Growing, Scaling and Building a Great Company

Insights from a CEO who grew a small company into a large company over 30 years

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Executive summary

Over the course of 32 years, I grew a small data processing company with less than $3.0 million in revenue to a market leading, global digital advertising and marketing services company with over $1.2 billion in revenue and more than $4.0 billion in enterprise value. I was 25 years old when I bought Merkle in the late 80's via a small leveraged buyout for $5.3 million.

I wasn't born into a family business or groomed to become a businessman. I grew up in a middle class family where my dad worked in sales and my mom stayed home with the kids. I had limited exposure to business or entrepreneurship. While in high school, I was asked to be the general manager of a small landscaping and lawn maintenance business with three employees, which gave me my first taste of business. I loved it. I loved being in charge, I loved the long hours, seeing the fruits of my labor and making some good money, for a high school kid anyway. It was my first real taste of business, of being in control, of building something.

I am dyslectic, which wasn't as widely understood 40 years ago as it is today, and it made school a very unpleasant experience as I struggled to achieve even average grades. Hard work and determination became my survival mechanism. I went to one of the few colleges that accepted me, Shippensburg University in Pennsylvania, where I studied business and took my first finance and accounting courses. For the first time in my educational life, I found something that came easy to me.

After college, I became a stockbroker for a regional firm in Philadelphia and had my first exposure to real wealth and observed firsthand through several of my clients the wealth creation, freedom, comradery, and sense of accomplishment that owning a business could create so I set out to buy a business for myself. Keep in mind I was 24 years old and had accumulated about $50,000 that I could invest.

One of my clients owned a small 24-person data processing company in Maryland called Merkle Computer Systems Inc., and he was interested in selling the business and retiring. I raised $300,000 of capital from another client, borrowed $2.5 million from a local bank and the seller took back another $2.5 million to be paid overtime. I became majority shareholder and CEO of Merkle Computer Systems on Dec 2, 1988, becoming Merkle's 24th employee. I was young with no real experience and just jumped from account executive to CEO. Now What…

The purpose of this paper is to share my views on what it takes to scale a company from a small business (sub $25.0 million+/- in revenue) into a large business (more than $1.0 billion in revenue). I have invested more than 30 years developing this point of view through my real life experiences of building a $1.0+ billion revenue company, while helping many of our clients grow their respective businesses and watching our employees grow and thrive.

I realize not all companies want to be big companies and that is ok. I also realize that many founders and CEOs just don't know how to scale over long periods of time. Some try and fail, some don't try at all, and some clearly succeed. I have written this paper for the people like me who are eager to learn and have a desire to succeed and the will and determination to win.

Is growing a big business hard? Of course, it is. But in my experience, you don't have to be some kind of genius or have an Ivy League MBA to grow a business and create tremendous value for its stakeholders.

What you need is an identified path, a set of tools and best practices, and an unwavering will to succeed. That is the focus of this paper.

What is the purpose of your company? Why do you exist?

Let's talk a bit about what the primary purpose of a business really is. Is it satisfying customers? Is it making money for shareholders? Is it providing opportunities for employees? Or maybe employing family members? Or serving the community? Or maybe success is defined by how much money the founder/CEO can take out of the business on an annual basis. All companies will ultimately need to decide what is important to them, and generally for a lower mid-market company, that responsibility resides with the founder/CEO, and with a large company, it may be the board.

If your primary purpose is to extract as much cash as possible from the business annually, you will likely have difficulty growing consistently over time; primarily because growth requires capital and if you consistently remove that capital from the business, it will generally constrain the business especially if M&A is part of the strategy. I would refer to this behavior as a lifestyle business.

Being a lifestyle business is fine and can provide very nice cash flow to its founder/owner, but they generally don't yield material enterprise value in the event of a sale. These companies tend to stay small.

If your primary purpose is to raise a bunch of money and sell your business as quickly as you can for the right price, I would generally see this as a financial strategy, again nothing wrong with this strategy, but not one this paper will try and address.

