

A Value-Creation Journey

Lessons Learned from the ArchivesOne Entrepreneurial Story

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When I teach at the Yale School of Management, I try to remove myself from the class conversation as much as possible. Instead, I attempt to orchestrate a dialogue among the students where they can find their own answers and leadership style. If students are going to be leaders in business and society, they need to discover their own voice and approach. I certainly do not intend for them to mimic mine. When I teach using the case method, students encounter various protagonists who face a business riddle. They get to evaluate and ponder how they would handle a business problem, challenge, or opportunity. Inevitably, students often ask me what I would do, and I regularly reply, as teachers do, with more questions and few (if any) answers. Teaching, for me, is less about providing my answers and more about students discovering their own.

Despite having been an entrepreneur for several decades, I try not to make my class sessions autobiographical. If they were, that would make for a long semester. I do periodically sprinkle in an anecdote or two to try to bring some color and context to the session, but for the most part, I am reticent.

Students often ask me what key lessons I can share from my own entrepreneurial journey and what my business memoir is about. This is not something I would discuss in a classroom setting, but I will share some thoughts in this note. Using the information here, students might be able to infer how I would approach the business conundrums our case protagonists face and how I think about building an entrepreneurial venture.

I offer this incomplete list of concepts in the context of pursuing and creating value. Although value is not the only measure of a thriving for-profit company, it is a crucial one. It is hard to define a business as successful if it has failed to accumulate value at an appropriate rate, at least in a capitalistic context. If a company treats employees well, provides outstanding customer service, and embraces operational excellence, it typically grows and enhances profitability, which results in value — what the firm is worth.

I have always thought of myself as an entrepreneur and always envisioned myself as constructing, building, leading, running — and creating value. I began my entrepreneurial value-creation journey at age 24 in 1991 with a company called ArchivesOne. The business I was in was a quirky one. Companies, mostly medical institutions, financial organizations, and legal firms gave ArchivesOne hardcopy business records to store in offsite records centers (warehouses). We stored many millions of our customers' boxes of documents in scores of records centers in the eastern U.S. Fundamentally, our business was quite simple: customers gave us boxes of business and medical records to store, and we safely and securely stored those boxes. That was it. Oh, it does get trickier. Occasionally, a customer would call and ask for one of the boxes to be retrieved and delivered to the customer. That was it. ArchivesOne was not a particularly glamorous business, and on the surface, it did not look fun by most people's definition.

For me, it was exhilarating. I loved winning new customers, hiring people, building an organization according to my vision and values, and knowing that my decisions truly mattered. Leading a business was everything I always imagined being an entrepreneur meant. It was deeply satisfying, incredibly challenging, and intellectually stimulating. I loved it.

The business grew quite rapidly. We compounded revenue growth at 42% per year over 17 years. Better yet, EBITDA* compounded at 50% per year over the same period. We grew partly by acquiring other document storage firms. We completed 38 of these acquisitions. After operating the business for nearly two decades, we employed approximately 400 people. When we decided to sell the business, we were paid 14.5x EBITDA. Our growth, coupled with a premium exit valuation, resulted in a 43% IRR[†] for institutional investors who joined the ownership group in 1998.

I share these facts not to boast or impress (that is definitely not my style), but instead to highlight that a seemingly boring business could actually be quite dynamic, fun, and rewarding (both emotionally and financially). And to illuminate that *any* type of business, even a sleepy records management firm, can create value.

Students are often keen to build an enterprise that creates value for themselves, employees, customers, and shareholders. This is an admirable objective. What students need to understand is that value is an *output*; it is the result of many decisions, actions, and behaviors carried out over a long period of time. Entrepreneurs do not wake up on a Wednesday morning and assert, “Let’s create some value today!” To use baseball as an analogy with winning the World Series as the equivalent of creating value, great teams might have the goal of winning the championship, but it is the *inputs* that get the team to the destination. In this baseball analogy, the inputs are who is on the roster, batting practice, spring training, nutrition, strength training, conditioning, team culture, who plays what position on the field, understanding when the wrong players are on the field, the coach doing everything possible to lift the team, and competitor analysis. It is all the *inputs* that drive the *output* of value over the season. Winning the World Series (what appears to be the value) is just the outcome. To understand value-creation is to understand and focus on inputs that drive value.

My value-creation story is really just the story of my entrepreneurial journey. It is all about the inputs at ArchivesOne that drove value-creation for nearly two decades. I will share an incomplete list of 22 concepts I learned and discovered on my entrepreneurial journey that resulted in this value-creation. I have organized these concepts into four buckets, all of which are salient to the entrepreneurial experience. The first group on concepts address operating themes, those activities an entrepreneur engages in regularly to build an enterprise. The second group tackles people and communication themes. Leading and building a business is, in some ways, all about selecting, rewarding, training, and shedding people and how to communicate with people. The third bucket focuses on financial issues, some commercial principles that can guide an entrepreneur when attempting to create value. Finally, I offer some lessons learned on the entrepreneurial experience and how to think about being one.

I am not claiming that my approach will work for everyone, and it is certainly not the only way to build value — it is just my way and my story. As I always tell students, take what works and resonates and put aside the rest. I hope that some of the concepts I discovered help make other entrepreneurs’ journeys smoother than mine and just as much fun.

* Earnings Before Interest Taxes Depreciation and Amortization

† Internal Rate of Return

Operating Themes

The model matters most

One of the first lessons I learned in my journey is that the business model matters most. A successful entrepreneur focuses on the model, not on what the business actually does. ArchivesOne was a very simple and even boring business. But its business model was exciting and compelling. The model includes the basic underpinnings of a business, the economic factors at play, and how the business actually earns a profit. This has nothing to do with what the business does (the work of the business). Sometimes entrepreneurs are attracted to businesses because the products and services a business provides are exciting and glamorous. This is understandable, but a company being exciting and glamorous has no correlation with profitability. Outstanding models, on the other hand, have a very high correlation with both profitability and value-creation.

