

## **Building a Business with Time on Your Side**

Vincent Mai, Founder, Chairman & CEO, The Cranemere Group



require Enduring businesses investment, infrastructure, talented people, and innovation. Investments take time to yield results; critical infrastructure and processes take time to implement; learning and adjustments from experimentation take time; great talent can't be added instantly, nor can teams or cultures be built overnight; and innovation and R&D needed for growth take time to bear fruit. As a result, the most precious resource for long-term success is often time. Building and managing for the long term requires a time frame that is future focused without distractions.

Yet, founders and owners considering a business' next stage of growth or ownership transition can very often be forced to make decisions that introduce distractions and greatly impact how a business will be managed. In many cases, the benefit of executing on long-term strategies is compromised for artificially imposed short-term results. Companies looking for liquidity or capital to grow have a few options: pursuing an IPO, taking on a private equity partner, or selling to a strategic buyer, and each has different expectations and implications for growth, control, and organizational culture.

For example, in a sale to a traditional PE firm, pressure for quick wins easily leads to short-sighted decision making, as well as diligence distractions, transaction costs, and changing ownership dynamics. The typical time frame of three-to-five-years before another sale as a PE-backed company, impacts longer-term decision making and can impede strong business building. In a sale to a strategic, there may be some incentive for an earnout, but after a short time frame, a founder no longer controls outcomes and rarely receives further upside. In both traditional paths, there is often the potential for misalignment of incentives, expectations, and visions. Lastly, the liquidity in an IPO should be weighed against the requirement to disclose sensitive information to the public, including customers and competitors, the time and infrastructure required to meet public company requirements, and the correlation between a company's size and the success of its IPO.

Importantly in each of these cases, an owner may have a reduced ability to preserve their legacy, ensure that their employees and customers are treated well, and reap the financial benefits from continued business growth and success. Moreover, inevitable economic cycles affect short-termed focused businesses differently than longer-term-oriented firms. It can be easy to close operations, cut staff and drastically reduce expenses, instead of being more thoughtful and well-positioned to manage through dips and then not having to execute on costly rebuilds. A longer-term focus offers an ability to manage through cycles, taking all stakeholders in consideration.



So, what are some essential considerations for an owner when looking for an aligned capital partner for next stage of growth? Here are five important areas to reflect on and ask questions:

- 1. **Time and Consistency**: It is essential to consider your personal timeframe and that of your potential partner. If you want to continue building your business and are motivated to grow and expand, your decisions for a partner will be different than if you want to sell and fully exit. If you wish to stay, considering the consistency with which a partner can support the growth of your business is crucial. The traditional PE ownership cycle of three to five years often creates a sprint-stop dynamic that counters the nature of building businesses with long-term goals in mind. Finding a consistent and active partner, focused on accelerating the pace of capturing a business' full potential is critical for founders.
- 2. **Capital for Investment**: Growth requires capital, and capital needs will change over time. Building technology infrastructure, customer acquisition strategies, geographic expansion and potential acquisitions all take time, effort and capital. You want to make sure that you have both sufficient capital and the freedom to make those investments and see them pay off over the longer term.
- 3. **Culture and Team**: Cultures and teams are what make great companies, and you know the effort it takes to get it right. Many of your colleagues have grown with you over many years, and some may be close family members or friends. You will want to preserve the most critical elements of your values and culture as you grow and evolve. You want a partner who is well-aligned with your values and sensibilities and that understands the importance of this consideration.
- 4. **Leadership and Legacy**: What comes next for you is a critical question. A business is very personal for many founders and owners it is part of their legacy and in many cases, their leadership role in their communities. Make sure your capital partner and you have a shared view on your role going forward and if you so choose, how you can add the most to the ongoing success of the business. Understand what partnership means to any group you take on as your business partner.
- 5. **Liquidity and Upside**: As an owner, you've spent significant time and effort building your business, and you should be well rewarded. Diversifying your financial profile to de-risk the value you have built makes sense. But if you want to continue to build, understand the incentives and upside potential for you. The best capital partners will want a strong leader to be well motivated to continue to build.

As you consider your next steps, explore all options, talk to others who've been through the process and remember to consider what happens after you embark on your next stage of growth. Make sure that time is on your side.

"Having run a major PE firm for 20 years, what concerned me most was having to sell our very best companies, rather than continuing to invest in and grow them. I started Cranemere as an alternative partner to 'short-termism' so prevalent in financial markets today."

Vincent Mai, Founder, Chairman & CEO, The Cranemere Group