If your purpose is driven by invention and a desire to create multiple businesses over time and you enjoy the process of starting companies, I would generally describe that person as a serial entrepreneur, which is also fine and obviously a choice for any founder, again not one we will focus on with this paper.

If your purpose is to scale to become a large well-run business and becoming a market leader in your industry while building a world class management team and creating substantial value over time, this paper was designed for you.

For absolute clarity, I make no judgement of any business owner for what they choose as a primary purpose. Like beauty, value is in the eye of the beholder and there is certainly nothing wrong with running a lifestyle business, being a financial engineer or a serial entrepreneur.

Scaling from small to large

In my experience, growing and scaling a business is hard. Most companies ultimately struggle to scale as evidenced by the fact that **less than 1% of all companies in the US grow to $100 million in annual revenue.** The real question is why? Do owners and CEOs not want to grow? Do they not have the resources to grow? Let's explore this a bit more. For starters, of the roughly 16,000,000 businesses in the US, approximately 14,750,000 are less than $1.0 million in revenue. These are truly small, what I would call mom and pop businesses, or sole proprietorships.

Then, there are roughly 1,000,000 businesses in the US that are more than $1.0 million but less than $10.0 million. I would call these lifestyle businesses. Many of these businesses are family run, generate a nice profit for their owners, but they have little interest in going to the next level.

The remaining 250,000 are more than $10 million in revenue and could also fit the profile of a lifestyle business, or they may aspire to grow very large and, of course, many are already large. But the fact is, according to the 2021 US Census, there are only 5,409 companies in the US with more than $1.0 billion in revenue, including both public and private companies. **That means that of the companies that do grow to more than $10 million in revenue, only 2% of them ever hit $1.0 billion in revenue**, and my guess is that many, many more than 2% of these companies are trying to create a big business.

How many of you have worked for a company where the CEO stands up and says we are going to be a leader in our industry, we are going to grow, and we are going to do all this great stuff and then nothing really happens. This happens a lot.

First, let's state the obvious. You can't build a large company unless you are really committed to building a large company. It will not happen by itself. Second, you must also play in a large industry, say $20.0 billion or more. I am not suggesting that you can't build a great successful company in a smallish industry (think All Clad, WD-40, Tabasco) and grow to be a very nice sized business, but usually, if you want to grow to $1.0 billion in annual revenue, it generally means you need to pick a large and growing industry.

Why scale from small to large?

This is really the critical question for any business owner and there is no right answer. In my opinion, the most important thing is that you have an authentic answer to this question. The worst thing you can do is say you want to grow but then not take the necessary steps to actually grow. One might suggest this is delusional. On the other hand, if the owner is happy with the current size of the business and doesn't really want to expand that is certainly their choice.

There are two other stakeholders you must consider: employees and customers. If you are a growing business and creating lots of opportunity, you will likely attract and retain a certain type of employee. You also must think about your customers and the behavior of your competitors. Do economies of scale allow for lower pricing? Is there a lot of innovation going on that can only be funded by being larger? Do customers want you to service them in other markets? Not growing is fine unless you can't retain employees or customers, and then the whole company is in jeopardy.

The other, and maybe for some the most obvious reason to grow, is that a bigger company is a more valuable company, assuming profits grow along with revenue. If wealth creation is important, then growing the enterprise value of the business is a very productive path. You can also create wealth by distributing profits to the owner, but real multi-generational wealth will likely only be created by dramatically increasing the company's enterprise value.

For the remainder of this paper, I am going to assume you want to grow. That you are committed to growing and willing to make the necessary investments in time, people and resources to grow with the objective of building a great company and creating generational wealth for shareholders.

Growing a company first means you need to be a great company

If you want to be a growth company, as previously stated, you need to decide that you will be a growth company. You also need to recognize that most companies don't grow because they are poorly led and poorly managed, and therefore poorly run. **If you want to grow, you need to be a well-run business.** Your core objective may be growth, but your mission needs to be how do we become a great company.

Great companies grow. Period. They grow even if their industry doesn't grow because they tend to take market share. In my experience, great companies grow 2-3X faster than their markets because they take market share from their weaker competitors. **Growth is an outcome of being a great company**. So how do we become a great company?

