

Georgia's Business Enterprising Entrepreneurs Edition

David Peterson

PROGRAM TRANSCRIPT

Richard Warner:

This week on Georgia's Business: meet an enterprising entrepreneur, whose company is changing the way other companies do business.

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Richard Warner:

I'm Richard Warner welcome to a special edition of Georgia's Business, where we profile another of the state's Enterprising Entrepreneurs. We want to say welcome to our studio audience this week, many of whom are students from the faculty as well as the J. Mack Robinson College of Business at Georgia State University. Welcome to all of you who are joining us. This week a company that focuses on helping firms grow smarter, more efficiently, and more profitably. And in the course of it, North Highland Consulting has opened 14 offices, employed more than 600 and embraced a corporate culture that is different from all of the competition. The man who launched the company in the attic of his house is Dave Peterson. And joining us now with a little bit of insight into this enterprising entrepreneur and how all of this came to be we welcome Marina Kolbe.

Marina Kolbe:

Thank you Richard. Own your life, own your career, own your company, that's the phrase that drives Atlanta based, employee owned consulting firm North Highland. I visited the company that Dave Peterson built here in Atlanta and learned the secret to the success of this visionary utopia is their focus on a clients needs and on solving an organizations' problems.

MUSIC

Marina Kolbe:

Not having to travel out of your home town but still being able to pursue the consulting career you love. That was a vision of North Highland's founder Dave Peterson. He wanted to do great work for great companies locally.

Kirk Hancock:

Typically in a consulting engagement is you flew out on Sunday night and got home Friday night. So you do that for six, eight months at a time all the time. And he has twin daughters and one of the daughters, when he came home I believe is when he came home h was walking down the hallway and one of the daughters said Mommy does Daddy still live here? And that will hit you like a ton of bricks.

Marina Kolbe:

There had to be a better way, thus came the birth of North Highland, an international consulting company employing highly experienced locally based consultants.

Kirk Hancock:

People say it can't be done and very few are able to do it. But that's the kind of thing that motivates Dave more than anything else is to prove conventional wisdom wrong.

Marina Kolbe:

In 2007, North Highland was voted one of the best firms to work for. Lee Ann Stone who has been with the company 12 years says North Highland has allowed her to successfully juggle her career with being a mother of three.

Lee Ann Stone:

To me wanting to work outside of the home and wanting to be a mother and wife it's the perfect combination. They really allow me to be where I need to be if it happens to be that day with my children or to be here at the office. So that flexibility is invaluable to a working mother.

Marina Kolbe:

And to further motivate employees, last year the company became a 100% employee owned. The company's secret sauce is...

Kirk Hancock:

If you do what's right all the time and deeply care about the individual or the company you really can't go wrong.

Marina Kolbe:

And that's proven to be a very effective strategy. Over the last 14 years the company has seen remarkable growth with sales in 2007 over 140 million dollars.

Kirk Hancock:

We're growing 30 plus percent a year for the last several years.

Marina Kolbe:

The company has international partner offices as well and employees are here for the long run.

Kathleen Kohntopp:

I've enjoyed working at North Highland. It's been a little bit over 8 years now. And what keeps me here is they continue to strive to balance and balance is key for managing our life with work and family and life outside the office walls.

Richard Warner:

And ladies and gentlemen, please welcome now Dave Peterson.

Dave Peterson:

Thank you Richard.

Richard Warner:

Seminal moment it's one of your twin daughters says does Daddy live here anymore. You want to break free but how were you actually able to do that when you had the over head of a family to take care of?

Dave Peterson:

Well I'd been thinking about starting a company for several years in fact it incorporated had a logo, had a business plan and was kind of stuck uh returning after several weeks out of town and seeing my daughter and having her ask that question if I still lived at home was the...pushed me over the top, yup.

Richard Warner:

As Danny Thomas used to say.

Dave Peterson:

Yea

Richard Warner:

So but I mean it's a velvet bird cage. You're working fro one of the big consulting firms. This is a challenge that a lot of entrepreneurs have. And some of them are fortunate enough to get pushed they get fired because for one reason or another but you weren't that was not your deal.

Dave Peterson:

Well there was kind of an upper owl philosophy in the big firms and it was clear that I ought to start looking around so that helped too.

Richard Warner:

Were you able to take a client with you? Were you able to open the doors of your attic with some guaranteed cash flow?

Dave Peterson:

I wish I could say that was true but I had a non-compete with one of the big firms and I honored that and had to go out and scramble to find new clients.

Richard Warner:

Non-competes, so you could still go into consulting you just couldn't steal clients...

