) spent two years as a healthcare-focused corporate attorney before joining McKinsey. After three years as a management consultant, Das left McKinsey to raise a search fund. Following a one-year search, Das acquired Ennoble Care, a leading Mid-Atlantic provider of home-based primary care and hospice services, which he leads as CEO.

> I bought a company that operates in heavily regulated industries with many different constituents. It was clear to me that my first and foremost mission as the new CEO was to ensure that each of these constituents received a thoughtful explanation of what was happening with the company through the change in ownership and leadership.
>
> Working closely with my management team, I broke the constituents down into discrete groups: employees, regulators, channel partners, and patients. While each of these would receive messages with the same factual information, the presentation would be customized

to address their unique interests. This approach involved email distributions, multiple town halls, and many in-person meetings with customer partners and regulators.

This exhaustive upfront commitment to proactive and transparent communication laid the foundation for an ongoing focus on maintaining a comparable level of communication going forward. Today this takes the form of companywide emails every month or two, which I augment with frequent office visits. There is no substitute for in-person time in the field to both spread my message directly and collect feedback from the hardworking people on the front lines.

12 What is the culture and what do you want it to be?

When a new CEO takes over an existing business, a corporate culture has already been established. The culture might be positive, and it might be negative. It can be effective or ineffective, but some sort of culture is in place. We have found culture to be one of our most impactful and powerful tools as CEOs. Culture can underscore and boost a company's strategy and execution model, or it can be an impediment.

New SMB CEOs need to quickly assess and diagnose the culture they inherit. They should objectively analyze the existing culture and decide what elements are positive and working and what components are negative and a hindrance. By observing behavior patterns, talking with team members, and seeing how people act when explicit rules do not dictate conduct, CEOs can rapidly get a feel for the culture.

Once the CEO can articulate the current culture, they need to decide what they want the culture to be and why. We cannot emphasize enough how important culture is as a business scales. We believe culture is an investment and not a cost. Culture has positive and tangible returns in lower team member turnover, lower team member training costs, less need for middle managers, high customer satisfaction driving lower customer churn and higher margins, and the ability to use culture as a selling concept with customers, capital providers, and communities. Culture matters, and it is hard to create and takes years of investment and role modeling before it is ingrained in an organization.

Once a CEO has a vision for what they want the culture to be, they need to start planting the seeds to shift from the legacy culture and move towards the future culture. The good news is that cultures can be changed; the bad news is that it takes more time and effort than is usually imagined. Our experience has been that, regardless of what corporate values are mounted on the breakroom wall, the culture ultimately becomes an expression of the CEO's day-to-day behaviors (not their words). We think a new CEO assuming leadership is a perfect time to begin to refashion culture. Team members are somewhat on edge and want to please and adapt to a new leader. A new CEO is akin to a new beginning and an ideal moment to remodel the culture.

Additional resource: Christensen, Clayton M., and Kirstin Shu. "What Is an Organization's Culture?" Darden Business Publishing, August 2006, Case 399104.

Jeff Oldenburg (University of California, Berkeley, Haas School of Business 2018) spent ten years on Wall Street before embarking on his entrepreneurial journey. He launched a search fund with his childhood friend, and the two spent two years searching before deciding to go their separate ways. Several months later, Oldenburg acquired Echosec Systems, a rapidly growing provider of threat intelligence software.

> One of the first things I did after buying my company was to have hour-long, structured interviews with every employee. I confirmed what I already suspected – I had inherited a really strong culture. Eight out of ten employees told me that preserving the people and the culture was important.
>
> As I dug deeper, I developed a more nuanced understanding. It turns out the development team had a particularly strong culture, led by a dynamic CTO. By contrast, the sales team, led by an inexperienced CRO, had a fairly weak culture. I knew I needed to elevate the sales team culture without diminishing the strong culture elsewhere in the organization.
>
> Being new to the industry, new to the company, and new as a CEO, it was clear to me that I needed to tread lightly. I wanted to avoid creating the perception that I was shoving any new cultural norms down people's throats. To that end, I had the sales team participate in a series of trainings hosted by some of my investors. This common experience, along with the content and frameworks they were introduced to, served as an excellent bonding experience. They developed their own elevated ideas of how they wanted their team to perform, and they came back with an altogether new cultural orientation that aligned much better with that of the rest of our teams.

13 What is the right financing and capital structure?

MBA students often think SMB CEOs spend copious amounts of time thinking about financing and capital structure. Of course, designing a capital structure is a crucial CEO task, but it does not occupy that much CEO mindshare. Capital structure is similar to strategy in that it is very important and requires meaningful thought but is not a daily CEO function. Like strategy, capital structure is a crucial episodic event, but once a capital stack is constructed, it should be in place for at least three to five years. If the balance sheet needs to be touched more frequently than every three years, the capital structure plan was not thought out well enough.