Building a great company

If you want to grow and scale over time, your primary mission is very simple: build a great company**. Great companies do two things well. They serve the needs of employees and customers, and consistently grow and are profitable over time**. The notable thing about building a great company is that great companies also tend to become very valuable over time by serving the interests of shareholders, in addition to employees and customers.

I have developed seven core beliefs that drive my thinking around creating a great company.

1. Great companies are built by great leaders. You will never become a great company without committed leadership.
2. Great companies attract and retain great talent.
3. Building a great company is hard and will take a long time.
4. Growth is the lifeblood of a great company.
5. Culture is the foundation of competitive advantage and a key attribute of all great companies.
6. Maximizing shareholder value is the outcome of building a great company, not a strategy in of itself.
7. Time, and the compounding of results over time, is the greatest creator of value and wealth for owners.

So, what does it take to become a great company?

- The will to be a great company. You must want to be a great company!
- A compelling vision for the future.
- A disciplined strategy that drives priorities and effective execution.
- The ability to attract and retain high quality talent.
- A set of beliefs that drive employee behaviors and culture.
- You must do great work for your customers.
- The ability to change, innovate and evolve.
- An effective performance management system.
- Patience, determination, and an unwavering will to compete and win.
- You must be profitable, well capitalized, and financially disciplined.

- The ability to balance the needs of customers, employees, and shareholders.

How do you know if you are a great company? Well, it is really pretty simple. You can observe and measure the outcomes of a great company. These are the questions you must ask yourself.

- Do you consistently grow faster than the market?
- Do you attract and retain very high quality talent?
- Do you have repeat customers?
- Do you have very high customer satisfaction?
- Do you deliver consistent financial results?
- Are you admired and feared by your competitors?
- Are you recognized as a market leader in your community or industry?

If you already know the answers to these questions, I mean *really* know them as facts and track them over time, you are probably well on your way. If not, it would be a good place to start.

As previously discussed, if building a great company is your primary goal, you need to recognize that it can't be done without a focus on great leadership and management. **Great companies are well led and well managed**.

The CEO is the primary driver of success

Companies don't grow because they don't have access to capital or talent, or their products and services are no longer relevant. They don't grow because the CEO can't build a high quality team, can't or won't delegate, can't pivot, can't motivate their teams, they stop learning, they stop innovating, they can't build a consistent and purposeful culture that supports their desire to grow, but most importantly, **companies stop growing because their CEO stops growing.** This is hard for many CEOs to hear but in my experience, it is the number one reason companies stop growing or never grow in the first place.

The enemy of becoming a great big company CEO is success and experience as a small company CEO. You start making good money, you start getting recognized by friends, family, industry peers and your community. You start thinking I am smart, I've got this. You start to spend more time sharing your newfound wisdom and success with anyone who will listen vs focusing on identifying the next level of skills you will need to learn in order to get the company to the next level. **As the saying goes, what got us here won't get us there!**

Management and leadership, the foundation of all great companies

A strong CEO can "will" their company to $10.0 million or even $20.0 million in revenue, but generally the company will hit its glass ceiling without great management and leadership. Let's talk about the difference between management and leadership. Management is generally about authority, and leadership is more about influence. Anyone who has authority and direct reports is by definition, a manager, but not all managers are good leaders.

Generally, you can't rise up through an organization without being a good manager. You need to know how to manage people, process, budgets, etc. or you won't get promoted. Many companies take a high performing individual contributor and make them a manager and see how it goes. This is an extremely flawed strategy, as good and effective managers are the lifeblood of any good organization. As the saying goes, **people leave managers, not companies**. So, what makes a good manager?

Good managers do these things well:

- Understand vision and translate it to strategy
- Focus on people as individuals
- Define actions to execute short term strategy
- Determine short term investments
- Determine how to organize their teams
- Determine how to operate and deliver product or service
- Hold their teams accountable and provide effective feedback
- Create culture through their teachings and behaviors

Are you a good manager? Are your managers good managers?

