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2013 Q1 UPDATE

Welcome to the 2013 Q1 Milestone CEO Newsletter. As we emerge from winter there is much hope and many positive signs for the remainder of 2013 and beyond. We are also excited about our upcoming CEO Retreat in Amelia Island. We look forward to seeing most of you there in person. We have a great program planned. So, some key highlights at Milestone:

1) Our CEO 360 Degree Feedback program is virtually complete. We worked with nearly every company in the portfolio over the last six months and we, as a firm, have gained exactly the type of insight we had hoped for in seeking to better understand the nature of the alignment between our boards, our CEOs and their senior teams. We are also hopeful that our CEOs were able to gain meaningful insight into their own performance.

2) Our fundraising for Milestone IV is complete and we have successfully raised \$300 million, which represents a 25% increase over Milestone III. We couldn't be more pleased with this result in the very trying markets in which we raised the fund. We are also pleased to now turn 100% of our collective attention to deploying capital, working with our existing portfolio and driving value for our investors and management teams.

3) Our CEO Retreat in early April has come together nicely. We have a terrific workshop for CEOs and Directors only on Monday afternoon which will, once again, be hosted by John Spence. This year's session will focus on some insight gained via our CEO 360 program. We also have some great special guests speaking on topics that are top of mind in the business world today. It should be great. IF you haven't finalized your plans yet, please DO.

As the proud parent of a 16 year old, I noted recently just how much kids today have going on in their lives and what exciting times they live in. Then I reminded myself that I am living in the very same times and just how fortunate we all are that this is so. Peace.

- Ric Andersen

GUEST ARTICLE



CAVEAT VENDITOR

BY JOHN A. LANIER

John is the founder of Middle Market Methods. His career includes financing small businesses, overhauling business models faced with the competitive realities of the global economy, and maximizing enterprise value for investors.

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Selling is integral to corporate existence, much less growth. However, selling suffers from an image crisis - largely of its own making. Especially now, professional selling is an opportunity for market differentiation. One of my more recent reads on the subject is a Daniel Pink installment, *To Sell Is Human*. Many of Pink's points punctuate this article. First, the descriptors associated with the sales profession follow the 80-20 principle: 80 percent are negative. Part of this historical phenomenon is rooted in the absence of trust. Asymmetrical information fueled this fire. Vendors once controlled nearly all pertinent information. Consequently, *caveat emptor*, i.e., let the buyer beware, was the norm.

Thanks to the information revolution, purchasers - both commercial and consumer - may not only Google themselves silly getting educated, i.e., symmetrical information, but they may get even in response to a bad experience. On the latter point, the restaurant principle of telling a few intimates that the service was lousy may easily mushroom toward telling the worldwide web on a blog that the product and or customer service is a dud. This new paradigm is *caveat venditor*, i.e., the seller must beware the consequences of unsatisfied customers.

Never before has it been more necessary and prudent to approach sales differently. Yet, one of the oddities of the sales profession is how little effort is invested in the strategies and tactics of effective selling. Indeed, the overwhelming majority of middle market sales people are untrained in professional selling techniques. Sales training should not be confused with product training. It does not matter how much sales professionals know about their product if the product offers no solution to the customers' needs. If fact, more harm than benefit may result from this scenario.

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PORTFOLIO FEATURE:



INSIGHTS FROM MACHINE LAB CEO MATT DUFFIELD

Our first year with Milestone has passed. Milestone Partners IV took the lead in December 2011 to purchase our business from a small Midwest Private Equity Group. Machine Laboratory, LLC (ML) is a contract manufacturer of machined precision components for the Automotive, Medical, Industrial and Defense industries. The business is operated in four locations consisting of 150,000 sq. ft. and 280 people. Given the fact that our business is capital intensive, our manufacturing processes are operated 7 days per week, 24 hours per day, 365 days per year. We liken our operating schedule to flying a plane that never lands while refueling in the air. A continuous operation can be a challenge but providing precision products at competitive prices (amortizing the fixed cost structure over 365 days) has proven to be one of our competitive advantages as we continue to successfully serve our customers in Asia, Europe and North America in a very competitive environment.



ML manufactures products on CNC lathes and milling machines. Our products range from as small as 1 millimeter to 12 inches in diameter. We produce to very tight tolerances (less than 2 microns or 1/25 of a human hair) in significant annual volumes.

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GUEST ARTICLE (CONTINUED)

The Recipe

Jeffrey Gitomer explains in his Little Red Book of Selling that the first thing sales professionals must comprehend is that our customers detest being sold. Rather, they want their problem solved. When they are convinced that they see a solution, they want to buy. Stated another way, customers will buy value. What is value? Value is perceived benefit beyond price. This is the surest strategy for avoiding commoditization. When competing products are perceived at par, price is the primary purchasing decision. The predictable casualty of this scenario is margins.