Dave Peterson:

That's right. I could not take people, could not take clients with me. So it was kind of a blank sheet of paper.

Richard Warner:

Describe that first morning in the attic.

Dave Peterson:

Well one of our founders here tonight so we shared his basement, Bob Bowman's basement, my attic, Chuck Mornes kitchen table, the Waffle House, Starbucks. We started meeting...

Richard Warner:

This is more cost per square foot...

Dave Peterson:

That's exactly right. You know the entrepreneur the first stage of an entrepreneur they don't have coffee in the office there's no office. So later on we got coffee but that came towards the end of the first year when we moved into our first building in Atlanta.

Richard Warner:

That was a big day I would imagine.

Dave Peterson:

It was. We had a thousand square feet and I remember Bob saying what are we going to do with all this space? Well we ultimately filled it up with employees and now we have 14 offices in the U.S. and others and partners throughout the world.

Richard Warner:

You know I hear growing at 30% a year and what people don't realize until they go through it is how expensive growth is. How have you managed to accommodate? Is it purely out of cash flow that you're doing this?

Dave Peterson:

Yea that's one of those secrets I'm not sure they teach you in business school or at least I wasn't paying attention that day that a growing company consumes cash. That's why you have banking partners or financial partners. So I decided to do it through cash flow although that wasn't coming in at first so maxed out my credit card, cashed in my IRA, took the money out of the 401K...

Richard Warner:

Looking back would you recommend that an entrepreneur do that if that's the only thing that's available to him?

Dave Peterson:

You've got to be driven to make it happen. On the other hand once you do it you've got to make it happen.

Richard Warner:

Burn the boats...

Dave Peterson:

That's it.

Richard Warner:

Banking partner, what you know relationship does a banking partner bring to an entrepreneurial venture?

Dave Peterson:

Well they were helpful personally because I had a personal line of credit which I used and I was known. But from a business standpoint I didn't get much early on and that's a challenge that entrepreneurs have is you may not be bankable so you look for capitol wherever you can find it, if it's your brother-in-law or venture capitol if you're fortunate. And we decided to do it from just savings that had accumulated and we were able to fund it over the top if you will.

Richard Warner:

We've not talked about product. You know it was interesting that David Packard of HP with the first meeting of HP they did not even talk about what their product was going to be. They focused on the people.

Dave Peterson:

Right.

Richard Warner:

I presume that you also had the ability to hand pick the people who were there at launch.

Dave Peterson:

We did. We picked the people and we knew the services we in. We were experienced consultants. We had to then go find clients that wanted to use us. One of our first clients was a telecommunications company and they initially passed on us because that was not our experience in that industry. Later they heard from a lot of other consultants they started hearing the same thing and they came back to us because they wanted a fresh perspective.

Richard Warner:

But you're a little guy. Where did you get the credibility to go for a much bigger company and say I'm going to help you figure out how to run your business better?

Dave Peterson:

Well because we had experience from the big firms we were able to leverage that experience and some of the connections we had and some of the contacts. So we had reference-able people

even though they were clients we could not touch at least people would stand up and say these are good people.

Richard Warner:

Who was the first big client you had?

Dave Peterson:

First big client was State of Georgia.

Richard Warner:

Really.

Dave Peterson:

Bob Bowman who was one of our founders had done some work with the state and he was able to through other agencies he had not worked in brought in the state. Telecom a company was a division of British Telecom and then we started farming out from there.

Richard Warner:

So it fed on itself. You start with the state which actually is of course not a commercial venture. Were you able to parlay that as credibility into other commercial projects?

Dave Peterson:

It is it gave us credible that if the state is hiring us then in fact we must be somehow credible. So that certainly helped.

Richard Warner:

It probably begs to question, what do you do? You know old shtick you consulted with somebody that traveled more than a hundred miles and had a briefcase.

Dave Peterson:

That's right. That's the old joke.

Richard Warner:

What do you guys do?

Dave Peterson:

Well a consultant comes in many shapes and flavors and skills and experiences and industries. And we try you know I was out of the supply chain world so you manufacture it, you distribute it, you sell it retail, you recycle it. So I was able to find work in that space. I had done strategy work for large corporations. We had some technology people over time. We had some process improvement people. So as we were able to hire skills we were able to then repackage that and then deliver services based on those skills.

Richard Warner:

It sounds like you had three buckets. You've got the personnel bucket.

Dave Peterson:

Yup.

Richard Warner:

Telling companies how to hire better and employ smarter.

Dave Peterson:

Yup.

