

**Georgia's Business
Enterprising Entrepreneurs Edition
David Peterson**

QUESTION AND ANSWERS TRANSCRIPT

MUSIC

Richard Warner:

Welcome we just finished taping Georgia's Business here on Georgia Public Broadcasting. I'm Richard Warner. This is our version of After the Show entirely unrehearsed and spontaneous with our guest Dave Peterson who's chairman of the North Highland Company. Joining us in the audience are students from the J. Mack Robinson College of Business at Georgia State University. And I thought you did well.

Dave Peterson:

Thank you it was fun.

Richard Warner:

Half hour went by pretty fast.

Dave Peterson:

Very fast...

Richard Warner:

Didn't lose anybody...alright we'll see how this goes now. These are the unscripted, unrehearsed questions from students at the Robinson College. And yes sir you're up first go right ahead.

Question 1:

Great well thanks for your time Dave. You're in such a people intensive business. I would love to hear in terms of recruiting when you're looking to hire people, apart from work experience what characteristics are you looking for? And then number 2 in that interview process how do you pull those characteristics out of those individuals?

Dave Peterson:

Well we do look for experience and we average about 15 years experience. So people coming out of the big firms, people coming from big corporations with that kind of experience gets us interested. But it really is about those personal traits, their behaviors, their desire to assist companies that the interview process really gets to the heart of. So they typically will run through a stress day where they're brought in and they meet anywhere from 6 to 8 existing consultants. We ask them a series of questions about their experience about some of the issues they've faced trying to understand how they would fit in with our clients and in with our culture. And at the end it's either a pretty clear fit or it's probably not going to work for us. It doesn't mean they're not talented but we think it's important also to maintain our culture. And that's kind of the core of who we're trying to be long term.

Question 1:

Thanks

Richard Warner:

Bill Gates said that he made more mistakes in that area than in any other in his career. What's your batting average? Have you hired people that you thought would be home runs and weren't? Or people who turned out to be home runs you never were really sure they would?

Dave Peterson:

We've had more of the latter. Again a lot of our good solid performers have turned out to be in our term rock stars. But we have a different definition of a rock star. They don't require a lot of a care and feeding. It's not about them it's about their team. And so suddenly those folks that get it really are the star performers in our company. We've had some hiring mistakes. You know in a people business you're going to make some mistakes. And a lot of our issues are people related but you can't stop doing that, growth requires the right people so we keep looking for them. And when the mistakes happen we hope they'll be successful somewhere else.

Richard Warner:

Yes sir go ahead.

Question 2:

My name is David Schusterman and as a former 100% travel consultant I can really appreciate how much of a difference the local consulting must make. But I wanted to ask you mentioned earlier that your government experience translated well into pulling in corporate clients. How much push did that take? How much time did it take to make the transition to start really pulling in corporate clients?

Dave Peterson:

Well the government client was our first but we had a corporate client you know the next week. So it goes hand in hand. I think if you do good work for your clients and can build up a lot of references than whether they're government sector, non-profit sector, corporate clients, you've got you know bragging rights that you can say you did a good job. And ultimately that's what companies and government agencies are looking for, consulting companies that will get the work done according to their rules. So we're very sensitive to how different companies react in different ways in the market place.

Question 2:

Thank you.

Richard Warner:

Fill in the blank; never underestimate the importance of...

Dave Peterson:

Culture, we have a good consulting project and can probably be summarized in what is called a classic two by two matrix. If you're in the business school you understand. You got one dimension high or low and another dimension high or low and then how do you organize the data in that two by two matrix. What we've discovered is that that works for employees too. You can have skills, high skill, low skill, and you can have cultural fit, high or low. A person with high skills and low cultural fit is not someone you want to have long term and we don't want to have long them. So you can build skills. It's hard to fix culture. So we're really sensitive to culture in the organization.

Richard Warner:

Go right ahead.

Question 3:

Thank you very much. My name is Dai Guna and I'm interested in finding when you study the business you had a lot of things to consider and my particular interest is in default like you get started and all the loans that you started off you can't pay them anymore. How did you do it? How did you plan to do hedging the risk that I'm going to start this business and it's going to take off?