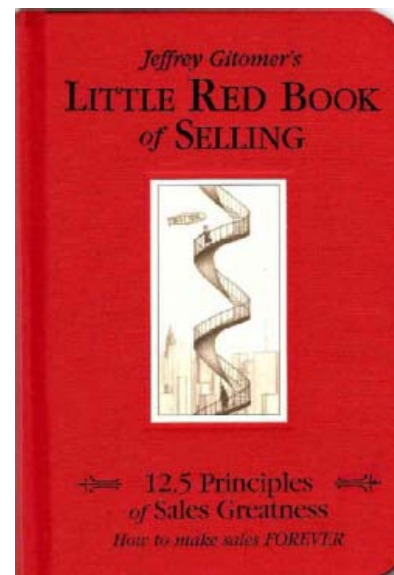
How do sales professionals learn to recognize value-providing opportunities for customers? The short answer is listening and observing. Sales professionals should reflect on the implied message in the Almighty's design of the human head. The ratio of ears to mouth - and eyes to mouth - are no coincidence. Collectively, this is a 4:1 ratio.

When empathetic dialogue describes the prospect engagement, real information is more likely to be exchanged. That is when the sales professional learns whether his product addresses the prospect's needs. If the solution resides within the sales professional's toolbox, the proposal for solution is akin to the kanban pull in a Lean organization, i.e., the customer's need pulls the order. Essentially, this process mirrors guidance in the Hippocratic Oath and Socratic Method. First, do no harm, and second, ask questions until the need is clearly understood. Only then should a solution be proffered.

What if the prospect does not need what the sales person has? First, the customer need might be categorically compatible with the sales person's business model, but absent from the existing product line. This is an opportunity signal to the product development process for filling a product line gap. Most middle market companies regard marketing and sales as synonyms. However, strategic marketing addresses the five Ps - product, price, placement, promotion, and packaging - within the most efficient marketing channels so that the tactical sales effort may be more effective.

Second, sometimes there is not, nor will there ever be, a fit. This scenario relates to the discipline of triage. Even Hall of Famers are out more than safe. That's why pipeline management is so important.

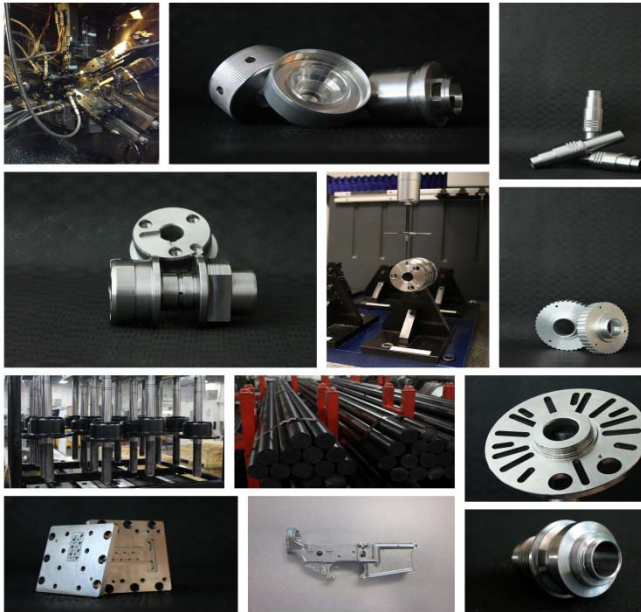
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MACHINE LAB CEO MATT DUFFIELD (CONTINUED)

The trick is to provide these products, in volume (250 million units annually) to the customers' specifications, on a consistent basis, at competitive prices and provide our new investors a significant return. I know, it sounds too easy but living in the Midwest, we do not have anything better to do.



As with any business, we face a number of challenges, as do many of you. Our exponential growth (10x Revenue in 10 years), diversification from one customer and one industry to multiple customers in four industries has identified a number of opportunities for ML and its management. Fortunately, Milestone has a number of Prized Service Providers and other resources that can be drawn upon. We have used a number of these resources very successfully in strategic planning, marketing, human resources and board of director support. I recommend everyone take advantage of the resources available.

Our second year with Milestone looks to be even more dynamic as we continue to execute our Strategic Plan and look for new opportunities for growth. I hope to see everyone at the CEO Retreat and look forward to meeting more of the Milestone Family.

- Matt Duffield

GUEST ARTICLE (CONTINUED)

There are natural conversion rates for a company within an industry from suspect, to prospect, to customer, to repeat customer. Implied is an argument for metrics and analysis.

Even with qualified prospects whose needs fit the sales person's product line, there may be some obstacle to the first transaction. The temptation may be to push for closure. Generally, this is not a good idea because any trust built to that point may become collateral damage. The Glengarry Glen Ross movie depicted ruthless sharks. These sales people were ABC agents: "always be closing." Indeed, this is the image that the sales professional must shed.