When thinking about what business to be in, most entrepreneurs start with an answer and look for a question. That is, they have a specific business in mind, and it might very well solve a customer need or problem, but it might not be a fantastic model that drives value. I encourage students to start with a question and seek an answer. An aspiring entrepreneur can define what business and model characteristics they most prefer and then seek a business that meets the requirements, regardless of what product or service the company sells. In this case, the model trumps what the business does. This type of entrepreneur might be completely indifferent about the company's industry as long as it is legal and ethical. Of course, the business needs to fit the entrepreneur's skill set and style, but a value-creating entrepreneur prioritizes being in an economically tenable business over being in a business that is an emotional passion and has a stylish veneer.

A great business model has tailwinds that help the industry and create many winners, which is fantastic. All entrepreneurs should seek to be in an industry where there are many winners because this tilts the probability of success in the entrepreneur's favor. Industries with few or no winners have headwinds, meaning that it is a slog for everybody, and the odds are tilted against entrepreneurs. When I led ArchivesOne in the records management industry, there were wonderful tailwinds and many winners. The industry was nearly bulletproof, and everybody who was there was a winner at some level.

Value-creation lesson: focus on the business model, not what goods and services the company provides.

What makes a great business model?

There are many factors that are part of an exceptional business model, too many to fully explore in this note. Some of the most essential components of a business model are recurring revenue, entry barriers, high EBITDA margins, internal growth, and leverageable infrastructure.

If an entrepreneur wants to create value, one of the very best ways to do so is by being in a model with recurring revenue. Recurring revenue exists when the same customers consume products or services from a business on a regular basis. As an entrepreneur, it is truly a gift to wake up on January 1 and know with nearly 99% confidence what revenue will be in the next 12 months, and this is likely the case with a recurring revenue model. Leading a business, building a business, and creating value can be fairly difficult. It is slightly easier when an entrepreneur is not panicked about where the next revenue dollars will come from. Recurring revenue models allow entrepreneurs to focus primarily on incremental revenue and building the business instead of on retaining or replenishing revenue. Additionally, recurring revenue models give young, first-time, and inexperienced entrepreneurs a safety net of sorts. It is better to run a

business where there is a somewhat predictable inflow of cash; there is more room to make mistakes and still persist.

Entry barriers, sometimes referred to as a moat, prevent or deter potential competitors from flooding into an industry and creating a more competitive context. Businesses with some entry barriers minimize competition and help an entrepreneur create value by having a more stable customer base. Entry barriers could include high investment costs to enter a market, a market that is small enough to not be worth it to a new entrant, some type of geographic near-monopoly, a product or service that is differentiated in some way, and a valuable brand or reputation.

A good business model has high EBITDA margins, preferably 15% or higher. Models with higher EBITDA margins leave some room for error — a 30% reduction in the margin for a 15% margin business is still a 10% EBITDA margin. Companies with 1–5% EBITDA margins leave no room for error. Furthermore, high-margin businesses allow entrepreneurs to reinvest in people, systems, processes, infrastructure, and best-in-class customer service, features that propel growth and future margin expansion. It is perplexing to me why an entrepreneur would intentionally choose to be in a low-margin business.

Internal growth is a key component of creating value; it is challenging to multiply equity value without some type of growth program. Internal growth is the ability to grow the business without gaining additional customers. This can be accomplished by raising prices and customers accepting the price increases, or by current customers purchasing more goods and services. Internal growth is desirable because it does not require a customer-gathering program and is likely the most accretive form of growth.

The final component of a desirable model is leverageable infrastructure. This means that additional customers come in at higher contribution margins than the last customer. This implies that at least part of the business costs do not scale with customer growth. If additional customers enter with a higher contribution margin, aggregate EBITDA margins rise with growth, and the entire business becomes more profitable.

The records management industry had all of these model features and many more compelling factors. It was a very appealing business model that created attractive tailwinds that benefited all industry participants.

Value-creation lesson: seek business models with recurring revenue, entry barriers, high EBITDA margins, internal growth, and leverageable infrastructure. Models with these characteristics increase the probability of a successful outcome.

Vision is important, but do not underestimate execution

At ArchivesOne, I am not sure I really had a unique or big vision. We copied a lot of other people in our industry and in other sectors and tweaked it to make it our own and something that could work for us. I think one of my weaknesses as a CEO was not being a very promotional, show-pony type of CEO and entrepreneur. I was more of a workhorse type of leader; ArchivesOne was an execution-centric organization, and that worked for us.

Many entrepreneurs and CEOs believe that a leader needs to be a huge visionary to create value. I will agree that this is partially true. An entrepreneur needs to know where they are going and where they are attempting to lead the organization — where the trains are going. Additionally, a compelling and inspirational vision coalesces the organization around a mission and a direction. This can be helpful as a business grows in size and geography. While vision matters, it might not be as significant as execution.

In a small, emerging business, a vision is not nearly as important as relentless execution — how the trains are going to get to the destination on time. At ArchivesOne, our vision was fairly rudimentary, but we were an execution machine, and that served us well. There are many startup companies, especially in tech, that have amazing, disintermediating, and transformative visions; they just do not execute well or make money. When an entrepreneur is attempting to get a business up and running, trying to prove a model and establish profitability, vision is likely in a secondary role to execution. Execution is the daily tasks and activities that an organization needs to excel at to win and retain customers and operate profitably. In its incipient stages, ArchivesOne relied on execution to drive growth and profitability. It was only after establishing a firm foundation did vision become meaningful and necessary for a burgeoning organization.

Vision and execution can also be thought of in terms of financial statements. The balance sheet conjures up grand images of capital formation and strategy (the vision) while the profit and loss statement is more about execution in growing profitable sales and managing expenses. Entrepreneurs leading a small and medium-sized business spend most of their time thinking about profitable sales and expense management — the execution elements of the firm.

Vision without execution does not lead to value-creation. Outstanding execution with modest vision creates at least some value, and amazing vision coupled with amazing execution is the best pathway to value-creation.

Value-creation lesson: if an entrepreneur wants to create value, the vision certainly matters, but entrepreneurs must get the execution right too. If an entrepreneur needs to emphasize either vision or execution, go for execution; it is more likely to result in actual value-creation.

