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ARTICLE HBR CASE STUDY AND COMMENTARY

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**The founder of a pet care company wonders whether
to sell it or hire a new CEO.**

by David R. Dixon

**Should Elena appoint Christine the new CEO
or sell to Doghouse Luxe?**

Expert commentary by Candace Leak and Todd Olson

CASE STUDY CAN I STEP BACK FROM MY START-UP?

THE FOUNDER OF A PET CARE COMPANY
WONDERS WHETHER TO SELL IT OR
HIRE A NEW CEO. BY DAVID R. DIXON

Bzzt. Bzzt. Bzzt. Sitting on a bench in the dog park, Elena Pelc glanced at her phone. She'd hoped to escape from



CASE STUDY CLASSROOM NOTES

More than 60 million U.S. households own a dog, up from 34.5 million in 2002. In 2017 pet supplies were a \$15 billion industry, according to the American Pet Products Association.

work for the morning, but as the founder and CEO of 2 Proud Pups, a maker of all-natural dog care products, she didn't have much free time. She decided to ignore e-mail for a few more minutes. This was a rare outing with her pets, and she wanted to enjoy it.

Maggie, a yellow lab, was rolling on the ground. Broccoli, a black shepherd-husky mix, was sniffing a few other dogs. Elena smiled. These were her first and second babies, adopted just after she and her husband, Matthias, had gotten married. The business was her third baby: She'd launched it when the pups were a year old simply because she couldn't find any high-quality shampoos for them on the market.

Existing products had touted their cleaning power, but their ingredient lists were long and full of nasty-sounding chemicals that irritated the dogs' skin. So Elena had invested her savings to hire a chemist and create something better. They had mixed early batches in her kitchen, and she'd tested the solutions on herself first.

When the shampoo was ready, she'd started selling it to local retailers and developed a loyal customer base. Over the next six years she'd hired a few staffers and added several more all-natural products, such as conditioner and toothpaste. The line was now carried by more than 1,000 independent pet stores nationwide plus a few regional chains.

Elena had managed this growth without taking on any outside investors; she'd relied on bank loans and continued to invest her own money in the business. But she felt at a crossroads. Although her products were selling well, revenues had plateaued at about \$1 million annually. She didn't think she could take 2 Proud Pups any further, and now she had a real baby on the way. Seven months pregnant and feeling

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HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on "Cain & Able Collection: Every Dog Has Its Day Spa" (Stanford Business School case no. E412), by David R. Dixon and J.D. Schramm, which is available at HBR.org.

Founding a company and leading it as CEO require different skill sets. How might they differ, and when might a founder make a good CEO?



a little burned out from years of 24/7 work, she needed—and wanted—a change. She was ready to step down as CEO and possibly to sell the company. But after months of research and meetings, she still hadn't found the right successor or buyer.

Bzzt. Elena looked at her phone again: three more e-mails and texts. It was time to get back to the office. She eased onto her feet and whistled to the dogs. “Broccoli! Maggie! Time to go!”

NEW CEO, NEW COMPANY?

Walking into the 2 Proud Pups office, Elena unleashed her dogs and greeted Kelly, an employee of three years. “How’s today’s delivery coming?” Elena asked.

“Almost done,” Kelly said. “I told them I’d be there this afternoon.”

“Great. Thanks.” Elena glanced at the time. “Shoot—I have a call now.”

Kelly’s smile dimmed. “Another interview for a new you?”

“Yes,” Elena sighed. “But this is a really strong candidate.”

She walked into her office. On her desk was a pile of résumés from CEO candidates who’d responded to a listing she’d posted on a small-business sale website. Clipped to each one, at Elena’s request, was a photo of the applicant’s dog.

She’d spoken to all of them by phone, but only one seemed close to a good fit: Christine Reed, a 35-year-old MBA whose previous experience included stints at a cosmetics start-up and a global consumer products company. They’d already met for coffee, and Elena had liked her—and her bulldog, Rembrandt, who’d joined them at the café. She and Christine had discussed the history of 2 Proud Pups, its financials, and the terms under which a new CEO might join the firm.

Backed by an investor with whom she’d worked before, Christine was ready to take a 40% equity stake. She would accept the same modest salary Elena had been earning and would accrue more shares each year. Elena had hoped to divest a larger chunk of her holdings—she and Matthias were keen to buy a bigger house and set up a college fund for the baby—but she also liked the idea of remaining the majority

shareholder in the company even as she ceded day-to-day control.

It made sense on paper. Christine was smart and dynamic and seemed passionate about 2 Proud Pups. Her references had raved about her. But Elena couldn’t help feeling that something was missing—hence the follow-up call.

