Research conducted by:

Columbia Business School
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STRATEGIC BUYER CASE STUDY: AN EXCERPT FROM *THE OWNER'S JOURNEY*

Experiences shared and lessons learned from entrepreneurs who successfully sold or transferred their businesses to family members

U.S. Trust was inspired to commission "The Owner's Journey" to address what we observed to be a critical need: better preparing business owners for the eventual transition of their companies. Our advisors, in conversations with entrepreneurs, investment bankers, family business consultants, CPAs, attorneys and others were hearing a consistent and passionate message that early planning and enhanced education about exit options and the exit process were in great need. In our quest to focus on this issue, we came across an earlier Columbia University white paper on exit planning that shared personal stories and insights from owners dealing with reinventing their lives after the sale of their companies. We found their personal journeys to be highly instructive and recognized the opportunity to add to this knowledge base by approaching Columbia[1] to author a follow-up paper to study the exit process from the beginning, to capture how entrepreneurs approached the decision and navigated the transition. The power of their first-hand experiences and the corresponding lessons learned are now captured in this paper and can be accessed by those who have yet to embark upon this journey.

The following case study follows Charles "Charlie" Scheidt as he goes through the process of selling his company to a financial buyer. The son of immigrant parents, Charlie took on his father's already successful business, and continued to apply policies that allowed it to grow and flourish while still maintaining the atmosphere of a family business. When it came time to discuss succession planning, Charlie understood the necessity of planning ahead. With no family successors willing to take over the company, he took on the long and stressful process of selling, being sure it went to someone who would run it as passionately and wholeheartedly as Charlie and his father had. While Charlie and his team found themselves woefully unprepared for the task at hand, he gained a lot of knowledge from the experience he is more than willing to pass on to anyone looking to sell their own company. In the end, Charlie was able to facilitate the transition from his ownership to someone new, allowing for a smoother process. ■

Charles Scheidt

Age 69, Roland Foods
Sold to a financial buyer

Charles Scheidt ("Charlie") successfully sold Roland Foods to a financial buyer in 2013. Given the extraordinary history and legacy of the founding of the company by his father, Bruno, this was a difficult journey.

Charlie's parents, Bruno and Suzanne Scheidt, arrived in New York in 1939. By that time, Bruno had already founded and sold two businesses, the first one in Frankfurt, Germany, which he had started at the age of 19, and the second in Paris, which he had started in 1933.

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Both businesses had been sold under duress, in the face of the Nazi threat to Jews in Frankfurt and the looming danger in Paris. In Germany, the business was in Bruno's last name, but the company name in Paris was Etablissements Roland, thus avoiding the German-sounding family name, Scheidt.

Upon arrival in the U.S., Bruno went to work immediately, starting his third business in a third country, a third language, and a third, very different culture. Within a month of arriving here, he contacted his supplier of dried wild French mushrooms, announcing that he and his wife had moved and asking for an offer. The supplier quoted Bruno a price, some product was shipped, and the business began slowly but surely. Charlie has often marveled that his father, within a month of arriving, could sell French dried mushrooms profitably in this market.

Once he was assured that the name "Roland" worked in America, Bruno felt comfortable keeping the brand and company name that had been successful in Paris. While Charlie was growing up, he recalls his father traveling every second week all over the U.S. to sell Roland brand imported foods and twice a year leaving on extended trips to either Europe or Asia to meet with suppliers. Charlie's mother, Suzanne, worked full time and ran the office. For Charlie, his parents' courage, hard work, and creativity were a lifelong model.

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In 1966, Bruno died suddenly of a heart attack. At the time, Charlie was pursuing a degree in law and a master's in international and public affairs. He had just arrived at The Hague to begin a summer fellowship at the International Court of Justice when he got the news.

Charlie knew immediately that his responsibility, as an only child, was to take care of his mother. Most of the estate's net worth was in the business. The choice for Charlie was either to sell Roland Foods for the value of the inventory and some goodwill, and then practice law, or commit to learning and then managing the business. After giving himself several months to make a decision, he realized that the entrepreneurial spirit was alive and well in his bones, and he would try to make a career in the family business. He worked part-time until he graduated with both degrees and passed the bar. Unsure he would succeed, he wanted the option to provide for his family by practicing international law.

All key employees remained with the firm, but Charlie and his mother initially had a hard time establishing credibility with the bank and company suppliers. Over the years, those problems receded as the company grew and prospered. All efforts were directed at growing the Roland brand. New markets, new products and new suppliers powered the growth, as did key new hires. Excellence and innovation continued to be core values for the company.

By 2012, the company was buying and selling its Roland brand specialty foods in over 50 countries.

Charlie continued his father's policy of respecting and hiring excellent, diverse talent, no matter the accents. Suzanne remained active in the company until her death in 1988. Even as the company grew to over 150 people, the atmosphere of a family business and unique culture was maintained. The company's excellent reputation in the U.S. and throughout the world was critical to its success. The firm maintained long and constructive relationships with suppliers and customers, and had a particularly stable workforce. This unique culture provided the foundation for the many years of substantial growth. Charlie also feels that his law degree allowed him to avoid situations that could have led to litigation or other difficulties. During his tenure, the company had only one major lawsuit, a successful trademark case they brought in the 1980s to protect their key asset, the Roland brand.