Savvy sales professionals do not forfeit trust-building opportunities. Rather, consummate sales professionals continue to probe for problems to solve. Indeed, she might discover that the prospect's most pressing need is unrelated to her product line. If her network is sufficient, she may be able to make introductions to other vendors to solve the more urgent problem. If the sales professional chooses to be a solution provider instead of a peddler, she may attain the preferred status of trusted advisor. This status has a high probability of eventual reward. The only question is timing. Why do sales people push their luck for near-term gratification instead of a long-term relationship? One of the answers may be that they have not developed enough qualified prospects within their pipeline.

Behavioral profiles are a hot topic. Traditional sales models promote the extroverted, gregarious, type-A personality. Interestingly, there is no statistical validation that extroverts make the best sales professionals. Indeed, the evidence leans in favor of ambiverts, i.e., professionals with sufficient emotional intelligence, or E.Q., to adjust relative to the prospect and situation. Even if leaders cannot shed the bias for type-A sales professionals, they should satisfy themselves that the new hire candidate knows when to throttle back.

Some of the most effective sales transactions are rooted in aligning the customer's decision makers with the would be vendor's problem-solvers. This doubles as a customer service demonstration. Indeed, Daniel Pink points out that typically 40 percent of a company's non-sales employee time is invested in some type of sales support. For example, a highly technical product might benefit more from placing the selling organization's design engineer in front of the prospect's manufacturing supervisor to observe how the product behaves in production. If the supervisor is persuaded that the design engineer understands how tight part specification tolerance improves the production process, that accomplishment may be sufficient to carry the day with the procurement leader. Instead of the Happy Bunny perversion of agency theory, i.e., "It's all about me," the sales professional enjoys success by a servant leadership approach.

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ADDITIONAL READING – JOHN SPENCE

Please also consider John Spence's recent article, available at the following link:

milestonepartners.com/documents/spence1.pdf

John has been a frequent speaker at Milestone's CEO Retreats and the audience has always appreciated his engaging and straightforward approach. John has earned an international reputation for delivering programs and consulting that give people practical ideas and actionable tools that they can apply right away to improve their business and life.

For the past 17 years, John has presented workshops, speeches and executive coaching to more than 300 organizations worldwide including; Microsoft, IBM, GE, Abbott, Merrill Lynch, AT&T, Verizon, Qualcomm, State Farm, and dozens of private companies, government offices and not-for-profits. John is also the author of "[Excellence by Design – the six key characteristics of outstanding leaders](#)" and "[Awesomely Simple – essential business strategies for turning ideas into action](#)" and has been a guest lecturer at over 90 colleges and universities across the United States including Harvard, Rutgers, Brown, Stanford and the Wharton School of Business at the University of Pennsylvania.

SAVE THE DATE!

Milestone 2013 CEO Retreat
Mon April 8 - Wed April 10, 2013



Amelia Island Plantation
Fernandina Beach, FL

GUEST ARTICLE (CONTINUED)

Being a solution provider to the customer requires placing the customer's needs first to solve the problem. Not only does this brand the sales professional, but it also brands the company which the sales professional represents. The forefront of conscious thought for the sales professional should be that a reputation may take a lifetime to build, but a minute to destroy. This is the essence of caveat venditor.

The Recipe

Effective selling is personified by conversations whose tenor is about problem solving - not pricing. Of course, ethical sales professionals do not gouge when they perceive that the prospect will buy the solution irrespective of price. Trust is the most valuable of all currencies. How does a sales professional know when she has earned trust with her prospect? Generally, it comes in the form of how openly the prospect communicates with the sales professional. The spectrum of possible interactions ranges from business to personal. "What do you think about . . . ?" is a clue.

Another interesting manifestation of trust is the absence of contracts. Trust transcends contracts. Note: Earned trust from actions is entirely different from "trust me." What idiot works without a contract? Me for one. The overwhelming majority of my relationships evolve into a memorialized discussion in an e-mail. This is where values enter the picture. If either party is unethical, a contract is merely a litigation exhibit.

Whatever sales methodology is employed, hustle is complementary to trust - and an admirable behavioral trait. Hustle need not be adulterated by overzealousness. Rather, hustle demonstrates a hunger for wanting to solve the customer problem better and quicker than competitors. I learned from the best salesman in the world, J. Ralph Stump. Whereas Woody Allen said 90 percent of winning is just showing up, Ralph taught me that the other 10 percent was rooted in accessibility and promptness, including being the first on the scene and the last to call it a day. Some years later, Jack Welch described the same hustle trait as passion. Thanks, Ralph, for mentoring me. I am paying forward your wisdom to the next generation.

Middle Market Methods™ offers a toolbox of growth and efficiency solutions for value creation to portfolio companies of private equity firms. The premise is that best practice adoption correlates with a smoother ride during the investment hold period, resulting in higher exit multiples. Additionally, deal team time is liberated from operational surprises to invest in new transactions.