Work on the business, not in the business

Sometimes when an entrepreneur is growing a business, they can slip into the habit of working in the business, especially during the company's nascent years. What I mean by working in the business is doing the actual tasks that the business performs. In my earliest days, I moved boxes, delivered boxes, made sales calls, and processed financial tasks. I did everything; I worked in the business. While it is important to understand how a business operates and how tasks are performed, if an entrepreneur persists in working in the business, the business will likely remain a very successful shop but be unable to grow into an enterprise.

To build a value-creating machine, a great entrepreneur needs to remember that they are the architect of the business. They need to work on the business and construct the business itself and resist toiling within the business. Periodically working in the business is necessary; the entrepreneur is often the emergency backup for many tasks. But an entrepreneur who solely works in the business might not be optimizing the value-creation opportunity. To excel, an entrepreneur needs to delegate basic tasks, hire the right people, build systems and processes, and try to work on the business. To use my aforementioned baseball analogy, it is hard for the coach to see the entire field and understand how all the pieces fit together if they are focused on playing second base. To build a World Series-winning team, the coach needs to focus on the entire game and season, not just on what is happening at second base in a single inning.

Shifting from in to on was a key turning point in my journey. My mentor and board member, Tom Bird, introduced me to this notion. When I stopped doing mundane tasks in the business and focused more on architecting, a word I love, the business excelled.

Value-creation lesson: entrepreneurs need to work on the business, architecting its development and growth, rather than in the business focusing on daily tasks.

Zoom in and zoom out

A similar concept to working on versus working in is the ability to zoom in and zoom out. To create value, entrepreneurs need to be able to zoom in to the tiniest details in the business and deeply engage and connect with line workers in the company. This often needs to be done on the very same day that the entrepreneur needs to zoom out and convey the company's strategy and message to, say, a bank credit officer considering a multi-million-dollar loan.

Entrepreneurs need to be able to zoom in to the most minute details in the business, understand what is going on, and relate to the team members who perform those granular functions (e.g., deliveries, warehouse activities, and customer service calls). Concurrently, entrepreneurs need to zoom out and see the entire field and where the business is going. These are two very different mindsets and skills that must coexist.

At ArchivesOne, I loved interacting with our line team members, the customer-facing folks who were the backbone of our organization. I had to zoom in to their world, understand their issues and challenges, and help them in every way possible. For example, I needed to understand the complexities of routing logistics and vehicle capacity constraints when picking up and dropping off customers' boxes. These detailed issues impacted how team members did their daily work.

I also loved interacting with our shareholders and creditors, zooming out to the broadest picture of who we were and where we were going. Being able to articulate to sophisticated credit and equity partners how the business is moving forward and creating value was enjoyable and helped me learn and refine our strategy.

It is especially helpful for entrepreneurs to understand how the zooming in and zooming out are connected. When entrepreneurs, for example, implement a new enterprise software solution that will serve as a key tool in running the business, it is helpful to comprehend how a zooming out decision like this will impact the team members who will be using the software and implement its daily tasks, a zooming in function.

Value-creation lesson: the ability to zoom in and understand the most minute details and the ability to zoom out to the broadest possible view are equally necessary to create value.

Balance customers, team members, and shareholders

I have a confession to make: Being in business and creating value is actually relatively easy in some ways. We have many courses at Yale that make it sound more complex than it really is. Sometimes I feel that my job as an educator is to make rudimentary concepts sound complex. Let me elaborate on why I think business is simple in some ways.

Entrepreneurs often express how much they care about customer service and net promoter scores, and how customer service is the foundational strategy in their business. Well, if an entrepreneur wants exceptional customer service, obtaining that is simple. Just staff up and get the very best infrastructure and systems to facilitate best-in-class customer service. More people, more systems, and more infrastructure will likely result in superior customer service. Easy.

Entrepreneurs also claim to care deeply about team members (employees) and to want team members to be happy and satisfied. If an entrepreneur wants happy team members, that is fairly straightforward too. Just pay team members more and ask them to do less. Many team members will be delighted with greater compensation and reduced workloads. More pay, less work often results in thrilled team members. Easy.

Entrepreneurs also care about shareholders and their needs. After all, the entrepreneur is often the largest shareholder. Making shareholders happy is also a relatively simple proposition. If entrepreneurs want blissful shareholders, just reduce expenses by doing less for customers and paying team members less. Profits will amplify, and shareholders will be filled with glee. Easy.

It is not hard to optimize any one constituent as an entrepreneur. It is unequivocally challenging to make customers, team members, and shareholders happy — all at the same time. That is a huge test, and it requires great skill. It is a delicate and tricky balance to keep all three constituents mostly happy most of the time. I like to use a stool as an analogy for this concept. Think about a stool with three legs; one leg represents customers, another team members, and the final shareholders. If an entrepreneur favors one leg by pulling on it, the stool quickly collapses. If the entrepreneur keeps all three constituents and legs in equilibrium, the stool is stable and strong for the long term. I recognize that there are moments when an entrepreneur will need to temporarily emphasize one of the three groups more than the others. I did this too. But for the stool to endure, there must be evenness.

At ArchivesOne, we resisted the temptation to put shareholders first, as many companies do. Instead, we put customers and team members slightly ahead of shareholders. We leaned toward their needs and satisfaction. We thought that if we prioritized customers and team members, shareholders would be rewarded handsomely in the long term. Sometimes when companies focus exclusively on shareholders in the short term, there are unintended long-term consequences, such as diminishing customer and team-member satisfaction — and a toppled stool.

Value-creation lesson: think about balancing customers, team members, and shareholders for long-term success and value-creation. Resist the temptation to exclusively focus on shareholders in the short term.

Customer service is about scalable systems and processes, not just “being nice”

Sometimes entrepreneurs and companies think customer service is all about being really nice to customers. I am going to challenge that belief. Let me use Amazon as an example.

I am a serial buyer at Amazon, and I think their customer service is stupendous. I look at the Amazon website, see what I want, click, and it shows up at my house in a day or two. On a scale from 1 to 10, I would give Amazon’s customer service a 10. What is odd, though, is that in about 15 years as a customer, I have never once spoken to someone from Amazon; nobody from Amazon has ever been nice to me. Rather, Amazon’s customer service is built on the breadth of product offerings, an easily navigable website, and prompt delivery. They have superb customer service without being nice, in the traditional sense.

