

What to Do When Your
Company Is TOO BIG to Be Small
But TOO SMALL to Be Big



**DOUG
TATUM**

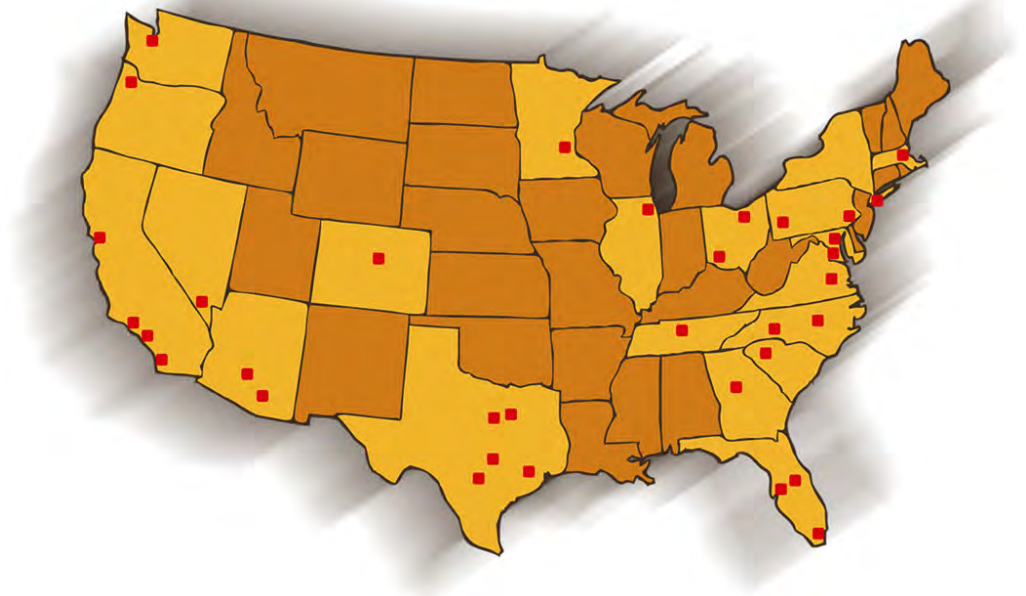
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LAND**



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Doug Tatum - Founding Chairman Tatum LLC

- 1000 Executive Partners and Professional Staff
- More than 30 Offices throughout the Nation
- Serving:
 - > Entrepreneurial growth firms
 - > Private equity firms
 - > Small public companies
 - > Large multi-national public companies

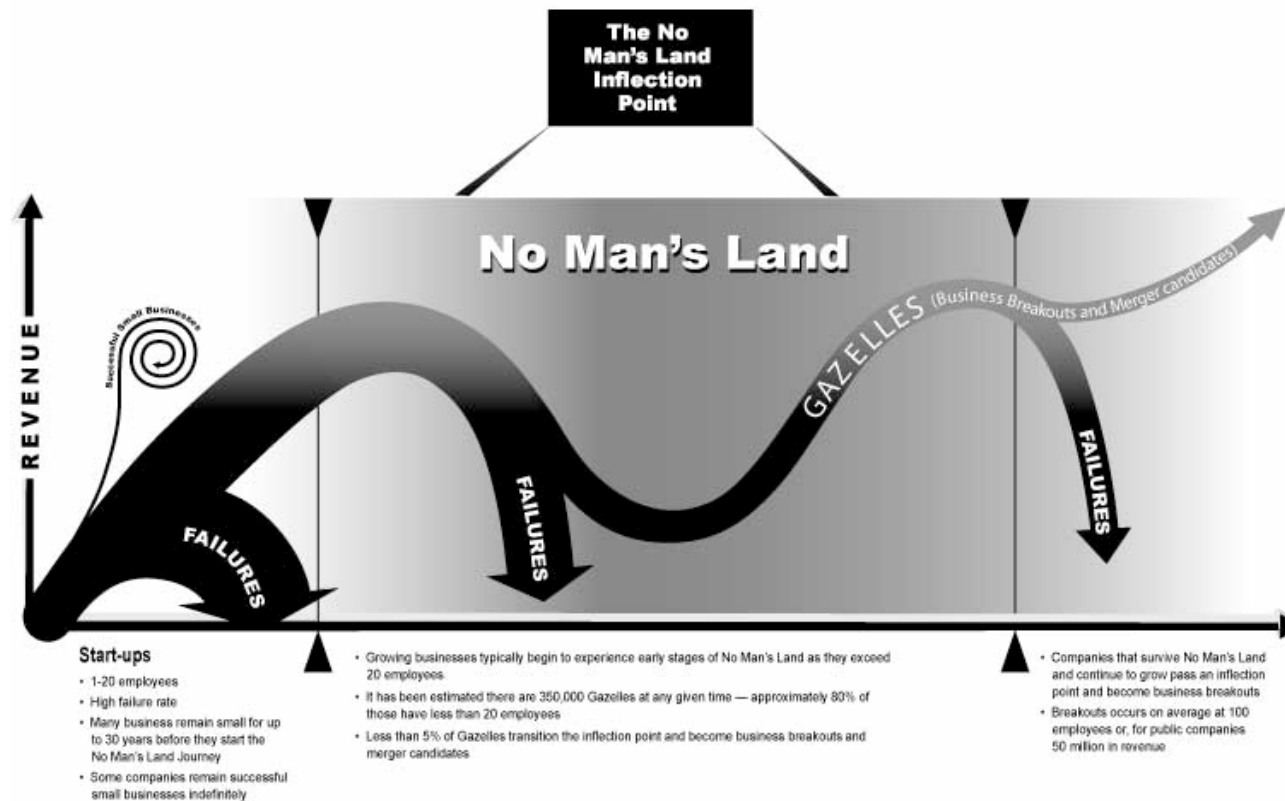




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Gazelles- The Economy & No Mans Land

The *No Man's Land* Inflection Point



RESULTS: Failures • Merger Candidates • Gazelles



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Small vs. Entrepreneurial Growth Companies A Key Distinction

- Who's Creating Jobs – Cognetics
 - > Gazelles accounted for more than 90% of the growth in US job growth although they represent only about 4% of firms' population.
 - > Gazelle Size Manufacturing Companies grew 6 times as fast as large Manufacturing Companies.
 - > Companies that began growth spurts with 100 or more employees (only 2.7% of Gazelles) created well over half the entire job growth indicated above.



