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Why This Entrepreneur Rejected A $40M Offer For A $9M Company

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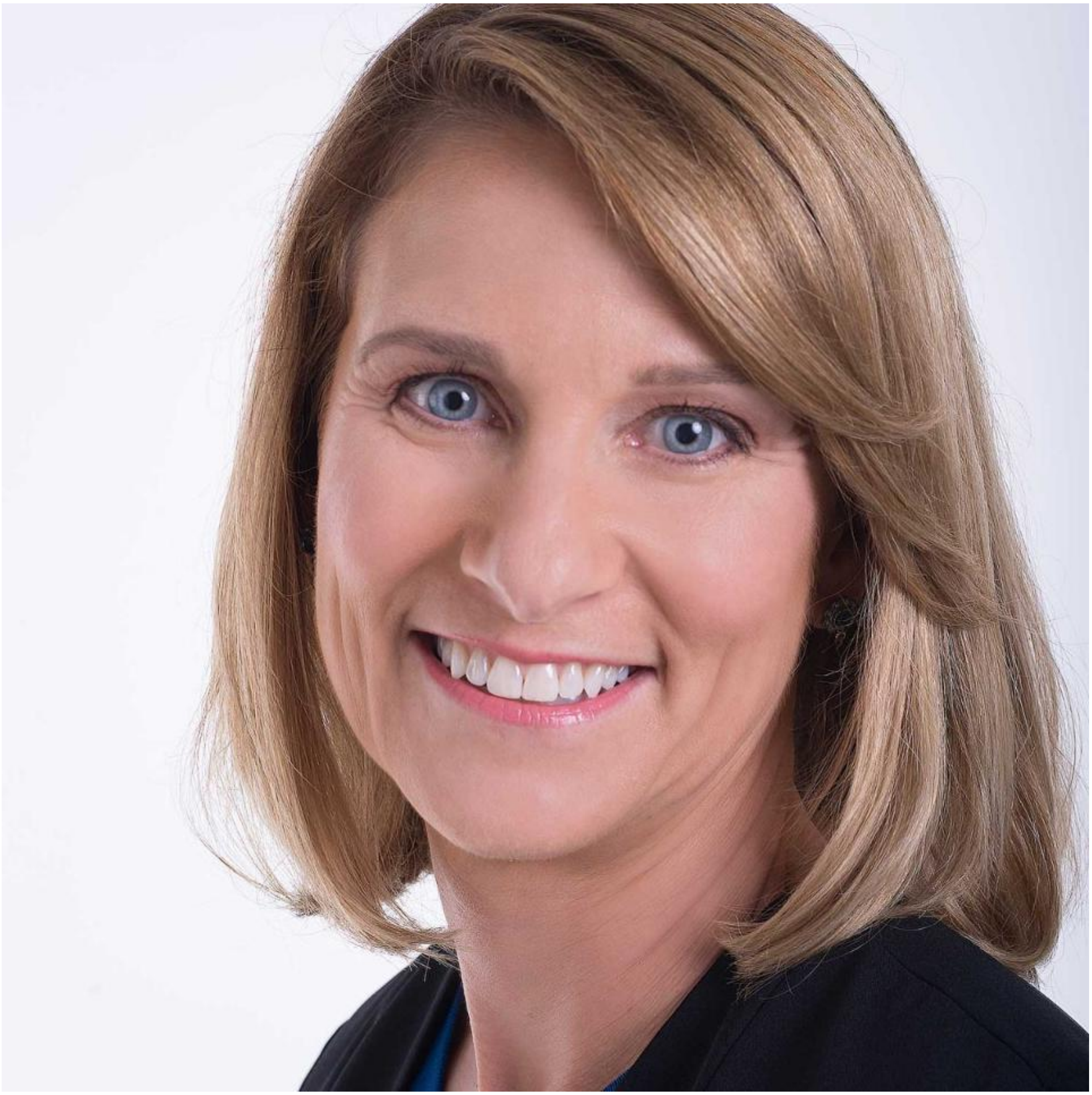
I write about improving the value of your business. FULL BIO



Stephanie Breedlove has been a successful entrepreneur for over 20 years. After launching a career in corporate America with Accenture, she found her true calling as co-founder and CEO of Care.com HomePay (previously Breedlove & Associates), the nation's largest and most comprehensive household payroll and tax firm. Credit: Stephanie Breedlove

What do you do when someone offers you close to $40 million for your business, which is turning over just $9 million in revenue? Do you:

1. Whip out your best signing pen.

2. Call your real estate agent in Vail.
3. Turn it down.

If you’re Stephanie Breedlove, the founder of Breedlove & Associates, you choose C.

Where on earth did Breedlove get the gumption to turn down an offer of more than four times revenue for her company? As she told me when I interviewed her for *Built to Sell Radio*, it starts with having a great little business she loved running.

In 1992, Breedlove founded a payroll company to make it easier for parents to pay their nannies. It began small and she self-funded their growth, which averaged 20% per year.

By 2012 they were profitable and had hit $9 million in annual sales, then she got a call from Sheila Marcelo. Marcelo is the CEO of venture-backed Care.com and knew of Breedlove because their two companies had a content sharing relationship. Marcelo saw the synergies between the two businesses and after a short negotiation, offered Breedlove almost $40 million for her company.

That’s when things got interesting.

The Strategic Walk Away

Instead of accepting what most outsiders would see as a very generous offer, Breedlove hesitated. Given their beefy profit margins, Breedlove thought her business could be worth closer to $50 million. Breedlove broke off negotiations and soon after wondered if she had given up on the chance of a lifetime.

Six weeks later, Breedlove got a surprise call from Marcelo saying she thought they could get closer to Breedlove’s expectations. Weeks later, Care.com announced they had purchased Breedlove & Associates for $55 million. Fifty percent of the purchase price was in cash and the other half was in Care.com stock. Breedlove also had 20% of the $55 million in consideration at risk in a two-year earn-out, which Breedlove and her team achieved.

Breedlove’s negotiating stance was risky. Care.com was a strategic buyer and arguably had the most to gain from acquiring Breedlove & Associates. Therefore, Care.com should have been willing to pay the most for her business. But buyers can be fickle and easily turn away from a founder who comes off as unreasonable. Breedlove found the balance between saying no to Marcelo’s original offer without closing the door permanently.

Breedlove's poise under fire came from knowing she had a successful business that she didn't *have* to sell. Being self-financed, Breedlove didn't have an impatient venture capitalist pressuring her for a return on their investment. She also didn't have much serious competition. Rather than compete directly with the likes of ADP or Paychex, she chose a sleepy little corner of the payroll market that nobody cared much about, giving her incredible profit margins.

Negotiators talk about the importance of having a BATNA (Best Alternative To A Negotiated Agreement). In Breedlove's case, her BATNA was that she was happy to keep running her business.

Breedlove's story is a good reminder that waiting to sell until you're ready to retire is often a mistake. Many of the owners who come to The Value Builder System for help in building their company's value are already ready to retire. They are burnt out and are counting the weeks until they can stop working. This puts them in a very weak negotiating position.

Breedlove sold when she was just 48 years old so she had plenty of energy and enthusiasm going into her two-year earn-out. What's more, being so young, she wasn't staring down the barrel of retirement, knowing she had to sell on a timeline. She could relax in the knowledge she was happy to keep running her company or sell it if a buyer was willing to pay a handsome premium.

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