At ArchivesOne, we built our customer service program, about which we cared immensely, on systems and processes, not effusive, sycophantic fawning. Systems and processes allow companies to do things right the first time and deliver on the customer service proposition. There is no need for apologies. If we said we would deliver by 4:00 PM, systems and processes facilitated this, and we just did it. It worked right the first time and went smoothly. Fulfilling customer expectations in an efficient, honest, and timely way is being nice. No amount of smiling can make up for late delivery or damaged product, although it can, of course, help smooth things over when those things happen.

Now, I am not against being nice to customers. Of course, companies should be polite to customers and develop professional relationships. But being nice does not ever overcome failing on the basic service proposition. Systems and processes are the bedrock of customer service and creating value. They are how you “be nice” to your customers.

Value-creation lesson: customer service is not about being nice as a strategy. Value-creating customer service is based on systems and processes.

People and Communication Themes

Choose your team wisely

There is no way an entrepreneur can build a valuable business by themselves. My executive team and partners in building ArchivesOne were Scott Brabant, Jon D’Elia, Dave Koval, John Pavlovich, Jim Ratliff, and Charlie Saponaro. ArchivesOne could not have been what it was without this team. They were smart, hard-working, and told me when I was doing something foolish and wrong (which was often). They were smarter than me on many topics. They made the journey fun; their hands were on the boulder with me pushing it up the hill every day. There must have been something special then, as years after the company was sold, people still say it was the single best professional experience they had in their life, a career highlight.

Value machines are really teams of people in concentric circles — and the innermost circle matters significantly. They are the folks who will drive the business forward with the entrepreneur. Any entrepreneur who falsely believes that they alone can build and drive the business and create value will not only have less fun being a CEO but will also likely not fully optimize the value opportunity.

Once an entrepreneurial venture gets some traction and begins to scale in size and expand geographically, the business gets beyond any one person’s ability to see, do, and control everything. It is impossible, and there are too many decisions that need to be made. The members of the innermost circle of the team, the executive team, are the entrepreneur’s partners and make the journey possible and optimal. I was fortunate to have stellar partners.

Value-creation lesson: select, develop, reward, lift up, and celebrate key partners in the entrepreneurial journey. It is not possible to create value without them.

Treat people with dignity, respect, appreciation — and handwritten notes

While entrepreneurs are building an excellent business, creating value, working on the business, and zooming out, it can be easy to become distanced from the people who actually do the real work in a company. To continue to create value, entrepreneurs need to fight that tendency and make sure they engage with the line workers. I am referring to the team members who are customer-facing, the folks who do the hard, repetitive tasks that an organization needs to do daily and well. These workers are the backbone of a company. They are part of the machine that makes the business tenable and successful.

Sometimes I encounter entrepreneurs who look disdainfully on these line team members; they can even be downright condescending. After all, most of these line team members do not have the same educational or professional experience as an entrepreneur. This is just inherently the wrong approach to take and will not facilitate the full value-creation opportunity. Entrepreneurs should go out of their way to connect with and celebrate line workers. They should lift and praise the work that line workers do. This not only creates a positive culture and work environment but also engages the team and moves them from the hired help to active participants in the business.

At ArchivesOne, we had a program called Road Day. It was an annual event when people who did not do real work did real work for a day. I jokingly refer to people, like me, who strategize, speechify, sell, and do spreadsheet analysis as not doing real work. Of course, this is real work, but it is not as grueling as hoisting boxes, moving pallets, and driving hundreds of miles a day in all weather conditions. On Road Day, the people who did not do real work were drivers' assistants for a day. This was great for many reasons; participants got to see customers and hear from a driver about what they do and what we ask them to do — the challenges of doing the actual work. I learned a lot. I learned about things we did not do so well and where we could improve. I learned about unreasonable requests we made for our drivers and how much work could be done in a day. I learned how hard our team members worked and how important they were to the business. This refreshed my deep appreciation for their role and what they do. It was also great for our line workers to have a bunch of know-it-all executives as their assistants for the day — they certainly enjoyed that. Road Day was an exciting way to interact with line workers and celebrate their role in the company.

It is pretty easy and inexpensive to treat people with dignity, respect, and appreciation. It is also a real sign of leadership when entrepreneurs treat someone junior to them in a graceful way. It turns out that when entrepreneurs treat people this way, those people, in turn, treat others the same way and want to do more for the entrepreneur and the business. One of my favorite tools is handwritten notes. I would jot out a quick note to thank a team member for a job well done, winning a new customer, earning a promotion, and suggesting an innovative idea. People loved to get them, and it is an easy way to show appreciation and celebrate their work and efforts. At ArchivesOne, people would post the handwritten notes I sent in their cubicles and offices, so I knew something was right.

Value-creation lesson: always build people up and show appreciation, especially line team members. It is the right thing to do and will put entrepreneurs on the path to create the most value.

Communicate more than you can possibly imagine

To build a value-centric organization, entrepreneurs need to communicate ten times more than they ever imagined. People (customers, team members, creditors, shareholders) need to be told the same message over and over again in multiple formats for it to (hopefully) stick. Once is never, ever enough. Different people need to hear the same message in different formats. Some people learn and absorb information through written text. Others need verbal communication. Some need to be shown an example and others learn by actually doing. Additionally, for information and a message to be fully internalized, recipients need to be told many, many times. I used to think it was insulting to relentlessly hammer the same message repeatedly; it is not.

Team members want to feel connected and want to know how the company is doing and progressing. They want to know what the company stands for and believes in, where it is going, and how it is going to get there. They want to know how they fit into the bigger picture, how they contribute, and why they matter — this is all done through communication.

There is no one right way to communicate; every entrepreneur needs to find the style that fits for them. Two of my favorite methods were through training and my monthly team letter. At ArchivesOne, we had a vibrant training program in which I participated as a trainer. We developed our own content, and this was a great way to get in front of team members and drive the messages and stories that mattered. When I visited one of our field locations, part of my visit always included some group training time. I mostly discussed our values and why they mattered and helped propel us forward as an organization, especially as we grew.