When thinking about capital structure, CEOs need to match the capital needs of the business to its intended strategy – capital serves strategy. Additionally, CEOs should be focused on continually lowering their weighted average cost of capital (WACC). In some ways, we think of WACC as the capitalist's cost of goods sold, and a lower WACC increases the probability of an arbitrage opportunity between equity returns and WACC. While lower WACCs are always desirable, CEOs also need to consider the nature and requirements of capital resources. For example, cheap debt that rapidly amortizes with tight covenants might drive down WACC but not be a match for a risky high-growth strategy.

We think about capital structure as a turbocharging opportunity for strategy and operations. That is, strategy and operations are what a business is at its essence, and the capital structure is a way to augment returns and performance – but it is not the focus of a business. When a business becomes exclusively about capital structure, financial engineering is at the center and strategy and operations can flag. We believe strategy and execution create value and the capital structure serves and boosts that value creation.
Operating a business with a mismatched strategy–capital structure can be painful and laborious. Leading a company where the capital structure is aligned with the strategy provides for harmony and allows the CEO and company to focus on execution rather than continually tweaking and gathering economic resources. In addition, having the appropriate capital structure in place as early as possible sets up the company value creation opportunities and allows the new CEO to spend time harvesting those value creation prospects.

Additional resource: Schill, Michael J. "Management of Financial Policy Decisions: Capital Structure Policy." Darden Business Publishing, April 2016, Case UV7078.

Promise Okeke (Harvard Business School 2019) raised a search fund while completing his MBA. With a background in medical research, Okeke focused much of his search on the healthcare industry and companies selling into that large market. In 2020, Okeke acquired NovoPath, a laboratory management software company that serves pathologists. He serves as the company's CEO.

> When I acquired NovoPath, its revenue model was a license fee augmented by maintenance and service revenue. We underwrote the acquisition on the basis that we would migrate the business from on-premises software to SaaS. This is an obvious strategy, but the real value is created in actually executing that risky maneuver.
>
> There is a reason that seasoned software executives call the SaaS migration "the valley of death." In businesses like ours, one-time license fees typically represent 60% of annual revenue or more. Walking away from that revenue stream while continuing to carry the legacy cost structure obviously leads to a serious trough in cash flow.
>
> Recognizing this dynamic, I thought carefully about our capital structure. When underwriting a buyout like this one, there is a temptation to use as much debt as possible to bolster equity returns. However, when I sensitized the model, I concluded that adding a seller note – which the seller had offered – would make the free cash flow after debt service too tight in the depths of the SaaS migration. We took a seller note initially to get the deal done, however, in anticipation of the trough in cash flows, I capitalized the coupon payment for the first 18 months and then raised debt before the expiration to pay the seller off and recap the debt structure. I was lucky to successfully navigate the initial trough in the first 12-18 months while I learned to operate the business better. It helped that there were minimal cash outflows in those early months.

Conclusion

Being a new CEO, especially a young, inexperienced one, in a search fund acquisition can be daunting. However, we propose that, by addressing these thirteen questions, novice CEOs can better position themselves to quickly gain control of their SMB enterprise and embark on a smoother trajectory. Having crisp and well-developed viewpoints regarding our basket of questions will arm CEOs with the tools to be more confident and better leaders. Although the questions we share can be vexing and difficult to answer, they comprise some key responsibilities a CEO needs to master. We hope our concise checklist of questions helps rookie CEOs organize their thoughts and provides an easy way to think about their new CEO position.

Good luck in your new CEO journey, and we hope we have squelched some of your trepidation about your new role!

Exhibit 1: Additional resources

- Collins, James C., and William C. Lazier. B.E. [2.0]: Turning Your Business into an Enduring Great Company. New York, Portfolio/Penguin, 2020.

- Harnish, Verne. Scaling up: How to Build a Meaningful Business . . . And Enjoy the Ride. Select Books Inc, 2014.

- Wickman, Gino, and Mike Paton. Get a Grip: How to Get Everything You Want from Your Entrepreneurial Business. Dallas, Tex. Benbella Books, Inc C, 2014.

Endnotes

[1] A. J. Wasserstein is the Eugene F. Williams, Jr. Lecturer in the Practice of Management at the Yale School of Management.

[2] Mark Anderegg is an adjunct professor of Business Administration at the Tuck School of Business at Dartmouth.

[3] Casadesus-Masanell, Ramon. "Introduction to Strategy." Harvard Business Publishing, September 2014, Case 8097.