- Do you understand the vision and strategy of your company? Not just your area of the company, but the whole company? Have you discussed it with your team? In the last 30 days?
- Can you hire and retain great people?
- Can you teach, train and mentor?
- Can you delegate and hold people accountable?
- Can you organize teams and build processes and standards?
- Can you manage to a budget?

Now, let's compare that to what good leaders do

In the early part of your career, leadership is not as critical to your success as management. Leadership is left to the "executives." As you rise through the organization, developing leadership skills is one of the most valuable things a good manager can do to become a well-rounded executive. All great executives are both good managers and good leaders. In most companies, management is either trained on the job or in the classroom, but rarely is leadership.

As an experienced manager, say more than 10 years' work experience, it is assumed you will be a good leader. As previously stated, good leaders work on influence not authority. They work across the organization not up and down it. In the early part of your career your boss gets you promoted, **in the later part of your career your peers get you promoted**, generally because you are an effective leader. The **currency of good leadership is context, communication, and relationships**. So, what makes a good leader?

Good leaders do these things well:

- Inspire others with a compelling vision for the future

- Communicate well and often
- Develop a well thought out point of view supported by data and facts
- Provide context not just content
- Ability to see a path forward and a willingness to get their hands dirty
- Understand their business and industry inside out and stay well informed
- Ability to hold opposing thoughts in their minds at the same time
- Invest time in the market, not just within the company
- Capacity to get things done through others
- Receptive to new ideas, new concepts, and new ways of doing things
- Create energy, enthusiasm and promote teamwork
- Ensure their voice is heard
- Ongoing commitment to being a student of business
- Skilled in building relationships across the organization

Are you a good leader? Are your executives' good leaders?

- Do you have a personal brand? What do you stand for?
- Do you have a passion for learning? What is the last thing you learned that will drive the business forward?
- What are you trying to be an expert in? What is the last business book you read?
- Who are your followers? Who are you currently trying to build a better relationship with? How would your peers react if you became their boss?
- Are you market relevant? Do you understand the industry? Are you close to competitors? Do you spend time with customers?
- Can you get things done through others without direct authority? Can you get an idea sold to your peers?
- Who are you recruiting right now? Can you name three people you would love to have on your team?
- Are you ambitious? Are you a driver? Are you accountable for your ideas? Your team? Your impact?
- Do you understand your company's culture? Can you describe it? Can you explain the "why" behind your values and beliefs?
- Can you think like an owner? Can you balance the needs of critical stakeholders (customers, employees, suppliers, communities, shareholders)? Can you think for yourself?

Without good managers, any company will suffer high employee turnover and a lack of employee satisfaction. Without good leaders, you will not be able to build the cultural fabric the company will need in order to change, evolve, grow and scale. They are both incredibly important, and the CEO and broader executive team must make it a top priority to develop these two critical groups.

Without these critical groups you will quickly find yourself in the 99% of companies that never reach $100 million in revenue. You will likely make up all kinds of excuses, like the economy went against us, we didn't have the capital or worst of all, you will just stop talking about it, like you never wanted to do it in the first place.

Culture as competitive advantage

Let's talk about culture for a moment. I think most business owners understand the concept of culture. With that said, I don't think the vast majority of business owners, CEO's and corporate executives fully appreciate the true impact of culture. As Peter Drucker said, **"culture eats strategy for breakfast."** What do you think he meant by that? In my experience, **culture is the single most important thing you will need to get right to be a great company.** I would suggest all great companies have a purposeful and well defined culture. For most businesses, culture is the only true form of competitive advantage.

So, what is culture? Let's start with what it is not. It is not a poster on a wall. It is not team building. It is not going out for drinks after work. **It is not an HR function or something that can be delegated.** For starters, **it is the most important job of the CEO**. Show me a company where the CEO is directly involved in determining the core values of the business, constantly talks about how those values have shaped the company's beliefs system, and how those beliefs drive the desired behaviors of employees, and I will show you a strong, well defined culture (and likely a successful business). Show me a business where the CEO delegates "culture" to the HR department and I will show you a company that clearly has a culture, but I guarantee that culture lacks purpose and consistency. If you only take one concept from this paper, I suggest it is this one.