I personally wrote a monthly team letter that took several hours to compose. I thought this was a wonderful use of my time. Sharing the highlights and lowlights of the previous month brought the entire team together. I bragged about customer wins and team members who excelled. This was all about echoing our core values, which was our glue that bound us together as we grew in size and geography. I think team members truly liked it — it was a way to get everybody on the same page and make people who did not see each other feel connected anyway. It elevated everybody's perception of the company and made them realize that they were part of something bigger than their individual role or local operating unit.

I knew that our communication programs were working when team members would parrot back to me and use among themselves phrases, words, and stories that were used in my communications to highlight our values, goals, and accomplishments. I knew that communication mattered when team members asked me when the next monthly letter would be published. I knew that communication mattered when our company felt like a cohesive unit moving forward together instead of a group of disjointed locations.

Value-creation lesson: to harness the potential and power of an organization, to get the team engaged and moving together in the desired direction, and to create value, entrepreneurs must communicate more than they ever imagined.

Use open-book management

One of the things we communicated in training and in our monthly team letter was financial and operational data. It was one of the ways we measured our success and performance and the health of the business. We believed in open-book management — the concept of sharing financial information with our entire team and educating the team on what the numbers meant and how to use them. We shared all revenue and EBITDA data with the entire team every month. We shared complete financials with our executive team every month and with our leadership team (our top 50 people) every quarter.

This approach requires lots of patience and education, especially at the beginning, but when you get line employees talking about error rates, deliveries per day, rework statistics, and EBITDA margin, in conjunction with values, mission, and strategy, something is working well and will help build a better business. Just sharing financial data is not adequate. Open-book management only works when paired with consistent education on what the numbers mean and how they work together. If team members do not fully understand how operating data impacts financial results, and how they affect the numbers and what role they can play to improve the numbers, it is not open-book. Open-book management usually encompasses some components of reward and compensation sharing with team members for improved results and profitability.

I believe in sharing information to empower people and level the playing field between the many layers in a company. When entrepreneurs are transparent and open with team members, it engenders bilateral trust, understanding, and more openness — an enviable leadership style. When team members fully understand how their actions and behaviors impact the company's health and performance, they are more deeply aligned with and invested in the business.

Team members are already making all sorts of wild assumptions about the business, for better and worse, so entrepreneurs might as well just tell the team members the truth about where the company is and employ open-book management. What is particularly illuminating for team members is what happens to EBITDA at a company and how profits are used to service debt, pay taxes, invest in capital expenditures, and provide working capital for growth.

Entrepreneurs who are against open-book management often cite fears of competitors seeing data or customers knowing how much a company earns. I think competitors already have a feel for an entrepreneur's business through observation or picking up on a few facts. And, ultimately, customers do not make purchase decisions based on whether a company makes too much money or not.

We took the open-book concept a step further and shared data periodically with key customers and key vendors. Of course, it was usually part of a broader conversation, and the data and talking points were laid out in a slick pitch deck. But we wanted our partners, who had a vested interest in us, to understand where we were and what we were about.

Value-creation lesson: embrace open-book management and share operational data and financial information. Team members are already making wild assumptions about performance, so entrepreneurs might as well share the actual facts.

Vision, values, and culture are the secret sauce – and culture is not what I thought it was

When I was a young entrepreneur, I thought culture was about playing ping pong and drinking beer in Hawaiian shirts in the office. That is what the entrepreneur narrative seemed to imply. I was totally wrong. Culture is about vision and values, and it just might be an entrepreneur's secret sauce.

While building ArchivesOne, competitors would often want to visit us and talk about what we did to grow rapidly and create value. We were happy to have them visit and shared everything we knew and did. What they really wanted to know was our secret sauce. The truth is that there was not a secret sauce. We purchased shelving, a material part of furnishing a records center, from one of the three industry providers that everybody bought from. We used one of the two off-the-shelf software solutions for the industry. We purchased corrugated cartons from one of the big suppliers in the space. Our trucks were Chevys. There was truly nothing proprietary about ArchivesOne at all.

If we had a secret sauce, it was our culture: the way we acted and all of the written and unwritten rules and ways we did things. We talked about our values relentlessly, and we actually lived them. Team members were hired, fired, promoted, and evaluated using values as one of the screens. Team members who did not embrace or live our values did not remain team members for long.

Culture is about where entrepreneurs focus and how they consistently behave. We cared a lot about customer service and operational excellence. We tried to make smart, data-based decisions and explained our decisions to our team members. We communicated over and over again. This all allowed us to scale somewhat gracefully. Culture was the glue that helped us stick together.

We were happy to have competitors visit us and try to learn about our secret sauce because our secret sauce was hard to replicate; it was our culture. Culture is not about ping pong, Hawaiian shirts, and beer; at least it was not at ArchivesOne. It is about how an organization acts, what its ethos is, and how the team behaves. This is especially true for the entrepreneur-CEO. How they behave, live the values, and support the culture has echoing effects. If the entrepreneur undermines these themes in any way, it can cause deleterious results.

Value-creation lesson: great entrepreneurs build economic value through positive and strong cultures that are about excellence and values, not ping pong.

Nobody is inspired by "let's make money for me." Focus on something else: customer service, quality, innovation, and operational excellence

Let me expand a bit on the theme of culture and values. Many entrepreneurs who see themselves on a value-creating journey talk with their team members about making money. I am all for making money, and this should be omnipresent in an entrepreneur's mind and should also be discussed with team members. But entrepreneurs need to understand when leading an organization, it is just not inspiring to talk about making money as a singular vision or rallying cry. This is the case for several reasons. First, making money is not an inspirational message that an organization can exclusively coalesce behind. I am a capitalist, so a business making money is important, of course. It just does not necessarily make team members rush into the business on a daily basis, pouring out their hearts and souls in the business to make money for the entrepreneur. Second, a challenge with orienting a business vision around making money is that when the company does make money, it often does not materially trickle down to line workers. Making money might work for the entrepreneur, but it does not often work as well for the team members. Finally, when communicating with customers, potential customers, potential team members, and communities, talking exclusively about making money for the entrepreneur just does not resonate as a compelling mission. Making more money is not a vision; it is an outcome of doing many other things well.