Richard Warner:

You have the technology bucket which is become more important particularly in supply chain.

Dave Peterson:

Right.

Richard Warner:

And then you have...what would the third be?

Dave Peterson:

We say people, process, technology and strategy. Right. So people it starts there whatever business you're in it's about the people that work in that business. There's business processes, corporations or nothing but the process they perform. They often have technology that supports and enables those processes. And then they're executing a business strategy that makes them different from their competitors in their industry. And so our job is to make sure those are in alignment and that we're delivery value based upon what that company expects.

Richard Warner:

When a company brings you in and engages you do you find that there are the same over and over again? Is it like a psychologist who hears the same stuff you know every 45 minutes...

Dave Peterson:

There are patterns to the issues that many companies face. The challenge is it's usually in a unique configuration. So you've got to apply the experience of those patterns with new approaches to solving the issues.

Richard Warner:

Give away some secrets here Dave. What are some of the things that you recommend when you get in there and look under the hood, what are some of the first things that typically you find that need fixing?

Dave Peterson:

Well often companies, we love following other consulting companies through the doors because they've often kind of teed up some issues that we can go in and then help repair. It's like calling the Plumber from the phonebook that says we fix home repairs. Often our work is fixing other consultants issues. And often I think companies look for the silver bullet, the latest and greatest initiative that they read about somewhere. And what we see often is the fundamentals aren't really being executed well.

Richard Warner:

Fundamentals are customer service...

Dave Peterson:

Customer service, efficient production, you know listening to your employees, those kinds of things.

Richard Warner:

It's interesting listening to your employees I would think that one of the problems that you know this would existed in the culture of a company is that it's that top down management said do this and they didn't really bring the employees in on the whole you know problem solving initiative.

Dave Peterson:

Colon Powell says one of the challenges of leadership is to listen to the people in the field that the generals at home don't know what's going on. I think that applies to many corporations as well.

Richard Warner:

And how do you help companies fix their relations with their clients? How do they aggressively listen better?

Dave Peterson:

Well that depends on the circumstances. Sometimes they need to go out and actually talk to the clients. Sometimes they need to have focus groups to evaluate products or services. There's a variety of issues depending upon again it may be a client communication issue but what's the specific circumstances for that company with their customer base. So knowing the specifics is the answer ultimately to how you go about the problem.

Richard Warner:

Now as you've grown North Highland there were some core competencies that were part of it but you also had to acquire expertise as you grew. This is one of those dangerous moments in the life of a company where it's got to you know you're paying in presumably cash for somebody to come in and grow your business for you. When has it worked? When hasn't it? What have you learned from that?

Dave Peterson:

We've done several small acquisitions with mixed results. We've decided to stay with the organic strategy which is grow our own. So when we open up a new office we hire people in that market place. We kind of bring them in talk about how we do business. We train them. And what we find is it takes about a year for an experienced consultant to really understand our program and our differences vis a vis the big consultant companies.

Richard Warner:

So let's pick a market. You went into Dallas.

Dave Peterson:

Ok.

Richard Warner:

When it comes time to open up there do you you know pull up some of the flowers from the Atlanta office and go transplant it in Dallas and say go forth and multiply? Or do you go into Dallas and people who know the market or what?

Dave Peterson:

It depends. Dallas is an interesting study. It looks a lot like Atlanta. And we decided strategically we ought to be in Dallas. Probably...

Richard Warner:

It's actually two cities...

Dave Peterson:

It's two cities, exactly right, Fort Worth likes to be included too. So we saw that in fact the strategic model of saying we ought to be there because it fits our strategic profile is in fact not an easy profile to replicate. It's a whole lot easier if you have a client that likes your work and they say you know we have an office in Dallas can you help us there? And a lot of our later offices have resulted from clients taking us to those cities.

Richard Warner:

So is the answer always yes.

Dave Peterson:

The answer is always it depends.

Richard Warner:

Client calls you and says can you help us in Dallas? You say?

Dave Peterson:

It depends.

Richard Warner:

On?

Dave Peterson:

Well Dallas we were interested in Dallas. I had a call not too long ago, a government client said would you like to come to Jefferson City, Missouri for the state...

Richard Warner:

It depends...

Dave Peterson:

For the state of Missouri. And they're a wonderful organization and we'd like to help them but we don't have them currently on our short list of cities to expand into.

Richard Warner:

Sure.

Dave Peterson:

So we passed.

Richard Warner:

You passed...

Dave Peterson:

Yea.

Richard Warner:

What does that do, I'm interested in what that conversation is like around the board room table when we decide to pass because most companies don't have that as in good to great they say the not to do list in addition to the to do list.

