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CHAPTER 6 Business Ownership and Operations

Selling Out, Staying On

So what if you're not the CEO anymore. The best way to make your business grow might be to sell it

by Ellen Neuborne and Marc Perton

Like any other mountain biker at a crossroads, Steve Christini, 28, relies on experience to choose the best path. In deciding which way to go on selling his mountain bike company, he relied on something else: a cold calculation of the chances Christini Technologies Inc. could ever, on its own, become the big, successful bike manufacturer he dreamed of.

The problem was not a lack of inspiration. Christini had devised an ingenious design for a two-wheel-drive bicycle—the biking equivalent of a sport-utility vehicle—while he was still a mechanical engineering student at Villanova University in 1994. Two years later, with help from his patent-attorney brother, he launched his Philadelphia-based company and set out on what would prove to be a long uphill journey.

After raising about $500,000 from credit cards, family, and a state loan, he spent the first two years perfecting his design and patenting it. Over the next two, he built prototypes and cobbled together a distribution deal to sell bikes through a larger company. "We pulled a lot of all-nighters," he says. "I was sleeping on the office floor, running power tools without sleeping for three days." The hard work paid off. Christini's prototypes, displayed at trade shows, started to build buzz among biking enthusiasts and manufacturers.

However, by late 1999, Christini faced a choice: Seek additional financing to make the bikes himself as a high-priced premium product, or find a buyer for his company. In August, he agreed to sell his fledgling business in an all-cash deal to Stamford (Conn.) biking giant Derby Cycle Corp. The sale is expected to close shortly. "People don't realize how difficult it is to make it on your own as a manufacturing company," he says.

Will Christini now pedal off into the sunset, cash in hand? Not likely. He looks forward to running his small Philadelphia group of engineers and product developers as a tiny unit of a well-financed, 3,000-employee concern. The deal also means his company will be able to produce a lot more bikes, at a lower price than he could have on his own. "Instead of spending half my day on the phone with investment people, I can focus on what I do best, which is the design and marketing of products," says Christini, who is negotiating a three-year employment agreement with Derby Cycle.

While selling out and staying on may strike most entrepreneurs as the worst of both worlds, that's just what a pragmatic new breed of owners is doing. These owners view the sale of their companies not as a get-rich-quick exit strategy but as a long-term investment to help take their businesses to the next level. And, to get there, they're willing to check their egos at the door. "I have a duty to manage the future of this company," says Scott Heiferman, who sold his Internet marketing startup, i-traffic, to the larger Agency.com Ltd. in New York last year. "You have to be honest about deciding where the company will be most successful."

CONSIDER THE ALTERNATIVES. Take expansion. It's expensive, but if you don't grow, you risk losing out to better-financed competitors. An acquiring company may be able to provide resources, connections, and expertise you lack. Then, too, consider the alternatives: Seeking a venture capital firm's investment isn't problem-free either, as they're likely to demand a big stake in your company. And even if you're game, finding a willing VC these days isn't easy, particularly for Internet startups. Ditto for going public. Meanwhile, rising interest rates are making debt financing less attractive to many entrepreneurs.

While the long-running boom doesn't guarantee your company will fetch a strong price, experts say it has contributed to both a rise in mergers and acquisitions among small companies and higher sale prices (chart). In 1995, nearly 37,000 small companies were acquired, says Lori King, president of NVST Inc., a Bellevue (Wash.) subscription service that tracks mergers and acquisitions. This year, King estimates about 57,000 small companies will be sold.

"Everything is high today: The stock market is high, housing prices are going out of sight, and small business owners know the mood," says Tom West, author of *Business Brokerage Basics*. "When everything is high, it's a good time to get out."

But it's also a good time to sell out and stay on. The persistent tight labor market means that many companies are likely to want both you and your staff. "When management wants to stay and grow with the new owner, that's a great situation," says Brian Murphy, president of Acquisition Management Services Inc. in King of Prussia, Pa., which represents companies looking to acquire entrepreneurial enterprises. "These are the healthiest deals—the ones that often produce the best growth surprises."