“Thanks for taking the time to chat with me again,” Elena said.

“Happy to!” Christine replied. “I’m excited about this opportunity.”

“That’s good to hear,” Elena said. “As you can probably tell, I feel really protective of the 2 Proud Pups brand. One challenge with a new CEO would be maintaining all the relationships we have with suppliers, customers, and stores. How would you handle that?”

“Honestly, I love making new connections. Ideally, I’d shadow you for a month to meet all the key contacts, and then I’d keep up with calls and visits. I’d assure them that 2 Proud Pups will be business as usual.”

“But I can’t help wondering—will it be business as usual? Last time, when we discussed where you want to take the company in the future, you mentioned targeting Amazon, Chewy, and Petco.”

“Well, if the idea is to put it on a growth trajectory, I think we’d have to go after those big players. It would be a multiyear strategy, and we might need outside investment. But I think we could accomplish it while maintaining existing distribution.”

Christine paused. “But Elena, this obviously works only if we’re on the same page. The deal we discussed would make us partners, even if you’re stepping down from management. You’d have to trust me to take the company where it needs to go.”

Elena felt a little queasy. Christine’s vision for the company did sound promising from a financial standpoint, but it just wasn’t the 2 Proud Pups that Elena knew. Still, she tried to hide her discomfort. “This search is all about finding someone who will bring a different perspective to the business, and it’s clear you can do that. But this is a big step for me, so I hope you can understand if I take some time with it.”

“Of course,” Christine replied. “Just know that I’m ready when you are.”

How difficult will it be for Elena to strike this balance? Is such an arrangement feasible?

Petco and PetSmart, which owns Chewy, are major players in the pet products market. But Amazon has more than half of online sales, according to Packaged Facts—and e-commerce is projected to make up 20% of the market by 2022.

A company’s culture is often heavily influenced by its founder. How might a new CEO change the culture at 2 Proud Pups?



How thorough has Elena been in her CEO search? What more could she do to source candidates?



Is Elena right to feel this way?



Online sales of pet products are expected to reach \$8.2 billion in 2018, according to Pet Business. What will Doghouse Luxe (and 2 Proud Pups, if the companies merge) need to do to stay competitive?

How likely is it that the two companies will merge smoothly? What factors might get in the way, and how should Elena prepare for them?

TO SELL OR NOT TO SELL?

Elena left her office deep in thought.

“How was the call?” Kelly asked.

“It’s hard to pick your own replacement,” Elena said.

“That’s because no one can replace you!” Kelly replied.

“That’s nice of you. But maybe a pregnant me—or a new-mom me—isn’t what the company needs right now. Selling to a competitor actually seems easier. It feels less personal.”

“Which one?” Kelly asked warily.

“There are a few options,” Elena answered noncommittally. The truth was that she’d been in talks with Doghouse Luxe, a luxury dog food specialist, for two weeks. But its CEO, Rajeev Gupta, an impressive guy who’d been installed by the company’s private equity owners, had asked her to keep the negotiations confidential.

The Doghouse philosophy was similar to 2 Proud Pups’, but its business model was different. While Pups sold its products mainly through stores, Doghouse had an award-winning website and sold mostly direct to consumers. Rajeev had offered Elena a cash buyout and 10% of the merged entity. The deal would give her a cleaner break from her company and a much larger payout. And Rajeev’s firm seemed to have a terrific track record of rolling up small businesses into larger, more successful ones. Still, the idea of having little or no influence over her brand going forward was tough to stomach.

Elena sat on a box, and Maggie padded over to lick her hand. “Where’s the delivery going again?” she asked.

“Pete’s. I was about to head over.”

“Actually, why don’t I do it?” Elena said. “I’d like to talk to Pete.”

Kelly hauled the boxes into the 2 Proud Pups van, since Elena couldn’t do much heavy lifting these days. Pete’s Pet Shop, across town, was a city institution, named for its founder—a beloved curmudgeon who adored animals and tolerated humans. When Elena parked at the rear and lightly tapped her horn, Pete appeared.

“Well, hello, Elena,” he said gruffly.

“What’s this I hear about your selling to Doghouse Luxe?”

Elena grimaced. “It’s just an idea, Pete. How did you know?”

“Word gets around. Especially when we independents are worried. You can’t sell to them, Elena. Their whole business is designed to eliminate us.”

“Actually, the idea is to sell all the products through all channels—in stores and online. A merger would mean that 2 Proud Pups would reach more pets. You know I want what’s best for you guys and for the animals.”