At ArchivesOne, we made our rallying cry about outstanding customer service and operational excellence. People simply cannot be against customer service and operational excellence; that is impossible. Everything we spoke about with team members, customers, and communities was framed in this context. Customer service and operational excellence are more significant callings than making money. They stir people to be the best they can be and make them feel part of something that is aspiring towards excellence where everybody has an impact. Of course, we did speak about making money and how that allowed us to have even better customer service, invest in people, and provide raises. But it was never about making money for a few shareholders. Nobody wants to hear that, and that is certainly not a vision or mission that motivates or attracts people.

Value-creation lesson: entrepreneurs need to discover what their mission, vision, and rallying cry is — and it is not making money for the entrepreneur. It needs to be something that draws people in, like customer service, quality, innovation, or operational excellence.

Financial Themes

You only need to be good at one or two things to create lots of value

When I was a young entrepreneur, I wanted ArchivesOne to be a fantastic company. I wanted to be great at everything we did. I was a bit obsessed with trying to be the very best company possible. As ArchivesOne grew and scaled, I came to understand that to create value, entrepreneurs only need to be phenomenal at one or two things — not everything. Of course, entrepreneurs need to be good enough at many things and not horrible at anything, but entrepreneurs likely do not need to be excellent at everything.

At ArchivesOne, we were an acquisition machine; we developed the skill to source, buy, and integrate many accretive acquisitions. Over the course of the company's existence, we completed approximately 35 acquisitions. Although that might seem like a dizzying amount, it was actually a disciplined and controlled process and became a core competency. When we made acquisitions, they felt like non-events. We were also competent at capital formation, the ability to raise copious amounts of cheap, flexible debt capital to fund the acquisition strategy.

These two skills, making acquisitions and raising desirable debt to fund the deals, created a lot of value at ArchivesOne. In some ways, this duo of strategic initiatives was our signature. We were OK at sales, but

probably not fantastic. We were OK at technology, more as first followers than leading-edge innovators. We did not really have a marketing program. And we were OK developing a simple strategy that was not particularly differentiated or innovative in any way. In some ways, ArchivesOne was a one-trick pony, but our one trick was hugely impactful.

Value-creation lesson: entrepreneurs and companies do not have to be exceptional at everything. The right one or two things to excel at can be enough to build a value-creation machine. Entrepreneurs should resist trying to be outstanding at everything and, instead, pick the right one or two things that fit and build value.

Equity is overrated, and debt can be OK

In the previous section, I mentioned that ArchivesOne raised a lot of debt. Let me share what I learned about debt on my value-creation journey. Debt is just a tool that can serve or destroy. It is sort of like fire. Fire can keep you warm, protect you, and be used for cooking food, but it can also be lethal if uncontrolled or not used with prudence. The same is true for debt. Debt can serve an entrepreneur and a business, or it can consume a business.

I embrace using debt judiciously. It concentrates entrepreneurs on operations, profitability, and performance with laser-like precision. Equity, especially too much of it, can make an entrepreneur get a bit sloppy and distracted. If there is plenty of capital available with no interest or repayment schedule, an entrepreneur can feel flush, and spending can come easily. Additionally, equity is very dilutive and expensive compared to debt.

Entrepreneurs place themselves at risk of losing control when too much equity floods a business. Furthermore, it is mathematically harder to multiply equity when too much of it is in a company's capital structure. It is far easier to quintuple \$5 million of equity than \$50 million of equity. Of course, entrepreneurs will likely need some equity when building their entrepreneurial venture, but it might be wise to be parsimonious with equity.

ArchivesOne was very debt focused. Our business had reliable and stable revenue streams, which allowed us to use quite a bit of debt. At our most levered moments, we had \$6 of debt for every \$1 dollar of profit. We felt comfortable with this leverage, and it was a mechanism to boost our value-creation goals. By cautiously embracing debt, and avoiding equity, we grew the business without taking on additional equity. When a company can grow consistently and profitably without incurring incremental equity investments, the opportunity exists to become a value-creating machine. By being debt centric, we created high investment returns.

Value-creation lesson: entrepreneurs and companies should not implicitly eschew debt nor embrace equity. Both are tools that need to be approached intentionally and with prudence when building a business. It might be easier to multiply equity and create value when there is less equity and more debt in the capital structure.

Nurture multiple growth channels

ArchivesOne compounded revenue at about 40% per year over a 17-year period, which seemed like a brisk pace. To be a growth company and create value, entrepreneurs need to have multiple channels and not over-rely on any single lever or have too few growth choices.

ArchivesOne grew through three predominant pathways. First, we loved playing with price increases, and I personally spent a significant amount of time thinking about and experimenting with price. This is a

hugely accretive lever to pull and is worth thinking about strategically and allocating executive time to. We achieved price increases of 3-4% per year, which is enormous when a company compounds that out over a few decades. To drive price, we did not employ additional capital, we did not hire or incrementally compensate salespeople, and it was pretty easy operationally. Great models and businesses allow entrepreneurs to raise prices.

Second, we grew through acquisitions; we did approximately 35 of them. We acquired businesses that were identical to ours, and we principally defined our geographic field as being I-95, the East Coast interstate that runs from Maine to Florida. Third, we also grew through organic sales. We had a vibrant customer gathering function that was based on smart contribution economics. We did not seek new customers just to brag about growth.

We did not grow through product extensions. There is absolutely nothing wrong with growth through product and service extensions. It was just not our strategy. Instead, we performed a relatively small menu of services and tried to do them extraordinary well, which was truly hard. Trying to do multiple things well for a young and developing company would have been an even bigger challenge and would probably have reduced our level of excellence. Most people in the records management industry embraced a strategy that was quite different from ours and had what I call a Chamber of Commerce strategy. They defined themselves exclusively by geography. They would do anything remotely related to records management as long as it was in a given city, like Cincinnati. They offered a broad scope of services, few of which they performed particularly well.