Dave Peterson:

I don't think you can worry about default you've got other worries. And I'd rather worry about success. So you've got to be positive. If there's doubt in your mind, there's always doubt, but if that doubt takes over you're going to be doing some things or not doing some things that may make that worry true. So we've taken the philosophy that what does it take to be successful, let's do those things and you have a higher probability of success and success will come most of the time. We've had some failures. We've had some projects that we've had to go in. We use guarantee. We've had to go in and deliver on the guarantee and redo the work. We've have some people that we've hired for all the right reasons but they've turned out to be the wrong person. We had an office, we opened up a Detroit office, we're very proud of the office we have. We were in Detroit and asking ourselves in the early 90's why are we in Detroit, a client had taken us there. And we looked around long term and we said let's get out and we have been so grateful for that decision. It was probably a mistake to go there in the first place. So those things happen. You do make mistakes. You've got to be careful not to bet the ranch on any one decision.

Richard Warner:

As you grew from the attic in the basement into a genuine enterprise what was the head count? When did you hit critical mass? How big did you have to be before you were good enough in all the disciplines you needed to be?

Dave Peterson:

Well it varies by city. We would said we're not there yet in some cities, our newer cities probably are still emerging. For our business it takes about 25 people in a city to represent a full compliment of skills that makes you credible. So getting to that level for us is the first wave, the first era in an office. The company made that number. The original business plan that we were talking before the show was to grow to 30 people and hit 5 million dollars in revenue in 10 years. At the end of 10 years we had 250 people and 40 million in revenue and they asked me to step down from the planning committee because I'm not very good at projecting the future.

Richard Warner:

Go ahead.

Question 4:

I'm always interested in the genesis of a company. When did you know that you wanted to start your own firm? And the second part of that is when did you start to put together a team to make that reality?

Dave Peterson:

I thought about it a number of years, before my daughters were born I had been thinking about it. I had been with a big consulting companies, I had been with large corporation and it was clearly an option for me to stay there or to start my own. I actually also thought about going back to the University and being a professor. That sounded like a lot of work so I chose being an entrepreneur. There was a whole series of events. The daughter asking if I still lived at home became the defining moment but there was a lot of signs pointing in the direction that I needed to go do this. So it was kind of steeling the courage to step out on my own. Finding people, we had a session as we started the company, invited several people to join us. Bob was one of the takers. Bob raise your hand, Bob Bowman. [claps] And there was four or five folks that joined me in this early discussion about the company and Bob said, I think I can quote him correctly, well I'll join you until a better job comes along. And he retired from us about five years ago. So I guess he never found a better job and he was a real asset to the company. But it is about finding the people that you can work with and having trust in them to do either something you can't do or to extend your capability in something that you do do. Again we're a services business. If you're a product business you've got to find the people that can make the product, that can sell the product, who can track things and handle customer issues. In a service business it's all people. It's all about the client. So it's just kind of again in your business plan one of the questions I ask when people ask me what they think of a business plan it's always well how do you make money

because knowing exactly how you will get paid by whom is one of the key questions that I think a good entrepreneur's got to ask.

Richard Warner:

Did you know from an early age you were going to be an entrepreneur or were you built?

Dave Peterson:

Well according to Meyer's Briggs I'm a natural consultant for those of you who are studying people. And I like to give advice. There's a saying in our business, it's easy to consult, it's hard to get paid to consult. So I've been a consultant for many many many years and finally have started getting paid for it if you will. Yes sir?

Question 5:

Hi my name is Keith Williams. You started the business out of your home...

Dave Peterson:

Yup.

Question 5:

At what point in that first year, it's a very critical year for any new business, at what point did you feel you had justification or you felt like you had the ability to go and move into a building and really take the business to the next level?

Dave Peterson:

We were working on a proposal I believe it was for the city of Atlanta and we decided at that time that the team we needed was larger than just our employees. We would have to reach out and bring on some additional affiliates, contractors for us. And we felt that Bob's basement or my attic too small to meet on a regular basis and so that said well why don't we find a space. Well once you commit to a space well now you also have to have furniture and then you have to have a phone system. And so there's kind of this cascading series of expenditures and investments that then proceeded to happen. We made, again we're funding it ourselves so it was modest, frugal is a word we use frequently. The furniture was used. There was a company that was going bankrupt. We bought all their furniture. We got a good deal, seven dollars a square foot in Atlanta.

Richard Warner:

Man

Dave Peterson:

Yea we don't pay that anymore. So you know it wasn't an expense but it was one of those things we felt that we needed to do it for the company, set the right image and that really to have a place where we could meet as a group instead of in the attic.