“But your products are better than theirs. That’s why I took a chance on you way back when and stuck by you when others jumped on the all-natural bandwagon. Your shampoo is the only one my dogs will sit for. Can you promise me that Doghouse won’t change the ingredients to cut costs?”

“How are those dogs?” Elena asked, trying to change the subject.

Pete smiled briefly. “The same—always getting into trouble.” Then he frowned. “I guess Doghouse is better than defecting to Petco or Chewy. We certainly don’t want to carry the same stuff as those soulless giants. But it still doesn’t sit right with me. We trust you, Elena, and there’s nothing wrong with staying small. Do let me know what your plans are once you make them. I’m uneasy about this.”

“Believe me, Pete,” she replied, “I know the feeling.”

THE BETTER OF TWO BAD OPTIONS

On her way home that night, Elena got takeout, which she and Matthias ate on the back porch with the dogs. She quickly recapped the day’s conversations.

“And you’re sure you want to step down?” Matthias asked. “If both options for the company are bumming you out, we can make it work—even after the baby arrives.”

Elena squeezed his hand with one of hers while holding the other to her belly. “You’re sweet. But I think I’ve given 2 Proud Pups as much as I can for now, and I’d like to rest and be a mom for a little bit. The timing feels right; it’s just that neither option does. I guess you’re never excited to leave your life’s work behind.”

She looked down at Maggie and Broccoli. “What do you think, pups? Who’s the best person to take our little company into the future?”

Should Elena be discussing the potential sale with a retailer? How much weight should she give his and others’ opinions?



SEE COMMENTARIES ON THE NEXT PAGE ➔

SHOULD ELENA APPOINT CHRISTINE THE NEW CEO OR SELL TO DOGHOUSE LUXE? THE EXPERTS RESPOND

ELENA'S BEST OPTION is to sell the company. Though she seems conflicted, I sense that what she really wants is to be finished with 2 Proud Pups. Her primary goal is to have more time for herself, her dogs, her husband, and her baby, and only one option guarantees that she'll get that time.

Also, hiring Christine—someone who has neither founded nor led a company before—as the new CEO would involve a lot of risk. Though her credentials and references are impressive, she has no proven track record. Elena, as the top shareholder, could find herself still having to weigh in on or make a lot of decisions. There might be personality conflicts between the two women, or between Christine and some of 2 Proud Pups' employees, suppliers, or existing customers. And what if something were to happen to Christine?

Even if Elena isn't leading the company's day-to-day operations, she would still be on the hook for too much of its future. Things could get even more complicated if the company accepts outside investment, which would dilute her control.

Selling the company, however, would solve almost all of Elena's problems. It would get her out of the business, ensuring that she didn't have to think—or worry—about it while navigating her new role as a mother. At the same time, it would position 2 Proud Pups to flourish, because merging with Doghouse Luxe would provide the new company with multiple sales channels. And it would result in a better payday for Elena, helping her buy that house and start that college fund. Plus, she would still own 10% of the business, so she could sit back, relax, and collect money as the company grows.

Like any other entrepreneur, Elena doesn't want to watch her life's work disappear. But handing the reins to Christine would be riskier than giving them to Rajeev, who knows how to build a company. Yes, there's a chance that he and Doghouse Luxe could change what

2 Proud Pups' customers love about it—but so could Christine. There aren't any guarantees either way.

Rajeev is the one who already knows the market, current trends, and probably a lot of the same customers and potential targets. The two businesses are a good strategic fit for each other. And if Elena can manage the transition correctly—ensuring that employees are retained, placed in good jobs elsewhere, or given severance, and that other stakeholders are equally well cared for—she should have fun seeing where the merged firm goes.

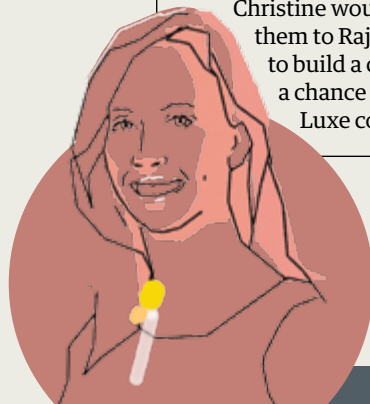
When I decided to step back from my own pet care products company, Cain & Able Collection, I faced a similar dilemma. (In fact, the teaching case from which this story is drawn is based on my experience.) Like many start-ups, the business had plateaued, and we knew that ramping up would require some changes. I looked at outside investment and bringing

ELENA'S PRIMARY GOAL IS TO HAVE MORE TIME FOR HERSELF, HER DOGS, HER HUSBAND, AND HER BABY, AND ONLY ONE OPTION GUARANTEES THAT SHE'LL GET THAT TIME.

manufacturing in-house but ultimately decided to merge with a friendly competitor. Although I'd been happily working 60-hour weeks for nine years, I decided after having my first child that I couldn't handle that schedule anymore. Eventually, my new partners and I chose to sell to a larger organization, and that too was a relief. Like Elena, I was ready to move on to the next chapter of my life, and after spending some time raising my kids, I've now started a new company.