Conversely, we had a strategy that was akin to that of the ubiquitous burger purveyor McDonalds with its intense focus on hamburgers and fries. We offered very few menu items but had robust systems and processes that facilitated scale and scope. We had no fear of geography within our I-95 footprint. Product extensions are neither right nor wrong; they just have to fit within an entrepreneur's strategy.

Value-creation lesson: to create value, it is beneficial to have multiple growth channels and understand how each growth channel will fit within the overall growth strategy.

Not all prospects are good customers; customer selection must be deliberate and intentional

This might seem heretical to say, but not all customers are good customers. To create value, entrepreneurs need to know who their target customers are and why. At ArchivesOne, we used to be enthusiastic about big customers. It drove volume and moved the needle. Salespeople loved winning a big customer. We would go elephant hunting and work on big bids, brand names that were prestigious, and trophy accounts.

As I developed as a CEO, we focused more on value and less on size. One way we demonstrated this was in our customer analysis and customer selection efforts. We engaged in a project where we ranked all of the tens of thousands of customers we had as A, B, C, or D customers. To categorize the customers, we ranked customers by volume, price, payment terms, ease of service, and growth — the dimensions we cared most about and that, in our view, determined who was an attractive customer.

After performing this analysis, we were a bit shocked by the data and the results. It turned out that the huge, large-volume customers we had craved were not so great. They tended not to grow, paid us slowly, had bad pricing, and were difficult to serve. They were just not desirable customers. Yet historically, we treated these large customers like icons. When they called, we dropped everything.

It turned out that our best customers were medium-sized and anonymous. These invisible and mundane customers had a great price, paid on time, grew, and were much easier to serve. They were far more profitable and desirable customers than the larger trophy customers.

As a result of this exercise, we shifted our sales approach and redefined who our target customer was. We focused our energies and time on the medium-sized customers who paid top prices. And when we had opportunities for big elephants, we just passed.

Value-creation lesson: entrepreneurs who create value know who their best customers are and pursue that target segment with focus. They are perfectly fine with not having less lucrative and less desirable customers.

Consider investment returns carefully

Value-creating entrepreneurs have a mix of hard skills and soft skills. They think about culture, teams, and lifting people up. They are also rigorously focused on financial performance, not exclusively because it might enrich them, but because healthy companies make money and use capital efficiently. Companies with delighted customers make money. Companies that invest in their people need to make money. Companies that want to grow make money. Value creators make money with as much focus on improving the business as enriching themselves. Value-creating entrepreneurs are rigorous about using capital and funds judiciously. They are not frivolous about spending.

Value creators are relentless capital allocators. They enthusiastically deploy capital into compelling projects and initiatives, and they pass on opportunities that do not provide target returns. This type of entrepreneur is laser-focused on capital returns for equity and does not grow just to grow. Value creators want to grow profitably with appropriate returns on the capital deployed. Value creators will smile and write an eight-figure check for a desirable expansion project, and they will be infuriated when they see hundreds of dollars carelessly wasted in operations.

Great entrepreneurs who are focused on creating value are passionate about their businesses, but they are dispassionate about making investment and capital allocation decisions. They view capital as a scarce resource that should only be used when the opportunity is supported by a minimum threshold return (whatever that might be for the entrepreneur) and is proven by mathematical analysis. Serial investment and capital decisions lead to overall returns and value-creation. Entrepreneurs must make objective decisions about investment opportunities in their business to create value.

At ArchivesOne, we embraced the juxtaposition of being frugal with making large dollar investments with attractive returns. We annually spent millions of dollars on shelving projects for our records centers. This allowed us to grow organically with very attractive returns on invested capital. We were quite happy to invest those dollars. Conversely, we were frugal about expenses that did not deliver a tangible return. For example, when we traveled for business, we all stayed at modest hotels.

Value-creation lesson: entrepreneurs who create value are deliberate about how they use and deploy capital. They are happy to invest large amounts in projects with required returns and fret over small amounts of wasted dollars. They are focused on making money because great and healthy companies make money.

Entrepreneur's Themes

Usually there is no magic — but if there is, it is relentless persistence

When I was a young entrepreneur, I constantly peppered CEOs and other entrepreneurs with questions about business, growth, and building an excellent company. I was probably a bit of a pest, but I was on a quest to build a fantastic business and be the best entrepreneur I could be.

I was convinced that there was some magic that I needed to discover to build a great company quickly, and if some more experienced and wiser entrepreneurs told me, I could save time and energy. It turns out there might not be any magic at all. It is mostly common sense and making many smart decisions over decades. It takes time, and there are no shortcuts.

But if there is some magic, it is relentless persistence, grit, and perseverance. Building a value-creating machine is like pushing a boulder up a hill, day after day, for decades. Building a valuable business is a marathon race; it is not a sprint. Unfortunately, there are no secrets, and there are certainly no shortcuts. Entrepreneurs do not even have to be that smart to build a great company (I proved that). I promise, being a good entrepreneur is not an IQ test. Instead, aspiring entrepreneurs just cannot give up — because if they do, that boulder will roll right back on them and crush them. There are many times in an entrepreneur's journey when it would be easier to stop and quit. I certainly felt that way a lot. Building value, though, is about resisting that temptation and pressing on. Embracing grit is the entrepreneur's friend and the real magic.

Value-creation lesson: sadly, there is no magic to building a valuable business. It is common sense, unending grit, and pushing the boulder up the hill every day.

Acknowledge luck

Any entrepreneur who has created some value and wealth has been lucky to some degree. Being a successful entrepreneur and value creator inevitably has some dose of serendipity. I do not know how much, and to create value, an entrepreneur certainly has to work hard and be sufficiently smart, but fortune has smiled upon every successful entrepreneur. I am not suggesting entrepreneurial success is a function of pure chance, like being a lottery winner, but all entrepreneurs who prospered had at least some small element of luck. This does not imply at all that pursuing an entrepreneurial venture and creating value relies on random events.

Sometimes there are entrepreneurs who, after building a successful company and creating value, begin to think that they are Midas, capable of turning everything to gold. They are so confident in their abilities that a cloud of hubris surrounds them. Resist the temptation to be this type of entrepreneur. When successful, entrepreneurs should enjoy their achievements, be grateful to all those who have been helpful, and acknowledge their luck and good fortune. They should tilt towards humility and humbleness. There are many brilliant and hard-working entrepreneurs who never caught a break, and that can be anybody.