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Small vs. Entrepreneurial Growth Companies

A Key Distinction

- Firms with over 5,000 employees eliminated more jobs than they created
 - > Global Entrepreneurship Monitor

Among nations with similar economic structures, the correlation between entrepreneurship and economic growth exceeds 0.70 and is highly statistically significant



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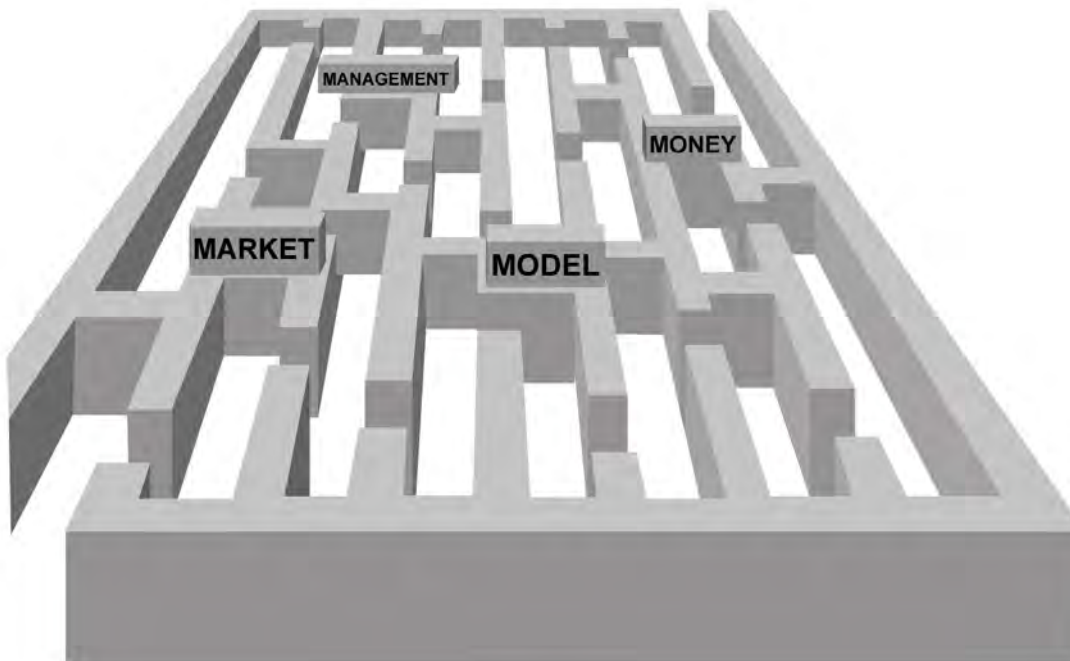
Meeting the Growth Challenge A Map through No Man's Land Definition

- No Man's Land is a period in a Company's evolution when they are Too Big to be Small and Too Small to be Big
- The Entrepreneur feels like he is losing control
- Lot of effort but not a lot of movement; like being caught in a Maze
- Disorienting, old rules don't work any more and effects are reflected in the organization's performance



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Meeting the Growth Challenge A Map through No Man's Land The Four Ms



Realign with your **Market**

Hire your Senior **Management**

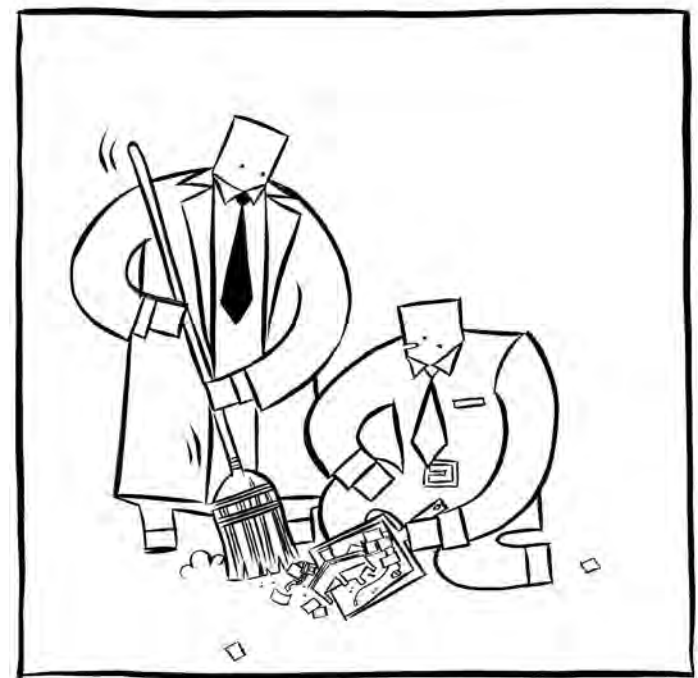
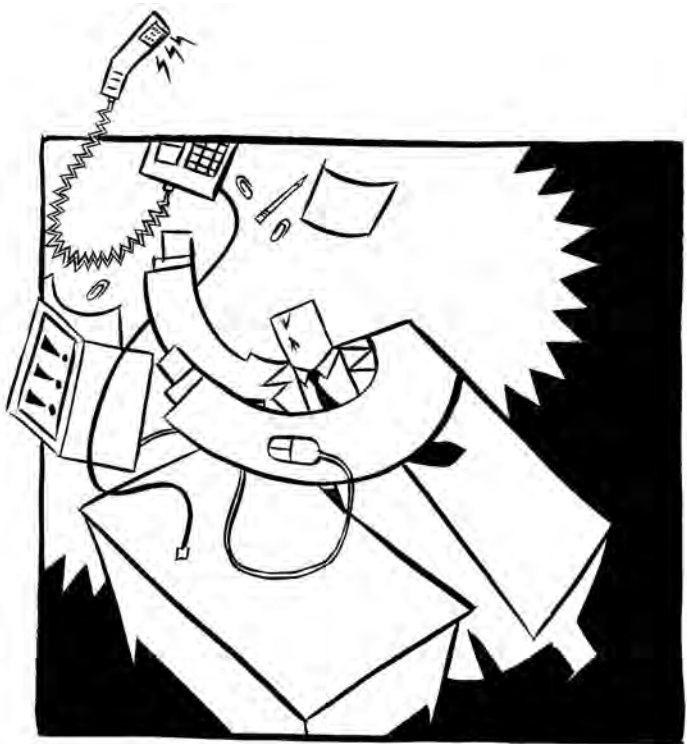
Understand your **Model**

