

To turn around ailing businesses, entrepreneurs buy them back

By: Ann Meyer, Minding Your Business

January 18, 2010 — It's one thing to sell a business for a nice sum, and quite another to watch it decline under new ownership.

Mark Seigle, who with brother Harry sold Seigle's Building Centers in 2005 to Stock Building Supply, is quick to mention the emotional factor that spurred him to buy back a portion of the business six months ago, saving it from disappearing altogether.

"The first factor was emotional as much as sentimental," he said.

The Seigle family had owned the home-building-supply business for more than 60 years, growing it to \$350 million in sales and 1,300 workers at 11 locations before they sold it for \$121 million in cash.

Selling is one thing, Seigle said. "It's a different set of factors to see the company close, albeit by a different owner."

Seigle is just the latest example of entrepreneurs who have sold their companies, only to return a few years later, often because the buyout didn't go as planned.

"I've seen it time and time again," said Harold Welsch, director of the entrepreneurship program at DePaul University. "The investors just look at it as an objective, cold investment, while the family members or founders live and breathe the business."

The entrepreneur's passion often prevails. "They're more hands on. They know the industry and have a higher vested, personal interest," Welsch said.

What's more, they have built personal relationships with employees, vendors and customers that aren't easily replaced. Often, those relationships are "the glue that holds the company together," he said.

Saving the jobs of the company's employees was on Seigle's mind when he bought back the cabinetry arm of the business in July for an undisclosed price, despite poor market conditions.

"Many were career employees who had been with us for decades, who were about to lose their jobs," he said.

His new company, Seigle's Cabinet Center, has saved 23 jobs, with plans to add more soon.

In addition, an alliance with giant ProBuild helped save 40 to 50 sales and management positions, he said. Seigle's Cabinet Center is sharing three locations with ProBuild: in Chicago at North and Clybourn avenues and in Wheaton and Yorkville. Its headquarters and distribution center is in Elgin, where the company was started in 1881 under the name Elgin Lumber.

The alliance works because ProBuild is a supplier of lumber, trusses, windows and doors but not cabinetry, Seigle said.



Photo: Lane Christenson, Chicago Tribune

“They were our competitor for the first 120 years, but we’ve always had respect for one another,” he said.

Customers also see a benefit to Seigle’s return.

“When you see Mark on his turf, he knows every employee who works for him and knows the business from the ground up,” said Erik Borg, vice president of purchasing at Ryland Group, homebuilders in East Dundee. “We like those hands-on businesses.”

An entrepreneur’s vision can make a big difference in a business, said David Koehler, marketing professor at the University of Illinois at Chicago.

Steve Jobs of Apple, Howard Schultz of Starbucks and Dell founder Michael Dell all stepped back from their companies for a while, only to return to innovate or steer the business to a stronger future, Koehler said.

“These individuals come back with the sole purpose of saying, ‘I can make this better,’ “ Koehler said.

Michael Klein, chief executive of Airoom LLC in Lincolnwood and Naperville, bought back the business in January 2009, five years after a Connecticut-based private-equity firm took over with plans to expand the firm, which offers architecture, building and remodeling services.

Klein’s father started the business in 1958, and it grew to nearly \$100 million in sales and 140 employees before the 2004 sale, Klein said.

While Klein thought the investment firm would want him to stay on in a management role, that lasted less than a year. In retrospect, he said, he was naive.

“Most private-equity groups like to bring in their own jockey,” he said. “But what I didn’t get used to was being alienated.”

The private-equity firm brought in a new CEO with a manufacturing background, who lasted 12 months. Then it turned to an insider, but due to a combination of factors it couldn’t stem declining sales, Klein said.

Gut instinct that the business wasn’t going as planned spurred Klein to call the investors in November 2008.

“I sensed correctly, and within four weeks we had negotiated the deal,” he said.

When Klein bought back the firm a year ago, annual revenue had dropped about 50 percent, to less than \$50 million, and the number of workers had been cut in half.

“The economy should have dipped us about 15 to 20 percent. The extra 30 percent was due to lack of focus,” he said.

Despite the poor economy, “the past year has been OK,” Klein said. More important, he believes the company is well-positioned for the future.

Airoom recently launched Elevations, a new division focusing on exterior makeovers, including siding, porches and windows. It also has turned its mortgage brokerage into a mortgage banking business, with plans to supply funds to customers. The company is hiring operations and salespeople.

“It’s a lot of work,” Klein said. “But I’m glad to be back.”