Culture drives behavior and behavior is reality. Culture is not an input; it is an outcome. Therefore, most employees struggle to describe the culture of their company. They know it when they experience it. Culture is all about a CEO determining the core attributes that the company will value in its people and why. He/she will then define a core set of beliefs that will help define how they want to operate as a company. It is the combination of values and beliefs that will shape the desired behaviors that drive the company forward. Culture takes time, focus and energy that most leaders are unwilling to commit to. **Not building a strong culture is, in my opinion, the number one reason companies don't consistently grow and sustain greatness over time.**

Growth is the lifeblood of all great companies

If you have a committed CEO, the right thinking on developing your managers and leaders, and a commitment to developing your culture, you can now focus on the primary core competency of a great company, which in my opinion is growth.

So, what are the key attributes of a growth company?

1. **A desire to grow.** I am not talking about just saying the words. I am talking about making this the most important priority of the business. Set ambitious goals. Stop making excuses about the economy or competitors or, even more ridiculous, a lack of capital. You need to set the stage that growth is not an option. We are going to grow. Grow or die.
2. **A clearly defined path to growth.** How are we going to grow? Generally, for most mid-market companies, this means how do I expand into new services, new product lines or new geographies.
3. **A long-term financial plan that defines your growth ambition, margin and cost targets.** It should also address gross margin, net margin, capital needs, leverage, and cost center targets for both the current year and next five years.

4. **An optimized organizational structure that positions the company for growth.** You will need to define and delegate P&L responsibilities. You will need to set targets and goals. You will need a process for measurement and accountability.
5. **An incentive system that creates alignment across the team/company as well as motivates individual P&L owners within the business**. You will need to decide if you will share equity across the executive team.
6. **A management meeting rhythm that is consistent and effective.** Weekly, monthly, quarterly, and annual meetings. Define the attendees and have a set agenda.
7. **A clearly defined set of core beliefs and values across the company that supports your growth strategy**. You will need to train your employees on your culture. You will also have to train your managers on how to manage within your cultural goals.
8. **A commitment to holding people accountable to doing their jobs, including executives, managers, and employees**. You will have to create a process to give employees feedback both in real time and in a more structured way.

Developing your Growth Company Playbook

Becoming a great company is a journey and one where you will likely never find the finish line. Therefore, you will need to develop a discipline in how you plan, allocate resources, set goals, and prioritize. Most people will think of these things as the elements of strategy.

All good strategy is fundamentally grounded in choice and can generally be expressed through the answers to a series of questions. At MRE, we have built what we call a **Growth Company Playbook**. The following questions are the foundation of that playbook and serve as a guide to evaluate your progress on the growth journey.

Depending on your company's current scale and sophistication, I am quite certain you will likely have already started to address many of these topics, but most small and middle market companies have yet to formalize a system for optimizing company performance over time. That is the primary objective of the MRE Growth Company Playbook.

Any growth company CEO will need to be able to answer the following questions:

1. How will we describe our vision for the future? Who do we want to be? How big? Why? When?
2. How will we document our long term strategy? What do we need to get right over the next five years? What are our core strategic themes, both short and long term? What products and services will we focus on? How will we expand? What are the critical metrics that will help us understand our progress, both short and long term? What role will M&A play?
3. How should we be organized? How do we create well defined accountabilities? What does a scalable structure look like? How will our P&L's (more is better in my experience) be structured? What critical roles are we missing? Who on our team needs to be upgraded?
4. How will we create incentives that support our long and short term goals? What is our philosophy on cash, bonus, and equity compensation? Who will be included? How will we pay for it?
5. How will we create alignment and a sense of shared accountability across the executive team? Senior leadership team? Employees as a whole? How will we give employees feedback on their performance? How will we effectively hire and fire?