Raise your **Money**



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The Market Transition

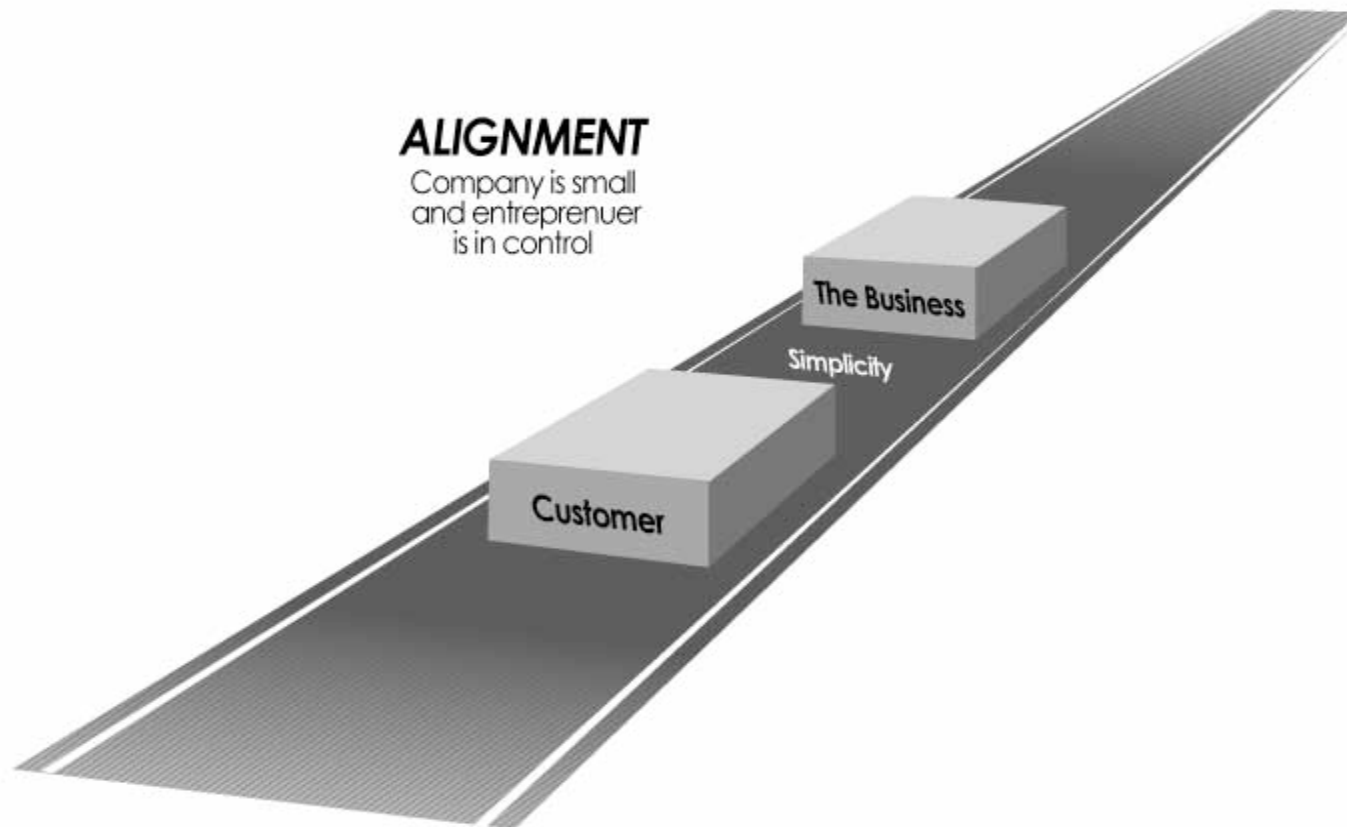




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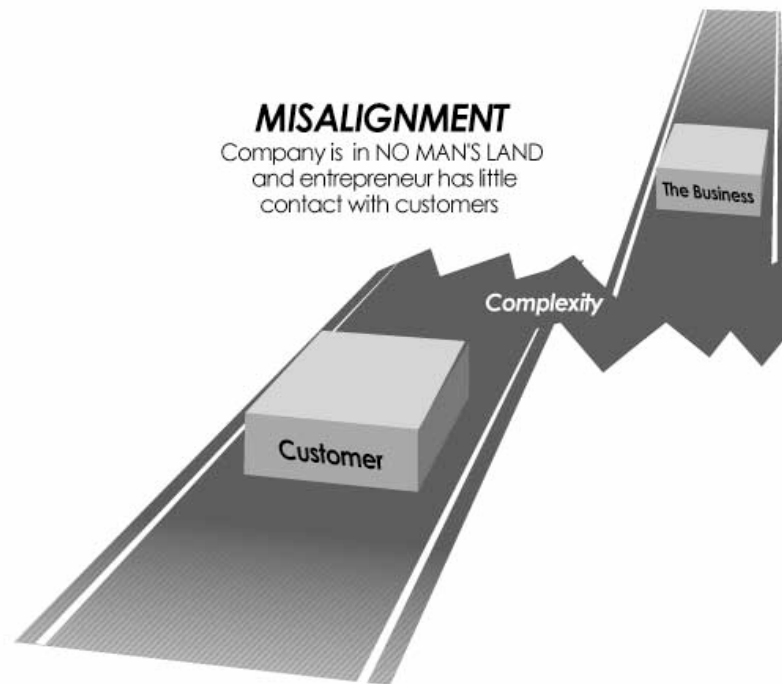
ALIGNMENT

