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MINDING YOUR BUSINESS

Firms' futures factor into mergers

Entrepreneurs look to preserve staff, culture in deals

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Mike Nikolich wasn't afraid to say no to big money when several multinational agencies came courting, hoping to acquire a niche player in a hot market.

More important than money was protecting his employees, said Nikolich, founder and president of Tech Image, a 17-employee public-relations firm in Buffalo Grove.

"One of my biggest fears was having to reduce head count," he said.

In today's robust mergers-and-acquisitions market, deals often go to the highest bidder, experts say. But when small-business owners are involved, whether a deal is accepted often depends on how well the entrepreneur's employees are likely to fare under the new ownership.

"One of the issues business owners need to think about before they go to market is the long-term needs of their employees and what the cultural results will be like," said Michael Sklar, president of the Association for Corporate Growth's Chicago chapter and partner at DLA Piper

"Usually it's not price" that kills a deal, Sklar said. "Culture can be a determining factor. It could be the straw that breaks the camel's back or the one that gets the camel to the next oasis."

Nikolich thinks he has found a marriage made in heaven in Tech Image's sale this year to association management firm SmithBucklin. The acquisition, which closed in January for an undisclosed price, started with a simple, lunchtime conversation about succession plans, Nikolich said.

Tech Image, with annual sales of about $2 million in 2006, had worked with

SmithBucklin on several projects, and Nikolich was interested in hearing how its chairman, Henry Givray, had created an employee stock ownership plan. When the two met for lunch a year ago, Nikolich never imagined Givray would offer to buy his public-relations firm.

"I was so surprised. He had to pick me up off the floor," Nikolich said.

But the more the two discussed it, the more the deal made sense. Besides an overlap of clients in the technology field, both firms had strong work-place practices. "One of our key principles for continuing success is ensuring we never lose that people care," Givray said.

Tech Image was honored for the second time Tuesday as the "Best Boutique P.R. Agency to Work For" by industry watcher The Holmes Report, which noted its family-friendly attitude and 32-billable-hour workweek. Givray received a Best Bosses award in the fall from Fortune Small Business and Winning Workplaces for work-place practices at SmithBucklin, a $90 million firm with more than 700 employees.

"The competition to be an employer of choice is fairly serious. If you win that, you're in good shape," said Paul Holmes, editor of The Holmes Report.. What distinguished Tech Image, he said, is "it tends to hire adults and then treat them like adults. They have a very experienced team."

Nikolich said he learned the importance of employee retention the hard way. When he launched the firm in 1993, he tried using contract workers but couldn't get the consistency he needed. Then he went after the brightest new graduates, but most lived in the city and the commute to the northwest suburbs burned them out. Turnover was rampant.

Nikolich solved the problem by going after seasoned employees who wanted to work in the suburbs. He created a family-friendly work place, where it was acceptable to cut out early to coach soccer. "It completely eliminated turnover," he said. After the industry contracted in 2001, Tech Image emerged intact. From 2003 to 2006, the firm's annual billings tripled, and Nikolich told his employees he was thinking about a succession plan but had their interests at heart.

While a common exit strategy for small public-relations firms is to sell to a multinational agency, Holmes said, "Typically, more acquisitions fail than succeed." Once the small-business owner leaves, the value often goes with him, Holmes said. Nikolich, 49, said he has no immediate plans to leave Tech Image and has a goal of boosting annual sales to $5 million by 2010.

That is not the only factor that makes this deal different. "Selling out to an association management company is a first," Holmes said. "There are different synergies and different opportunities because of the unusual nature of the deal."

So far, it is working for Tech Image, which has remained in Buffalo Grove and gained access to new clients, as well as the support of SmithBucklin's accounting, IT and human resource departments in Chicago, Nikolich said. Tech Image's employees have new career opportunities, and SmithBucklin gains new expertise in public relations, the executives said.

For entrepreneurs in any industry, selling a company they have built from scratch is rarely easy. But the heart wrench can be lessened if the small-business owner takes an active role , Sklar said. While most deals take several months to close, small-business owners should start preparing their businesses for sale several years in advance by fine-tuning operations, auditing finances and cleaning up facilities, Sklar said.

Still, no matter how tidy the facilities or the books, deals often come down to mutual understanding. That was the case for Doris Christopher, founder of Addison-based The Pampered Chef, who sold her company to Berkshire Hathaway in 2002, with an understanding that the more than 60,000 independent contractors who sell the company's cookware through home parties would keep their flexible jobs.

"Selling the business was one of the biggest decisions of my business career," said Christopher. Christopher started the business in 1980 because she wanted a career that would allow her to be there for her children, she said.

She structured the business using independent contractors because she knew other women also were looking for ways to earn money without committing to 40-hour-plus workweeks. "They were facing the same dilemma: How do you be Mom to your children and take care of home responsibilities when you have a job that's drawing you away?" she said.

So, when she began considering a suitor for the company, which had annual sales of about $740 million in 2001, she looked for someone who understood her values. "We felt there was a lot riding on this. We felt we needed to make the right decisions and not allow the company to founder at any time," Christopher said. "Clearly, there are a lot of people who depend on this business."

Christopher said she approached Warren Buffett's Berkshire Hathaway Inc. and negotiated her continued involvement with The Pampered Chef.

While Marla Gottschalk was named chief executive last year, Christopher continues as chairwoman. "I'm still here. I'm still in control," she said. "They've allowed us to run the business just as we did before the acquisition but providing that long-term ownership that is not fragile in any way."