6. What will the meeting and communication rhythm look like for executives, management, and staff? Will we meet weekly, monthly, quarterly, annually?
7. How do we create and support a growth culture? What are our core beliefs, values, and behaviors? How will we document and train for culture?
8. How will we develop a multi-year financial plan? What are the growth plans for the next five years? Revenue, margin, and cost targets? How is the business model defined? How will M&A fit in, if at all?
9. How will we effectively capitalize the business? How will we fund growth? Will we use leverage? If so, how much?
10. What will the board look like? Primary purpose? Do you want outside directors?

It will take time, probably at least 1-2 years to really lay the foundation to having effective answers to these questions, and likely 5-10 years to really build your team and culture. It is important to keep in mind there are no right answers. What matters is that you find a consistent set of answers that work for you and are aligned with your values, your beliefs, your culture, and your business.

M&A as a driver of growth

You can't talk about growing a business without addressing M&A. Most very large companies have done M&A at some point in their history. Companies generally acquire for a variety reasons: to add new capabilities that can be cross sold to existing customers, to add capabilities to diversify beyond their core market, to expand geographies, to expand into new customer segments, to create economies of scale and improve margins, to vertically integrate to reduce cost and increase control, and so forth.

At one end of the spectrum, you have companies that primarily focus on organic growth and would not likely do what I would call a transformative acquisition. I would put Amazon and Microsoft in this category. Both have done big acquisitions. Amazon bought Whole foods and Microsoft bought LinkedIn, but neither of these were "bet the farm" type deals. Their primary focus is on organic growth.

At the other end of the spectrum, you have companies that have a holding company, rollup, or consolidation strategy where their primary focus is on growth through acquisition. Companies like WPP, which is the largest publicly traded advertising company in the world, has probably done 500 acquisitions over the last 25 years, or a company like Waste Management, which rolled up the fragmented waste management space in the 70's and 80's.

M&A can be a huge accelerant to growth but can also layer a whole new set of challenges and complexities into the business. From finding the right deals, doing effective due diligence, determining a fair valuation, getting the deal structure right, financing the deal, and most importantly, integrating deals over time. I have personally led more than 25 acquisitions over the course of my career so I have seen firsthand how they can be a major accelerant to growth. **Bottom line: Don't ignore M&A as a major lever for both expansion and value creation…**but you should also acknowledge that an awful lot of M&A fails to achieve the desired result, so you need to be sure you are disciplined in both your approach and execution**.**

Optimizing shareholder value over time

Let’s now talk about optimizing the value of a business over time. Businesses generate value for their owners primarily in two ways - through compensations and distributions, and/or the sale or re-capitalization of the business. A well run, growing, profitable business in a big industry is worth a lot of money. Most people would understand this. What most people don’t fully appreciate is the power of time in maximizing after tax enterprise value. **Most people sell their business too early and don’t properly prepare for an exit that truly optimizes the owner’s wealth.**

Let’s be clear, in my opinion, building a company to get rich is a bad idea (it certainly was never my goal). But building a great company that serves both customers and employees and also makes a founder and his/her executive team very wealthy can be a very rewarding experience. I realize talking about wealth in most circles is taboo, but with that said, for most it is a very important part of the broader journey of building and scaling a great company.

As I have said many times, **“It is not about the money until it is about the money and then it is all about the money.”** What I mean by this is most great private company entrepreneurs don’t talk about the value of their business or wealth creation very often (the good ones don’t anyway), but if the time comes to exit the business in part or in whole, you need to know how to do it right as it will likely be the most important financial event of your life, and maybe that of your children, grandchildren and their children, if you do it right.

I realize selling the business and creating multi-generational wealth is not everyone’s goal. Maybe passing the business to the next generation, transferring ownership to employees, or going public may be the goal, but most of the upper mid-market and large companies ultimately sell to private equity or a strategic buyer, and knowing how those people think, and more importantly, knowing what they value, will maximize your exit valuation if that is the path you choose.