Company is small
and entrepreneur
is in control





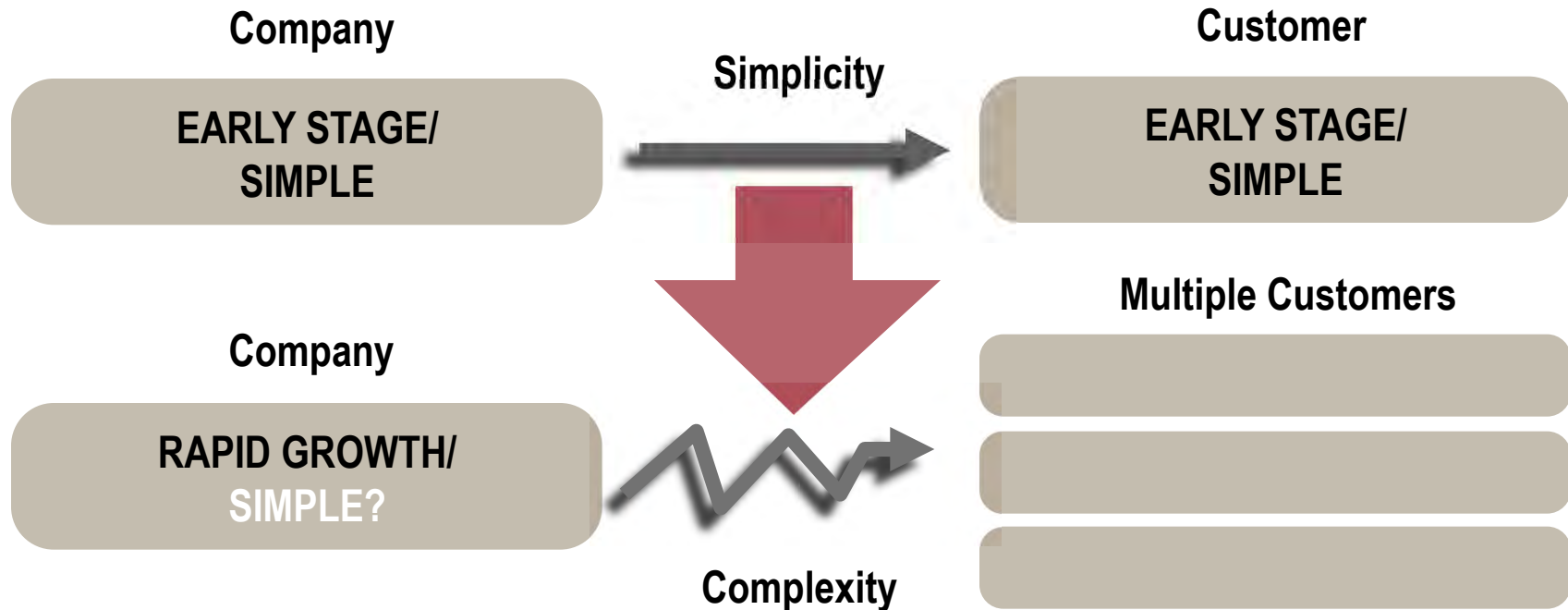
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Meeting the Growth Challenge A Map through No Man's Land Market Mis-alignment



Market Mis-alignment is the natural progression of
Entrepreneurial Control



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Meeting the Growth Challenge A Map through No Man's Land Mis-alignment Causes

- Growth causes less contact with customers who have changing needs
- Entrepreneur physically unable to coordinate all aspects of delivery
- Customers no longer have the benefit of the entrepreneur's high performance cheap labor
- Company becomes internally focused due to strain of overload and issues of growth
- New Products dilutes efforts of Entrepreneur



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Meeting the Growth Challenge A Map through No Man's Land Mis-alignment Effects

- Sales stop growing
- Increasing quality problems/ Complaints
- Tension between Sales and Operations
- Loss of Competitive advantages

{ Company is no longer simple to do business with }



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Meeting the Growth Challenge A Map through No Man's Land The Market Navigation Rule



The business as a whole must become good at doing what the Entrepreneur did well with customers in order to successfully re-create Market Alignment



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The Management Transition





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Meeting the Growth Challenge A Map through No Man's Land The Management Transition

- Owner/Entrepreneur stretched thin and entering uncharted waters — “No Man's Land”
- Long time and loyal employees now in over their heads
- Key functional leaders “frozen” — Looking to CEO for all direction



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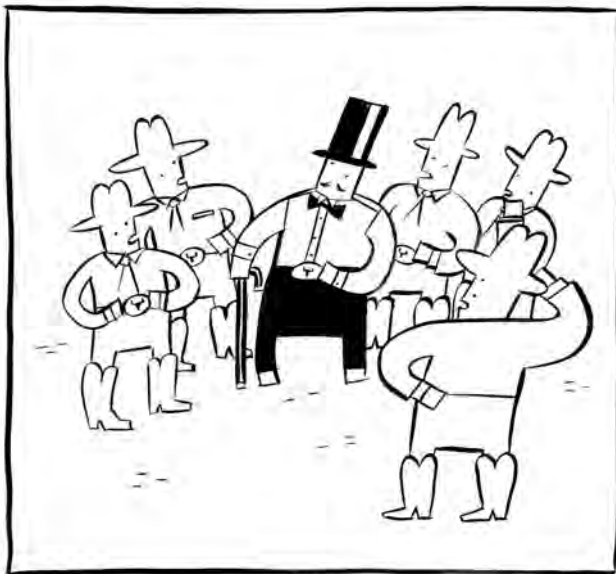
Meeting the Growth Challenge A Map through No Man's Land The Value of Management

- Helps in securing funding
- Leads new scaleable processes that makes it simple for the customer
- Hired specifically to leverage the value of the entrepreneur



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Meeting the Growth Challenge A Map through No Man's Land The Management Navigation Rule