The Doghouse deal is the best way for Elena to get what she wants. It's also the best way to help her company get the growth it needs.

**CANDACE LEAK IS THE
FOUNDER AND CEO OF
LOANABLES.COM.**





TODD OLSON IS THE CEO AND A COFOUNDER OF PENDO.

IN MY OPINION, selling the company is giving up. That's why Elena's best choice is to hire a new chief executive officer.

I never get the sense that Elena has truly lost her passion for 2 Proud Pups and what it does. If she had, then yes, selling might be her best move. But it sounds to me as if she just wants a break—some time to figure out how best to balance her career and her family life. Choosing a deal with Doghouse Luxe will limit her future options; instead, she should expand her options, by hiring a new CEO.

If Elena sells the company, she will effectively be finished with it. 2 Proud Pups will have a new owner, and she probably won't be involved in any decision making. That would be a shame, because the company, created and developed with her guidance, seems generally strong. Its products are good, its customers sound happy, and even Pete doesn't want her to leave. The financials aren't bad either; they may have plateaued, but they aren't shrinking, and the market remains vibrant. There's still a lot of room for 2 Proud Pups to grow, and Elena should make sure that she continues to be a part of it.

As the founder, she put a lot of her personality into the creation of her company. That will never go away, even if she does. Hiring Christine will not only give her more flexibility in the future, but also ensure that she has the option to return and continue to build on her vision. Maybe Elena will miss running the company and serving her customers. Maybe she'll want to come back when her child and any future siblings are in school.

She started 2 Proud Pups because she wanted to solve a problem and had a vision for how to do it. By staying on as the majority shareholder, she can protect that vision, her employees, and her distributors while still pushing the company toward growth. If she feels at any point that Christine is leading the business in the wrong direction, Elena can reevaluate and adjust.

But I think it's more likely that Elena will learn from the new CEO. She can pick up a lot by watching how Christine, an MBA with more varied experience, runs the company. Those lessons will make her a stronger leader later on.

As an entrepreneur, I'm intimately familiar with decisions like this one. After founding my second company, I brought in an executive with more sales experience to be CEO. Unfortunately, it didn't work out. We then sold to another company, which went public, and I and all my employees stayed on through that journey.

I'd advise Elena to stay as involved in 2 Proud Pups as I did in that situation. Of course she needs to continue the "getting to know you" process with Christine and keep her CEO search open in case someone even better pops up. Although her due date is approaching, she should remain patient, spend lots of time with multiple candidates, consider what-if scenarios for each one, and consult numerous references, including contacts that haven't been provided.

HIRING A NEW CEO WILL ALLOW ELENA TO STEP BACK WHILE STILL GUIDING THE COMPANY SHE CALLS HER BABY.

Elena may be feeling tired, burned out, and stressed about the new baby, but it's a bad idea to make big decisions in that state. Selling to Doghouse Luxe may be a move she'll ultimately regret. Is she sure she never wants to be involved with 2 Proud Pups again? Considering that she calls the company her baby, that doesn't seem likely. As a father of four who also considers my company my baby, I would want to be part of that baby's future growth. I think Elena would too. Hiring a new CEO will allow her to step back while still guiding the company she founded. ☺

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“ COMMENTS FROM THE HBR.ORG COMMUNITY

Preserve Her Intentions

The company grew into what it is because of Elena's intense passion to create better products for her dogs and all pets. If she hands it over to a new CEO and remains a partner, her genuine intentions can help drive the company even longer.

Sriharsha Sammeta
machine learning intern
Apple

More Money, Greater Scale

Given Doghouse's proven ability to merge with small companies, it makes sense for Elena to go for Rajeev's offer. It would give her substantially more money and help her brand go beyond its current scale.

Vishesh Agarwal
MBA student, Indian Institute
of Management Calcutta

What's Most Important?

Letting go is the hardest part in either scenario. If maintaining brand and product control is more important to Elena, then my gut says bring in a new CEO. If time and financial freedom are what she's looking for, sell and don't look back.

Claire Lamont
founder and chief creative
officer, Smak