The key drivers of exit multiples are:

- Organic growth rates (2-3X faster than market)
- Large and growing addressable market
- Recognized as a market leader
- Quality of the management team
- Quality of customer base - no large concentrations
- Margins greater than or equal to industry average
- Recurring revenue business model
- Operating leverage in business model as you scale
- M&A track record
- Ownership across executive team
- Quality of performance management system
- Quality of the board of directors
- Clean capital table
- Limited add backs to EBITDA

Ask yourself how you would be judged against each of these things, at least on an annual basis. I wouldn’t suggest managing to them for the sake of creating a better story. I would really try and make them part of the development and strategy of the business. **You can't sell or fool your way to a higher valuation; you truly need to earn it.**

As you will also see from the list above, all of these elements are pretty natural inputs (quality of management team) or outcomes (organic growth rates) of building a high-quality business. These things combined tend to drive exit multiple based on EBITDA. Some companies get valued on a multiple of sales, but I wouldn't count on it. In my experience, getting these things right could improve your exit multiple (multiple of EBITDA) by up to 50% or even 100%. **I have seen numerous cases where industry average multiples might be in the range of 8X EBITDA, and the best run businesses will easily trade at 12X, 14X even 16X**. On $10.0 million of profit, that means $40.0-$80.0 million more to the shareholders at exit.

If you want to dramatically increase the value of your company and shareholders' equity, I suggest you focus on four things.

1. Raise as little money as possible, manage your dilution, and use leverage whenever possible.
2. Grow revenue and profits consistently.
3. Truly be a buttoned up, well-run company.
4. Do it for a long period of time. The compounding effect of building a company over a long period of time is very impactful.

Time is your friend-Let's look at a simple example: Most investors would see a 20% IRR as attractive. So, let's say you grow your business 20% each year for 5 years, and your company grows by 250% or 2.5X. Many people might be happy with a 2.5X return on their investment, in fact, the whole private equity industry is built around a 20% IRR and 2.5X your money in 5 years.

In this example, let's assume your business in year 1 was worth $10.0 million, so in year 5 it is now worth $25.0M. So, you sell it because you are happy with that return. You now have to pay taxes of at least 30% in most states so you net $17.5M after tax. Let's say you are not ready to retire so you find another company and do the same thing. You sell that one for $25.0M and net another $17.5M. For the sake of argument, you do it a third time with the same result, $25.0M and $17.5M net for a total of $52.5 total net proceed over 15 years.

Now let's say you were able to grow the original business for all 15 years at the same 20% and then sold it. You would net 15X your original $10.0 million, or $150.0 million less 30% tax leaving you with $105.0 million vs $52.5. That is the power of compounding. **Build your business for as long as you can to optimize wealth creation. Pretty simple.**

Closing thoughts

If your goal is to build a big company, the odds are against you. Remember, 99% of companies in the US never achieve $100.0 million in revenue or even come close to $1.0 billion. **But in my opinion that is not a reason not to try. Let me assure you that it can be done with the right attitude, focus, determination, and people.** But it must start with the founder/CEO. You don't have to have a fancy education or be the founder of sexy startup to build a big, well run, valuable company. Pick a large and hopefully growing industry and just get at it! It will likely be one of the most rewarding experiences of your life.

About MRE Capital

MRE Capital was formed in 2008 and is the private investment company and family office of David Williams. David spent more than 30 years building Merkle, a leading digital advertising and marketing services company. David acquired Merkle in 1988, which was then located in Lanham, MD with 24 employees doing approximately $2.8 million in revenue and $800,000 in EBITDA, becoming its CEO at age 25. He then grew Merkle, through a combination of service expansion, geography expansion and M&A to $1.2 billion in revenue and $300 million in EBITDA and $4.0 billion in enterprise value when he exited as CEO after selling the company to Dentsu, the largest publicly traded advertising and communications company in Japan in 2020.

MRE has two core focus areas - real estate and privately owned operating businesses. Our real estate portfolio has investments across retail, mixed use, industrial, multi-family, office, and veterinary real estate across the eastern United States. Our operating business investments include business services, quick service restaurants, fast casual restaurants, home services, real estate services and private equity.

MRE's primary mission is to be the partner of choice for mid-market privately held family businesses that seek a partner to help support continued growth in large, fragmented industries over long periods of time. We can be reached at info@mre-capital.com.