I certainly have been the beneficiary of positive karma in my entrepreneurial journey. My investment thesis turned out to be mostly right. I was lucky with my executive team. I was lucky with mentors and coaches who made me much better and gave me more than I could ever return to them. I was lucky with investors and creditors who supported me. I was lucky to have amazing team members who bought into our vision, strategy, and execution plans. I was lucky with customers who believed in my company and me before they probably should have. I was lucky to have a wife who put up with my quixotic dreams and was supportive. I have been lucky in countless ways.

Value-creation lesson: if you manage to create some value, be humble, and recognize your luck and good fortune.

Entrepreneurs do not have to be Superman — everybody can do this

In one of my courses on entrepreneurship at Yale, I end every session with the declaration, “You can do this!” I truly believe that. Creating value and being a successful entrepreneur is not beyond any talented MBA graduate’s ability. Sometimes successful entrepreneurs are deified, and society treats them as genetically-gifted, swashbuckling pioneers who are special and exceptional in their ability to build a business. This is not true at all.

Successful entrepreneurs are just like you. They come in all shapes, sizes, ages, genders, ethnicities, and religions. There is nothing uniquely special about entrepreneurs. The single difference between entrepreneurs and non-entrepreneurs is that entrepreneurs took the first scary step on a long and challenging journey. They rejected a well-worn predetermined path in life — a series of jobs — and embarked on a rollercoaster journey filled with ambiguity. But entrepreneurs are not Superman; they do not have special powers and were not predetermined to their role at birth. Anybody can be an entrepreneur. If you are uncertain about my opinion here, think of me. There is nothing extraordinary about me at all. Yet I managed to build a successful business and create value. I made plenty of mistakes along the way and learned as I went, but I did it. And if I can do it, you surely can too.

Value-creation lesson: entrepreneurs are not Superman. What put them on the value-creation path was taking the first scary step in a long journey. Anyone can do this, including you.

Make sure that building a business and creating value is fun and about the journey

Building a superb business that creates value is hard work. I tend to be effusive and enthusiastic about any entrepreneurial activity, and at times, I am fearful that I make the path seem easy to my students. I always try to communicate to students that if I have made the notion of being an entrepreneur sound easy, I have done them a disservice. Being an entrepreneur is gruelingly hard. It is all-consuming and fraught with setbacks, twists and turns, and outright failures. It is emotionally devastating at times and will test even the most qualified and confident people. It can feel like running successive marathons at a sprinter’s pace. It is hard to find the words to fully describe just how demanding the entrepreneur’s journey is.

Being an entrepreneur is also incredibly fulfilling and intellectually rewarding. The emotional highs can be euphoric, and the satisfaction and joy of creating something excellent is marvelous. Being an entrepreneur should be downright fun. It is a privilege to lead, create, and build. It is an honor to serve team members, customers, and shareholders. All three of these constituents have entrusted themselves to the entrepreneur.

When entrepreneurs are building a business, they need to make sure it is fun (even with all of the challenges involved). Because it is truly enjoyable. The opportunity to create something that is a reflection of the entrepreneurs’ values and vision is amazing. The opportunity to build something that is bigger than oneself is a gift. Entrepreneurs should take the process and responsibility seriously while trying not to take themselves too seriously.

If entrepreneurs do exit, even with cash windfalls, it is pretty anti-climactic. At least it was for me. It really is all about the journey, not the destination (an exit). The entrepreneurial process can go by blindingly fast, and it is easy for entrepreneurs to get lost in growing and building a business. And as challenging and overwhelming as the process is, once it is over, most entrepreneurs miss it deeply. Sometimes it is only after the journey is over that entrepreneurs fully understand just how lucky they were to be an entrepreneur, lead and serve, and experience just how much fun it was.

Value-creation lesson: enjoy the ride. It is special, and it would be a shame not to take it in and relish it fully.

Conclusion

These are some of the lessons I learned on my entrepreneurial and value-creation journey. I will reiterate them here in point form.

Operating Themes:

- Focus on the business model, not on what the business actually does.
- A great business model includes recurring revenue, entry barriers, high EBITDA margins, internal growth, and leverageable infrastructure.
- Vision is important, but do not underestimate execution.
- Work *on* the business, not *in* the business.
- Be able to zoom in and zoom out.
- Balance the needs of customers, team members, and shareholders.
- Customer service is about scalable systems and processes, not just “being nice” to people.

People & Communication Themes:

- Choose your team wisely.
- Treat people with dignity, respect, appreciation — and handwritten notes.
- Communicate more than you can possibly imagine.
- Use open-book management.
- Vision, values, and culture are the secret sauce — and culture is not what you think it is.
- Find a better rallying cry than, “Money for me!”

Financial Themes:

- You only need to be good at one or two things to create lots of value.
- Equity is overrated, and debt can be OK.
- Nurture multiple growth channels.
- Not all prospects are good customers — choose wisely and deliberately.
- Consider investment returns carefully.

Entrepreneur’s Themes:

- There is no magic, only relentless persistence.
- Acknowledge luck and embrace humility.
- Entrepreneurs do not have to be Superman — anyone can do this.
- Make sure it is fun and about the journey.

There you have it: 22 lessons learned and principles that worked for me as an entrepreneur. I am not suggesting that they will all work for everyone; entrepreneurs all have different styles, priorities, and beliefs. I do, however, encourage aspiring entrepreneurs to try them on for size. See what works, what resonates, and how they fit into your value-creation journey. Find your own voice and approach and follow them faithfully. Hopefully, my story will make the path easier.

Most important, remember that anybody can build a great company and some value; it is all about the *inputs*, making lots of smart decisions over a long period of time. It is picking the right model, working smart, working hard, and having some luck. Everyone single one of you can do this!

This case has been developed for pedagogical purposes. The case is not intended to furnish primary data, serve as an endorsement of the organization in question, or illustrate either effective or ineffective management techniques or strategies.

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Endnotes

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