Question 5:

Thank you

Richard Warner:

Frugality you know that probably disserves a follow up question because many companies, promising companies have been torpedoed because they started to get a taste of cash flow and then decided to spend it.

Dave Peterson:

I think there's a very well known company who will remain nameless that went public took all that money plowed it into furniture and then went belly up six months later. I think you've got to be very careful with cash. There's a very famous saying from the former head of Fuqua here, cash ain't cash until it's cash. And you've got to recognize that cash goes out very very fast. It doesn't

come in quite as easily. And so given that it was our cash we knew how we wanted to spend it. And it was putting in good investments not putting in the frills. So we still are pretty frugal. You know the North Highland Company stems from the Scottish theme. I'm half Scotch and I had Uncles that were in the black watch, the world highland's regiment. And a Scotchman is not cheap, he's thrifty. He has short arms and deep pockets. And so we don't always grab for the bill the first go around.

Richard Warner:

Ok, go ahead.

Question 6:

Hey my name is Ray Shin. And you said earlier that you try to look for fine good workers, right. So say that you were an employee for like around like ten years, stayed with you for a long time. What if that employee's family member wanted to get into the firm?

Dave Peterson:

We really like our employees. They're the owners of the company. We've had, we just had a celebration, we have a number of employees that just had their tenth year anniversary. We have this philosophy, it's our policy, it's not what every company does that spouses and brothers and sisters and children will not work in our company. We have a number of couples that work for us, one is an employee, one is a contractor. We've just made that made that part work. So again it's a philosophy we have. It's not the right thing for all companies. So you've got to decided what's important to you. So our families made up of like I said many different people with different surnames. There is another David Peterson in our company. We call him Junior but he's no relationship to me. And he occasionally gets this call that was meant for me. And he does it in good stride passes it along.

Richard Warner:

So just send the check to this address.

Dave Peterson:

That's right. That's exactly right.

Question 6:

So my question is, so the employee has been working for your company for quite a while and you trust them and say their family member is pretty trust worthy you know, isn't that kind of like finding a good worker through a relation of another person?

Dave Peterson:

Yea, we just decided again against that. Being a small company there are challenges when family members work together and we've said it's easier, now there's a choral area. We've had a few of these is suddenly they're dating and they marry and one of them has had to leave. And so that's a tough situation. We hope it's you know they can work it out because we're not going to make that decision. But that's happened in several circumstances.

Richard Warner:

I married my wife, it came time you know for one of us to leave and she left and my boss was disappointed about that.

Dave Peterson:

Wrong one huh.

Richard Warner:

Appreciate your question...

Dave Peterson:

Thank you...

Richard Warner:

Compensation...

Dave Peterson:

Yea...

Richard Warner:

You know in a law firm you kill it, you eat it. Is that the way you're structured?

Dave Peterson:

No. We have a very different compensation formula. We pay less than market. And people come on board and we have to explain that to them. We call it the North Highland haircut that they come out of a big firm they're used to making these very large numbers and we don't pay that. We pay a smaller base. We've got to explain it to them. Well part of it is they get off the road. So there's some tangible value. But part of it goes back to our philosophy of service and we have a variable comp mechanism that actually can pay more than the standard firms pay but they've got to earn it.

Richard Warner:

How do they do that?

Dave Peterson:

Well there's a variety of different ways to earn it in our company. Some are just if you will the classic billable hour that they're working at a client and the more hours bill, see there's a self regulator on that one because the clients are only going to pay so much so you can't you know run up fees without if you will results. We have other mechanisms to either find business or to be a thought leader or to be involved in teaming with other people. So based up the formula there's a variety of programs that people can make the variable comp. So you add it all up and it's comparable to the big firms. What we're seeing in consulting used to be the consultants did better than their corporate peers, the consulting industry has been pressed down by offshore by the number of competitors so we're now seeing some of our people go to our clients because clients pay better. And that was unheard of ten years ago in the consulting business.

Richard Warner:

That's ok?

Dave Peterson:

Well we know they're going to a good company. We hope they'll be a friend of ours once they're there. So we hate to see them go but there's some things you just can't do. We've got a you know comp system that we have to stick with. So if they get a better deal we wish them well.

Question 7:

My name is Jude Mark. I have two questions. The first one is what resistance if any did you come across when deciding to form an ESOP and how did you deal with it?