One of Charlie's mentors was Bruno's right-hand man, George Winkel. His wife was a well-known sculptress, and one day George told him, "My wife is a superb artist, able to take a piece of stone or wood or metal and out of it, over time, fashion a beautiful and meaningful object. That's not one of my talents. But every day when I walk into the office, it is my job to create. Once a business becomes routine, the business suffers. Creativity is key to survival, success, and ultimately to enjoying your profession." That became Charlie's business approach — constantly to create, innovate, move the business forward, and most importantly, to enjoy the process of building a solid business.

Both of Charlie's sons worked in the business while in their 20s but eventually decided they had other interests and passions. By the time he was in his mid-60s, Charlie had spent about 40 years in the business. He became increasingly concerned about what would happen to the business if he fell ill or died suddenly, like his father. He could "go out feet first and leave a mess to his family and associates to clean up," or, more preferable, he could manage a planned and timely sale of a wonderful organization. As he notes, "I felt I would not only maximize the value, but I would also facilitate the transition to a new owner. I understood the business well, as did my team. The business was built on a solid foundation, and its future was bright." He adds, "As one ages, one is increasingly aware of one's legacy, and critical to me was to leave this stage and transition to the next stage of my life in a thoughtful fashion, not only for myself but also for those I cared about." In addition, Charlie wanted the opportunity to spend more time on his many nonbusiness interests.

Three years before the sale, Charlie began thinking about an orderly transition. The first feeler was to his longtime accountant, who helped him understand the process and put him in touch with various resources, including about six investment bankers.

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Interviewing investment bankers was eye-opening. He was surprised at how much their styles and personalities differed. His advice is to look carefully at a variety of investment bankers. In the end, Charlie was drawn to an investment banker who, he felt, better understood the company and its values, was well organized, and was someone with whom he could work over time, including during the inevitable rough patches. The banker's offices were not far from his and that proved a wise decision since there were numerous meetings at their offices.

Roland Foods was an entrepreneurial company. Charlie's team had difficulty coping with the requests for so much analysis and so many detailed reports from the investment bank for potential purchasers. In hindsight, he wishes that he had brought in a financial analyst years in advance to prepare his financial systems: "My team and I were in for a rude awakening, not to mention untold hours providing analysis and figures. Fortunately the investment bankers were willing to invest considerable time helping us organize and present the numbers we did have."

Charlie initially thought the logical choice would be a strategic buyer, reasoning that such a buyer would have a better understanding of the business and its potential and would have a longer-term commitment to building the company to the next level. Charlie discovered that Roland Foods was too large for some smaller strategic buyers and too small for some larger ones. Strategic buyers who were competitors were also eliminated. Charlie came to understand that a strategic buyer may or may not be as good for one's staff and for the company culture as a financial buyer. In the end, the sale was to a financial buyer, and Charlie feels it's essential to keep an open mind during the sale process.

Charlie found the process long and grueling, but in retrospect, fascinating. Essential to him was to have not only his key staff members, but a team of professionals at his side, including his accountant, banker and legal team, who provided him with their experience, intelligence, and sensitivity to his priorities. In the end, he sold to the financial buyers who had done the most thorough analysis of the company. The price they offered was not the highest, but it was the firmest bid, and he felt that they would both respect the company's culture and take the company to the next level. Charlie felt he could trust them.

Charlie wishes he had been warned about the sheer exhaustion that a seller can feel as the time approaches to finally seal the deal. He realizes that in the closing days of the transaction, he was under tremendous pressure. After nearly two years, he felt as if he was near the finish line of a marathon, duly exhausted, and wanted to close.

Charlie is pleased with both the process and the outcome of the sale. Despite the pressure of the process, he and his team were able to successfully manage the day-to-day operations of the business. They were also able to keep the negotiations and the sale confidential, avoiding problems with staff, suppliers, and customers. In addition to providing for his family and creating a charitable foundation, Charlie was able to protect his staff for a time and to contribute a significant amount to the company retirement plan, thus benefiting staff. The deal closed at the end of September 2013, and Charlie's successor CEO came on board in January 2014. The company has continued to be successful and is growing.

Charlie's final advice is to remind entrepreneurs that the buyers and advisors have their own pressures. The deal is critically important to the seller, but the advisors and buyers are working on multiple deals. "Entrepreneurs tend to be passionate and committed to what they have created and the people who have helped bring us to this point," he says. "We have an almost instinctive understanding of our unique businesses and why they are successful and valuable. Sometimes we make decisions based on our values and culture and what is important to us as people. Professionals helping with a company sale and investors often have different issues and pressures, and it is essential to be cognizant and respectful of these factors."

He concludes: "To spend one's lifetime building and nurturing a fascinating business is immensely demanding and ultimately satisfying. Letting go of it, selling it, is both a very difficult decision and a stressful process. One must be realistic, when looking to the day after the sale closes, that one's role in the business one has built and nurtured will be totally different. The child has grown up and is now moving on." ■

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