**The founder must hire at the top first,
not the middle, to successfully
navigate through No Man's Land**



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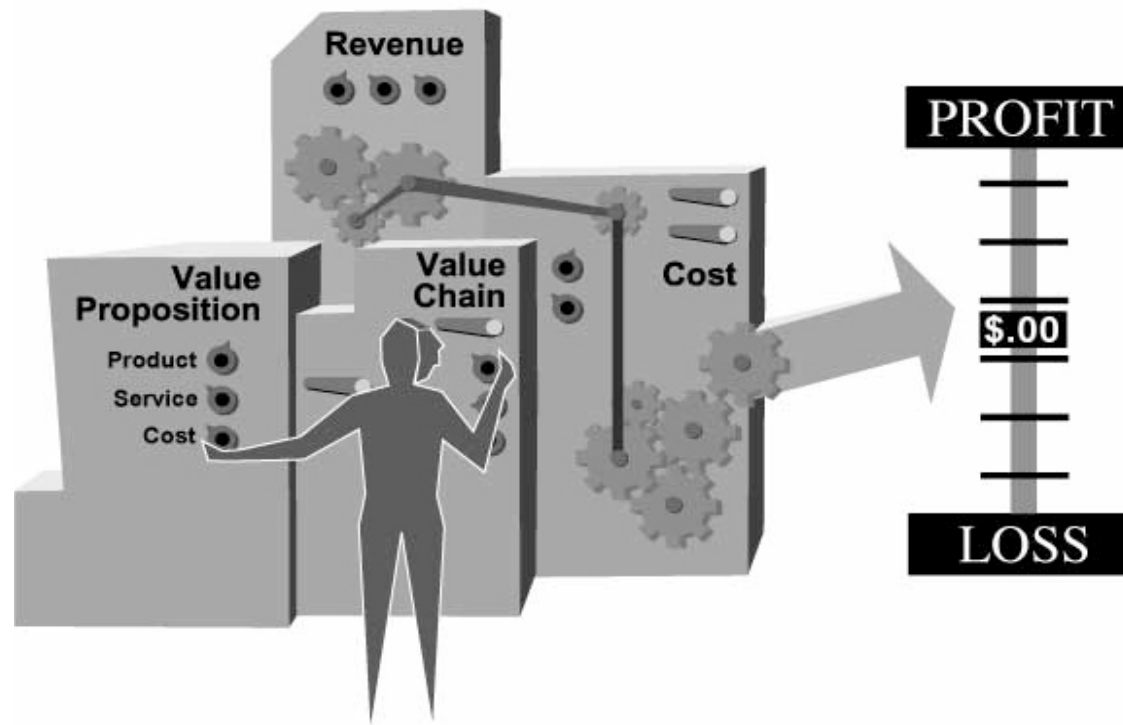
Attracting Management You Can't Afford

United States 2000	United States Now	France 2000
No: <i>valuation requirements</i>	Yes: <i>Valuation Requirements</i>	Yes: <i>Valuation Requirements</i>
No: <i>special accounting treatment</i>	Yes: <i>special Accounting treatment</i>	Yes: <i>special Accounting treatment</i>
No: <i>“qualified options” are not taxable to Individual upon exercise</i>	Yes: <i>“qualified options” could be taxable to an individual upon exercise.</i>	No: <i>“qualified options” are not taxable to the individual upon exercise.</i>
No: <i>the company is not directly taxed on the employees' gain upon exercise of 'non-qualified options'.</i>	No: <i>the company is not directly taxed on the employees' gain upon exercise of 'non-qualified options'.</i>	Yes: <i>the company is directly taxed on the employee's gain upon exercise of “non- qualified options”</i>



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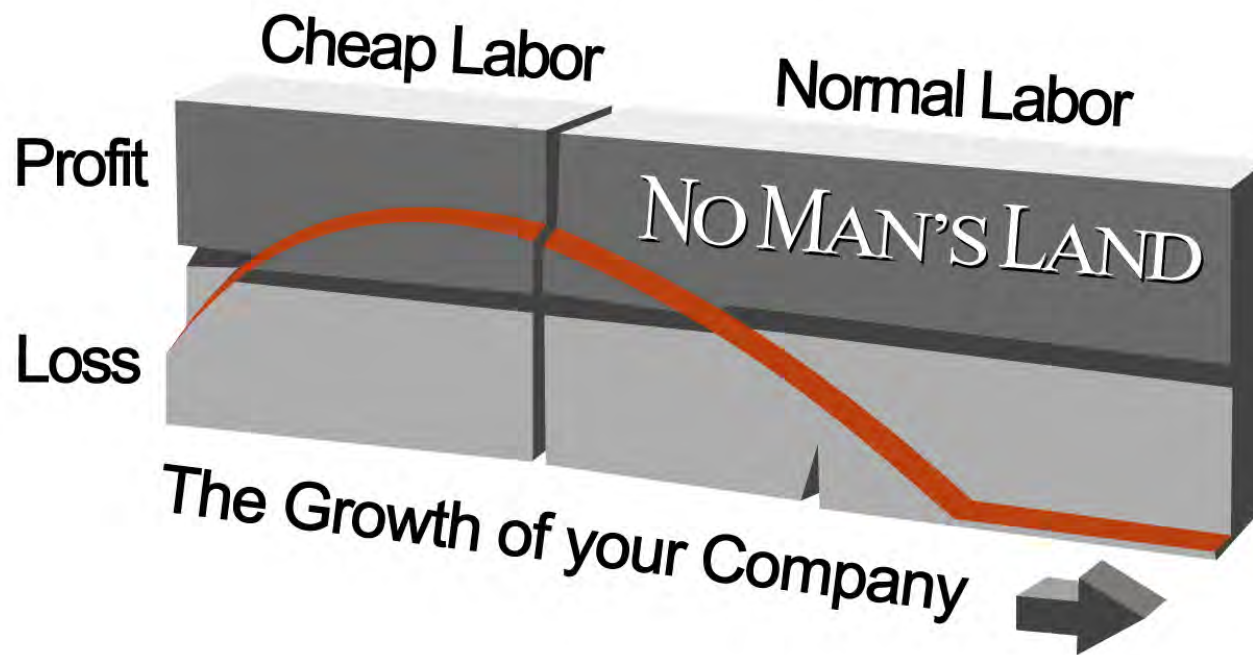
The Transition in the Economic Model