Lisa Hammond recently sold her Palo Alto (Calif.) promotional-marketing business to local e-commerce company MadeToOrder.com because she felt her company lacked the technological expertise to go it alone in the Internet economy. MadeToOrder CEO J. Weston Rose went to great lengths to keep Hammond and her 23-person staff happy—even if it meant accommodating her employees' needs for flexible work schedules in the frenetic culture of his Redwood City (Calif.) company. "My goal is zero attrition. I don't want to lose a soul," says Rose. "What we needed to flex to make this happen, we did."

Hammond, now vice-president for merchandising, negotiated both the terms of her own continued employment as well as the role of her employees. "I feel like I'm back doing what I love to do, focusing on the creative spin of the business," she says. "As for the people who have been with me—some of them since the beginning seven years ago—I feel I'm giving them opportunities that I couldn't have given them on my own."

ROLLUPS. As Hammond's experience shows, your buyer could be an entrepreneur much like you, who is acquiring smaller outfits to grow. In the arts-and-crafts business, for example, Playa del Rey (Calif.) CraftClick.com, with 50 employees, has acquired 19 smaller craft-related Web sites since the beginning of the year. "We knew that to be successful in the arts-and-craft space, there would have to be a roll-up," says CEO Peter Yollin. "We had to develop economies of scale."

Once smaller Web sites join the CraftClick network, the original owners generally stay on to run their Web sites, free from worries about securing capital or dealing with technical issues. "I knew how to run this site," says Renee Chase, founder of Crafter.com, which was launched in 1995 in Midlothian, Tex., as one of the Web's first community sites for craftspeople and acquired by CraftClick earlier this year. "But I didn't have any technical resources." Her tech problems solved, Chase now gets to focus on her passion full-time. "It's a dream job. I telecommute. I love what I'm doing, and I even get a regular paycheck."

REALITY CHECK. Still, going from "CEO to Joe Paycheck" isn't for everyone, warns Fred Zirkle, of Zirkle & Co., a mergers-and-acquisitions consulting firm in Spokane, Wash. Independent-minded entrepreneurs often find it hard to suddenly take a backseat. Roderick Robertson sure did. Robertson intended to stay on when he sold his $10 million pet-supply-distribution business in Boston, Great Eastern Premium Pet Co., to a group of private investors last year. But about two months into the new arrangement, Robertson felt superfluous. "All of a sudden, you're on the outside looking in," he says. "I went to a meeting once and there were four people in the room. And one turned to me and said: 'O.K., Rod, we'll call you if we need you.' I was shocked. I was always the one sitting at the table," he says. By mutual agreement, Robertson departed. He now runs a small company that makes promotional CD-ROMs. "The flexibility to call my own shots far outstrips the security of a big ship," he says.

SHARED VISION. How do you know if selling but staying on is the right strategy? First, honestly gauge your commitment to sell and your stomach for ceding control. The emotions of the owner are often a bigger obstacle than price, says Brace Carpenter, of Carpenter Hawke & Co., a Boston firm that specializes in small and mid-size company mergers and acquisitions.

In addition, carefully review the nonfinancial aspects of the deal. Consider how your work cultures will mesh and whether you share a vision for your product and market. How will you manage personnel issues—not just for yourself but for your employees? Will there be changes in the compensation strategy? In benefits? In work processes?

Before you sign a deal, nail down all the personnel details, from executive changes to seating arrangements. And don't forget to clarify your own role and title, as well as incentives, stock options, and other compensation.

Ultimately, entrepreneurs who have sold their companies with the intent of staying on offer this advice: Keep sight of what you really want. If it's to get out, fine. But if the sale is intended to jump-start your business' growth, don't lose sight of your goal. "Any time you start a business, you put your heart and soul into it," recalls Crafters' Chase. "But being acquired gave me the potential to put my knowledge and efforts into something that could truly grow larger. I never would have been able to do that by myself." That, she says, is selling up, not out.

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