Dave Peterson:

Well one of the advantages of being private is our share holders, our employees are our employees so they know if we take that job that they'll go on the road and they're not going to be happy about that. So they know that part of our business model means you have to know where you're going to be focused and pass on things that take you away from that focus.

Richard Warner:

I've got to ask you though, the entrepreneur's exit model is usually to be bought. That is a single event that generates a lot of cash. You've reached your goal. You're going to do your earn out and then you're going to go away. You did not do that.

Dave Peterson:

Right, five years into the company I had someone ask me what's your exit strategy. And I was like exit strategy? I'm still trying to survive. As we thought about an exit strategy again it was well why do we want to exit? We like doing this. We wanted to create if you will a family company. We just decided we had different surnames. And so the program that we followed using an ESOP, is basically allowing that transfer of equity and ownership and pride to the next generation of employees. And since we have a no nepotism policy they're not family so it's the people that come to work for us and they grow the business and they carry on.

Richard Warner:

ESOP not as in Aesop's fables? It's ESOP...

Dave Peterson:

That's Aesop...

Richard Warner:

Yes, and what ESOP...

Dave Peterson:

ESOP, Employee Stock Ownership Plan, it is part of the United States ERISA employee benefits package. It allows for companies to own various parts of the company. Some of the big corporations that are successful are or were ESOPs.

Richard Warner:

UPS. Sure.

Dave Peterson:

UPS was an ESOP. Publix Markets is an ESOP. Many fine companies are employee owned.

Richard Warner:

Now we only have a limited amount of time but what are the pros and cons of that for somebody who wants to grow other than selling the company off?

Dave Peterson:

The advantage is a very favorable tax treatment to the seller. You can take money out on a tax deferred basis a very advantageous to the company. We can earn corporate profits but they're tax deferred. So again it allows you to keep the money in the company. There are some regulatory requirements you've got to follow and there's some complexity. You've got to have two accountants. You've got to have two lawyers. You've got to have because the ESOP...

Richard Warner:

Lawyers always win...

Dave Peterson:

That's right. You've got to have the ESOP protected and then you have to have the corporation protected. So it requires two sets of everything.

Richard Warner:

I'm senior partner. I decide I want to quit. Is there a mechanism for me to cash out?

Dave Peterson:

Yup. Part of the ESOP allows you to in effect sell your accumulated value back to the company on a program basis. We have a company valued several times a year just like a public company but it's not day to day hour to hour. It's twice a year. So you don't get that nervousness in the value. You can plot potentially some long term growth. And it's been very successful for us. We've been in place 10 years and we converted to a full ESOP last year.

Richard Warner:

Right I was going to refer to Marina's piece where she said that you had done that.

Dave Peterson:

Yea.

Richard Warner:

What did that do to you and your equity in it?

Dave Peterson:

Well I'm still waiting to be paid out, everybody else got paid out but me. So over time I've got, I exchange one piece of paper called equity to another piece of paper called a note. So hopefully the company will be successful for the next twenty years as I take it out over time you know.

Richard Warner:

What is your role today? I mean you're chairman of the company and you were defining the difference between chairman and CEO.

Dave Peterson:

We have a partner in from China and their founder and chairman was in and he asked me and Dan Reardon who is our CEO what's the difference? And I joked that the CEO does all the work and the chairman takes all the credit.

Richard Warner:

Hence...

Dave Peterson:

That's why I'm here...

Richard Warner:

The CEO is...and he's there.

Dave Peterson:

That's right...

Richard Warner:

Monday through Friday 8 to 6, what does that mean?

Dave Peterson:

Well my role, we have the board issues. You know we have a board of directors and so we're practicing you know good due diligence, fiduciary responsibilities for our shareholders. I spend most of my time traveling. The irony of the business is it's been so successful I now travel most weeks to various cities where we have employees and clients and I visit them.

Richard Warner:

And how old are your daughters now?

Dave Peterson:

They're freshman in college. So...

Richard Warner:

They don't care...

Dave Peterson:

They've done very well. They're not quite home bugging me anymore. And the last couple of years they didn't care whether I was there as long as they had the keys to the car.

Richard Warner:

That's right. Looking back you started the company in 1992, is that right?

Dave Peterson:

That's right. That's right.

Richard Warner:

What have you learned since that you wish you knew then?

Dave Peterson:

Well I mentioned cash. Again cash is something the corporations, small companies consume early on. There comes a point where you then start poring it off and throwing it off. And that's a good thing later on. But whenever you're growing you consume it and you have to put it back in the business. I wish I had had a better awareness of that when I started.