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Meeting the Growth Challenge A Map through No Man's Land The Model





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“Capital Cost of Employee”

terms - 7 year, 8% term note

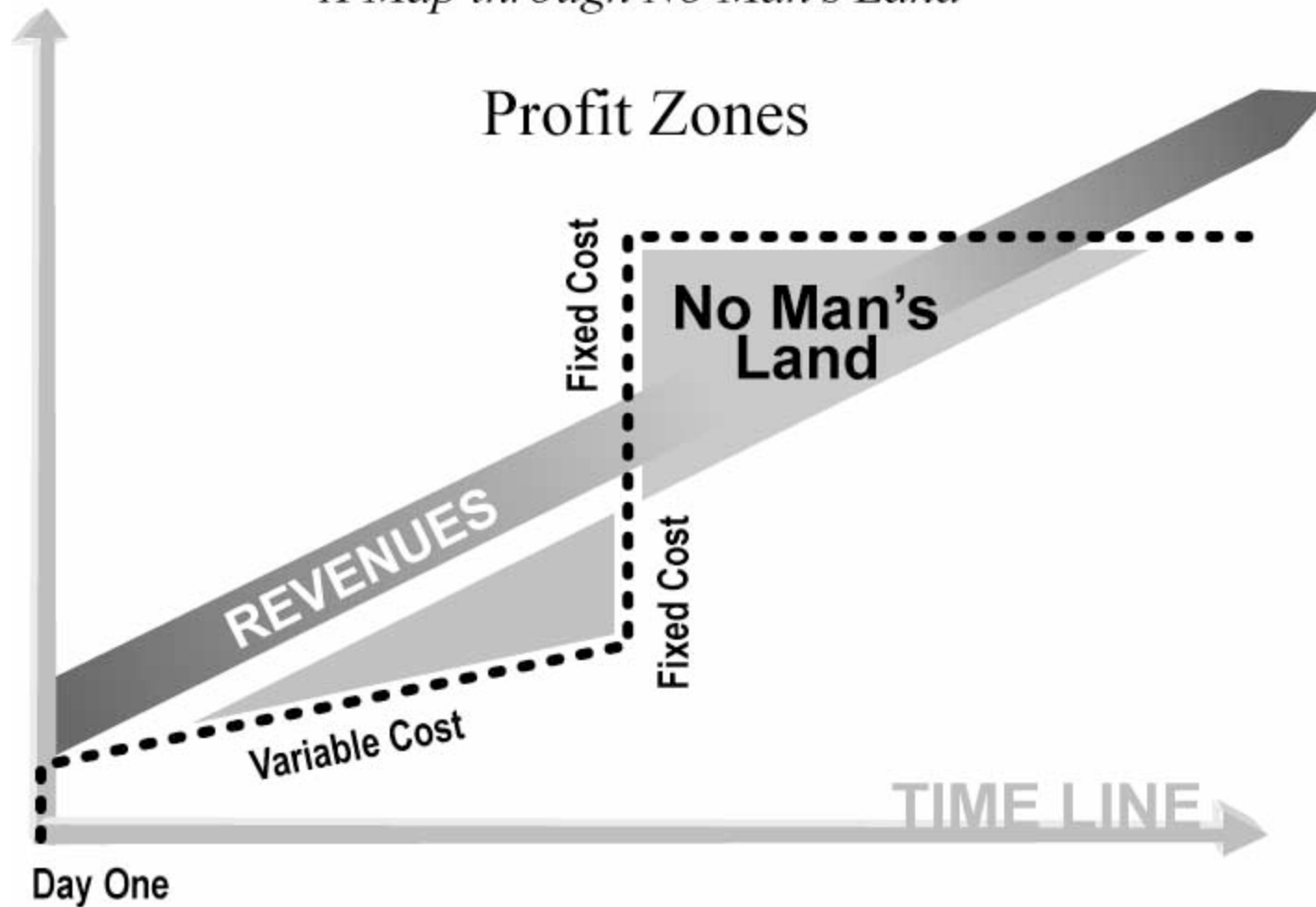
Borrowed Equivalent	Salary Monthly	Amount Annually
100,000	1,559	18,703
150,000	2,338	28,055
200,000	3,117	37,407
250,000	3,897	46,759
300,000	4,676	56,110
350,000	5,455	65,462



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Meeting the Growth Challenge