Dave Peterson:

I think the biggest resistance came from lack of understanding. It's complicated and so we tried to explain it to our employees what it is. It's not something that many people have encountered. They're familiar with public companies. They're aware of stock options. They're not familiar with how a private company does financing. And so this is a vehicle that we have to explain. So we've hired an ESOP consultant who comes in and explains it to our people. And then you have again as I mentioned the various service providers. You've got a separate accountant, a separate lawyer, the evaluation firm, you have an ESOP trustee, you have an administrator. You know so that's the downside and it is you pay for those services. And for the entrepreneur who

wants to have control by definition they're giving up control. But for our business for the professional service people that we have it's the right thing to do because they're mobile, they could go anywhere. This if you will gives them their own company. It locks them into the growth and equity if the company continues to do well.

Richard Warner:

Does that mean North Highland will never be sold?

Dave Peterson:

Never say never but to sell the company now we would have to have in effect an employee vote. And I don't know it would have to it would depend.

Richard Warner:

It depends.

Dave Peterson:

The plan is not to sell. You never ask the question. One of the things I had a chance to do a few years ago is to develop a hundred year plan. Again I tell you I'm lousy in planning. When I first got this assignment I realized you know I put it off because I thought oh man more numbers who wants to build a hundred year spreadsheet. And after several months of carrying around this little workbook from an advisor, I finally opened it up and laughed because it had nothing to do with financials. It really is about creating the kind of company culture vision if you will that sustains itself because you can't really project that far out. You know we do an annual forecast and at the end of the year we either lucky or lousy. We met the number we didn't make the number. So for a hundred years it's about something bigger than financials.

Richard Warner:

Yes ma'am.

Question 8:

Hi I'm Joan Shoemaker and I am not a student at Georgia State University but I am a graduate of Georgia State. I am a business owner and one question I have is that you had mentioned Mr. Peterson that it takes about a year for you to be able to train a consultant before they're really productive. So what are some of your strategies that you use to be able to bring that consultant up to speed?

Dave Peterson:

Well I may have misspoke. They're productive with their skill when they walk in the door. We're hiring for skill. They're experienced people. It takes about a year for them to I guess the word is be inculcated where they understand the culture that we're trying to create so that they can then own it themselves which we find requires a lot less management effort than if someone doesn't own it and they require to be managed. So it's a process we take experienced people through. Again they're early, they're productive from the very beginning but it's the nuances of the business because we're trying to be a different kind of consulting company. We've got to make it feel different first to our employees so then they make it feel different to our clients.

Richard Warner:

Vender neutral, two words we did not touch.

Dave Peterson:

Ah, yes. Well many consulting firms align themselves with large providers of software or forms of technology or other partnerships and we've decided to be independent. So that's a philosophy we have. It then goes back to how we then fulfill our service offerings. So many cases we're hired by large corporations to go help them pick software or to go evaluate another consulting company because they know we're independent and not biased by that relationship with those

other partners and so they can get a you know independent and honest and fair view of what will make them successful.

Richard Warner:

One last question, yes sir.

Question 9:

Thanks, I'm Carl Stukey. I'm on the faculty of the computer information systems department. Dave has been a great supporter of our programs in the past so first I should have to say thank you very much. And a commercial I should say we're in the top ten both in our graduate and undergraduate program. So we look forward to seeing additional great students and supporters like Dave. And there really is a question here. And that question is we see a lot more discussion about virtual environments and you talked about people not really enjoying traveling that much necessarily although some do. Do you think there's an opportunity for virtual collaboration to take on part of the role of travel in consultancy?

Dave Peterson:

Absolutely. You know if you think about how business is performed there are very many elements that are physical and virtual. And virtual uses the various forms of technology, telecommunications, computers, collaborative tools and things like that. But at some level there's not escaping the need for physical, the face to face interaction. And so the challenge is at what level do you mix and match those two ingredients if you will. And again it depends; some companies are very comfortable with distributing, collaborative work being done on the field. Some companies are not. And so again our business requires us to understand each client's strategy, their culture, their philosophy and adapt ourselves to them. And if they're very physically oriented we're going to be there. If they're comfortable with a virtual team then we're going to do as much as that as we can but we've got to do both at some mixture if you will.

Question 9:

Thanks very much.

Richard Warner:

And that's our version of after the show with Dave Peterson the chairman of North Highland. Thanks for being with us and we'll see you next time. Thank you very much.

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