

**TITLE: BUYCO FAMILY BUSINESS COMES TO A  
FORK IN THE ROAD.**

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Robin invites you for dinner and explains that she has a problem. She would like your perspective.

Robin is the outside director and chair of the board of BuyCo., a 3rd-generation family business in the technology space.

The company has come to a place where the board needs to consider its options:

- (1) Take on debt for a significant equal distribution to all 3 sibling owners,
- (2) Make a loan to one of the owners,
- (3) Find an equity partner to at least partially buy out one owner,
- (4) Sell the company, or
- (5) Launch an IPO to generate liquidity.

The company already had an offer for \$800M on the table.

### **BuyCo history**

Founder Fred started BuyCo as a small “catalogue” sales company in the 50’s and diversified into consumer database sales in the late 70’s. At the time of the decision point in this case, the company had revenues of \$300M, good profitability, and growth. However, there were headwinds from competition, industry consolidation, and AI. Would this growth continue?

As an example of BuyCo., assume a retailer sells a product online through Amazon. That retailer would receive an update to their seller database with information about the buyer—what other products they viewed, how long the product was in the cart, and relevant demographics about the buyer. BuyCo provides the software to Amazon which does this data mining. It is referred to as a “plug-in.” Amazon is the customer, as well as most other online retailers globally. There are four major players in this space. BuyCo and a European firm are the industry leaders, with BuyCo having a larger share of the U.S. market.

### **BuyCo governance**

Upon Fred’s death, the stock was distributed equally to his three children. Fred’s children are Tom, Jerry, and Linda. They have each worked in the business, with Jerry being CEO for several years. Tom, Jerry, and Linda together have seven G-3 children—some working in the business, all minority owners through trusts. They are between the ages of 17 and 28.

In 2012, the three siblings decided to retire from active management of the business and hired the company’s first non-family CEO, who has been doing a great job for the past 10 years.

The board of directors consists of Tom, Jerry, Linda, the CEO, and you. You are also the chair of the board of directors.

## **Jerry sparks a crisis**

Jerry, the middle sibling, felt that the company faced significant risks in the future. He wanted to take chips off the table and start enjoying the fruits of the family's success. He had a history of pushing for larger and larger distributions, but now he was asking for a large, "life-changing" distribution.

Tom and Linda did not have the same spending habits as their brother Jerry, saw no pressing need for liquidity, and were conservative in their approach—they wanted the company balance sheet to be strong in case of the threats that Jerry pointed to.

In the past, Tom and Linda had compromised—against their better judgment—and agreed to two separate tranches of very significant distributions in order to satisfy Jerry's constant requests for cash.

Those prior distributions, which required the company to take on debt, looked like good decisions in retrospect. Company growth was sufficient to pay off that debt, and the family was able to enjoy the distributions and lowered risk through liquid investments.

The siblings asked Robin to form a committee to examine the five options to satisfy Jerry. Together with the CEO, CFO, and an outside consultant, she presented the options to the family and suggested a structured loan to Jerry.

Privately, I (the family business consultant) asked Robin why an IPO was not being considered more strongly and was given several reasons.

**Question 1:** What were the possible reasons that Robin might not support an IPO?

Jerry voiced opposition to the idea of a loan structure for himself. He felt that such a loan would put him at increased risk. Also, part of the problem was that this level of liquidity would change the dynamic among the three siblings and would, in turn, separate the cousins, with one branch being significantly wealthier than the others (cash-wise). This recommendation served to pour gasoline on an already burning fire among the siblings.

**Question 2:** What would you advise Robin?

**Epilogue:** We will discuss how this played out among the siblings and the board, and the decision arrived at.