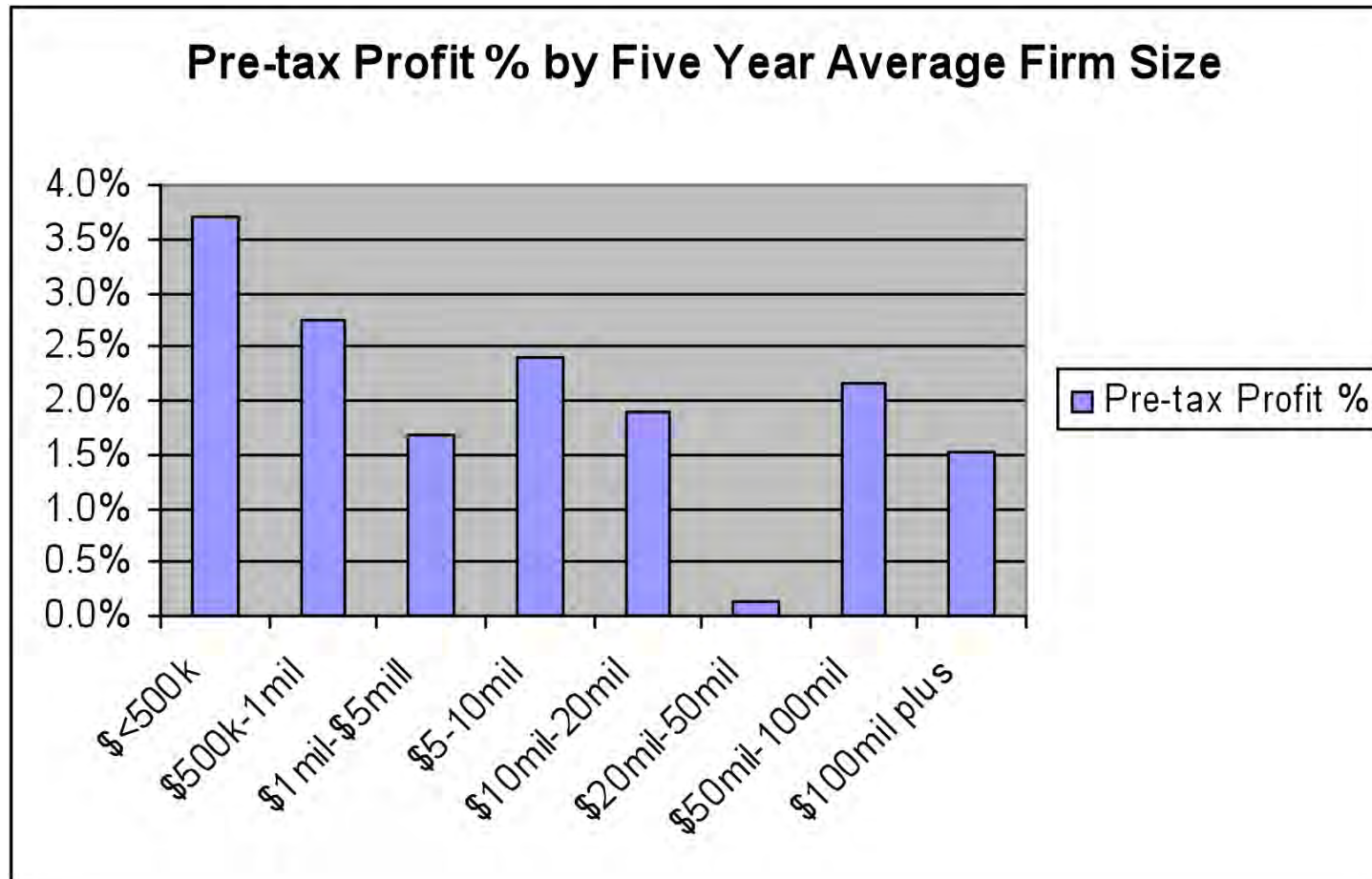
A Map through No Man's Land





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The Case of the Freight Forwarding Industry





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Meeting the Growth Challenge A Map through No Man's Land The Model Navigation Rule

**The business's value proposition
must be scalable (profitable at a
higher volume) to successfully
navigate No Man's Land**



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The Money

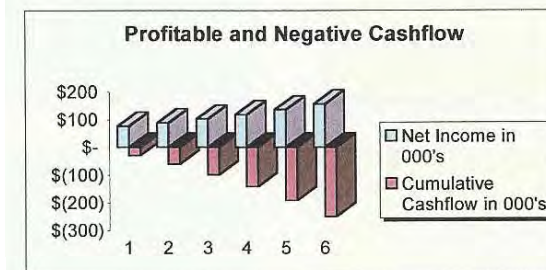
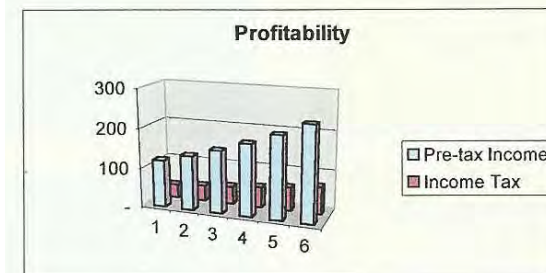
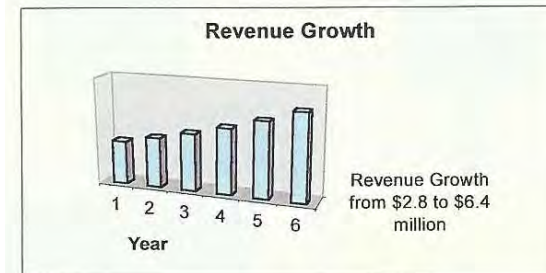




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Microeconomics of Growth

The following illustrations were built from an economic model that accounts for the typical asset growth characteristics of a rapidly expanding business on accrual accounting and transitioning through "No Man's Land."