Richard Warner:

What would you have done differently knowing that? Would you have borrowed more? Would you have brought in other partners or grown slower or what?

Dave Peterson:

It's hard to say. You know I don't like to look back. I like to look forward. And so as we continue to grow we're now able to sell finance and that's very important. We've got a very good banking relationship. So that helps us with our you know lines of credit needs as the receivables grow. You know our business is we invoice and then sometime 30, 60 days later we get a check back. In the mean time we've had to pay our employees. We've had to pay the rent. Oh and by the way the big insight was when you get hit a certain size the IRS wants the taxes faster then when you were smaller.

Richard Warner:

Really.

Dave Peterson:

So you've got to fund the paying them in three days.

Richard Warner:

This is another misnomer. The first one is that you don't think about growth consuming cash. The other one is that and this is going to be the entrepreneur who thinks if I can just get this big my cash flow problems will disappear because I'm so big.

Dave Peterson:

That's right. Not true. You've got to manage cash all the time because if you're that big you've got to presumably stay big so there's some level of capitol reinvestment for us. It's training our people. Um so there's always ways to use cash and there's many many ways to spend cash.

Richard Warner:

Peaks and valleys, I assume your business has encountered those.

Dave Peterson:

Oh yea we've been through several economic recessions, clients have come and gone. We were seeing the post dot com recession infect the entire consulting industry in 2000 and 2001. The big firms were having major layoffs. The small firms went out of business. We were seeing if you will some trains coming down the tunnel.

Richard Warner:

Sure.

Dave Peterson:

And then 9-11 hit but what happened is I think the business we worked for realized post 9-11 that's as bad as it could get and they started making investments in their business which then drove us back into business. And we had a very successful year.

Richard Warner:

I'm curious though at North Highland in those four walls when the ebb has hit because it is going to hit every company.

Dave Peterson:

Sure

Richard Warner:

What was that like? What was the process of you and your partners and your brain trust reacting and planning to that?

Dave Peterson:

Well part of it goes back to our values that we want to be the kind of company that people will work with long term and respecting our employees and having them respect our clients and so we said we're not going to have layoffs. We may take cuts in pay. We may do away with bonuses but we're going to hang on. And it allowed us when the business did come back we were sitting with a bench where a lot of the other big companies had cleared the bench, cut back to go forward and we sustained.

Richard Warner:

Well that implies transparency with partners and employees

Dave Peterson:

That's right, the employees know.

Richard Warner:

Isn't that dangerous, transparency for them to know too much?

Dave Peterson:

We don't think so. We basically we had a company meeting just recently. We talk about again the employees are the shareholders. They get the annual report. They get the statements. We have monthly reporting that go to employees that shows our business. We want them to know how we're doing. It should not be a surprise. Being an ESOP we heard a story of a company that I think is very unusual, its owner sold his business to the ESOP. It was more of a blue collar kind of company and six weeks after the employees took over the company they went on strike. Well that's not very good for their long term...

Richard Warner:

Against themselves...

Dave Peterson:

Exactly. So our people are good astute business people. They understand. They want to be informed. We've got to keep them informed.

Richard Warner:

And how did that play into post 9-11 when it came time for pay cuts. I mean you can certainly make the justification. What was your style? How did you do that?

Dave Peterson:

Well again we will let people know what's coming...

Richard Warner:

Did you call them all in?

Dave Peterson:

Yea it's a series. It's part of the communication process. You let people know what's coming and then you tell them it's coming and then you do it again. Because of the process in place we actually did very little in terms of change. We were able to survive without making changes.

Richard Warner:

And now today?

Dave Peterson:

Well today we're still optimistic about the future. We're cautiously bullish is the term that we're using. Our backlog of business is good. Our offices are growing. We look for industries that may affect clients and therefore our revenue stream. But if you do good work they'll have you back again and again.

Richard Warner:

Dave Peterson, chairman North Highland. Good to have you with us.

Dave Peterson:

Thanks so much, glad to be here.

Richard Warner:

And thank you for watching both to you and to our studio audience here from the J. Mack Robinson College of Business at Georgia State for this Enterprising Entrepreneurs Edition of Georgia's Business. Every week we bring you face to face with successful chief executives and business leaders. And if you miss this broadcast on GPB, you can also watch it on the web at gpb.org and our radio partner NewsTalk 1160 WCFO Radio in Atlanta or download a podcast of the show on iTunes. I'm Richard Warner and for all of us at GPB don't sell yourself short.

MUSIC

Richard Warner:

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