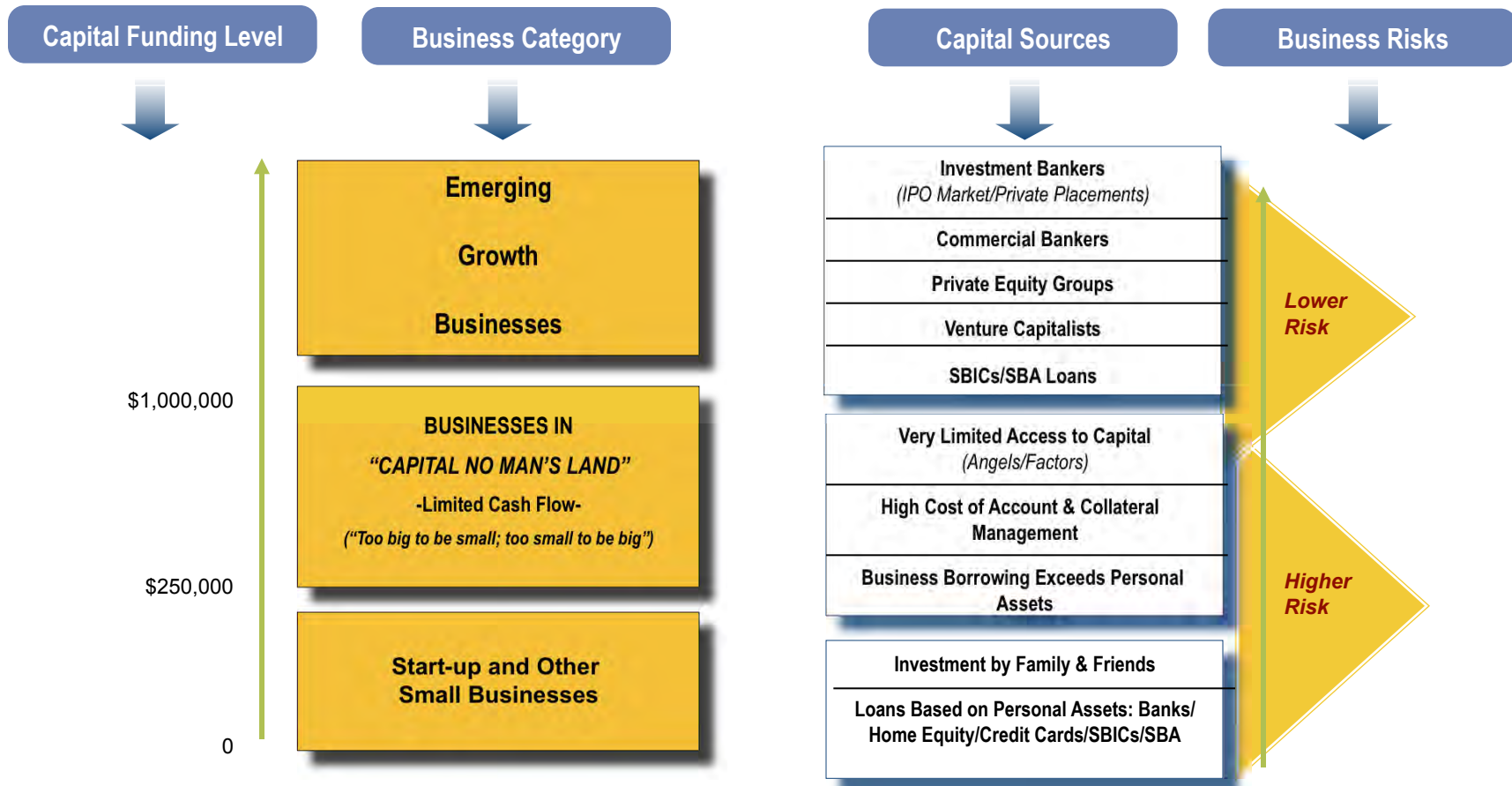




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Illustration of "Capital Funding Gap"

Capital Funding Sources & Risks For Small & Emerging Business





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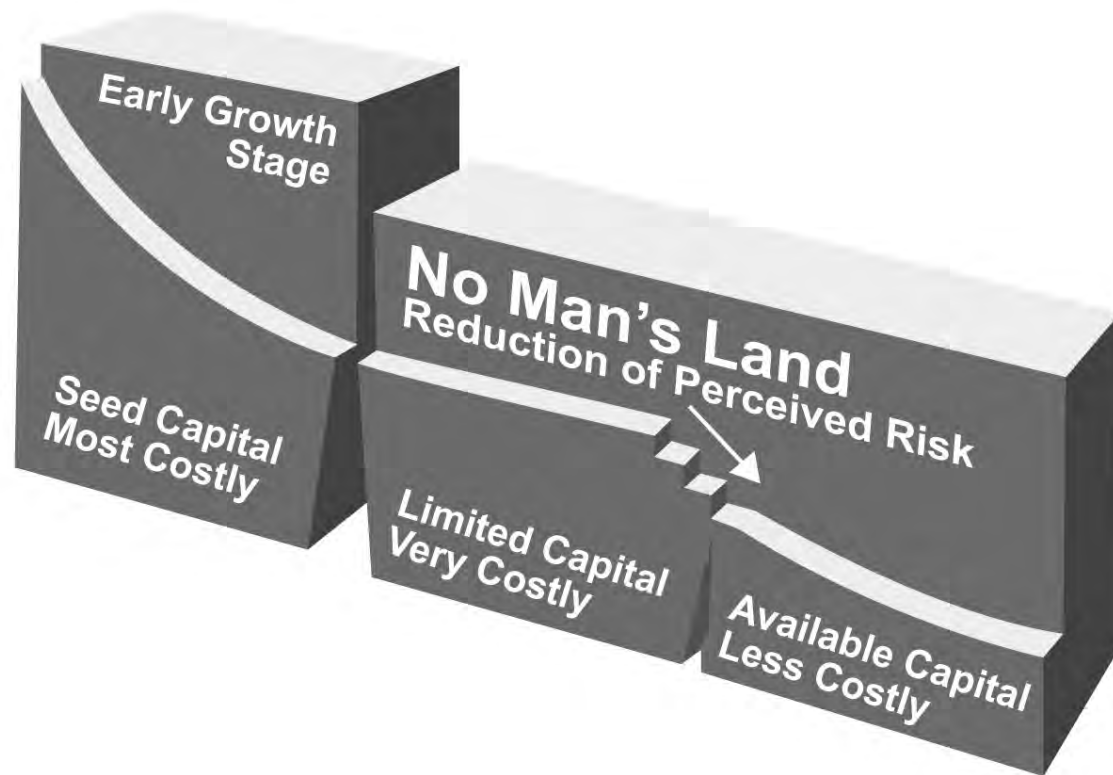
Micro-economics of Capital Growth

Private Company	Public Company
Acquisition Costs – Due Diligence	Going Public – Underwriting Process
Monitoring Costs	Governance Costs
Risk Adjusted Cost of Capital from the Lender or Private Equity Investor	Risk Adjusted Cost of Capital from the Public



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Meeting the Growth Challenge A Map through No Man's Land The Money





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Meeting the Growth Challenge A Map through No Man's Land The Money Navigation Rule



**The key to raising money is reducing real
and perceived risk of the company**



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General Thoughts and Conclusions

- The Key to passage is becoming Strategic!!!
- Lead, Follow, and Get Out of the Way!! - There is no way around No Man's Land
- What do you do with this information when you get back to the office?

