

PERSPECTIVES

Insights on Healthy Living & Aging

North Castle Advisors Reveal: The Worst Mistake I Ever Made

At a recent North Castle CEO conference, we asked our Advisors to discuss the “worst mistake they ever made.” As a private equity firm focused exclusively on consumer businesses that benefit from healthy living and aging trends, we believe that the cumulative knowledge that comes from our focus and the resources of our experienced network provide competitive advantages to our portfolio companies. As many of our companies often have similar opportunities and challenges, there is a great opportunity to share best practices as well as learn from mistakes. As Martin Vanbee said, “Learn from the mistakes of others. You cannot live long enough to make them all yourself.” The following provides excerpts from the discussion.



Jeff Stiefler **You're Fired**

My worst mistake with really no close second is

moving too slowly to remove ineffective leaders from an organization. Yet, I've done it countless times. What makes this issue particularly challenging is that I believe with absolute certainty that leadership is the greatest point of leverage that you have in any organization. In fact, I would argue that when you have good leaders in place, anything's possible, and when you don't have good leaders in place, almost nothing's possible. So, “Why is it that I kept making this mistake?”

First is arrogance. Somehow, I think that I can fundamentally change someone's

behavior. In reality, a person's values and inclinations can only be marginally modified. A second reason is the belief that the cost is too high. Some years ago, I was running a private equity backed organization where one investment was run by a guy who was very smart, very charismatic, but he had the values of a snake. Keeping him caused me and the company to fail because I simply couldn't do anything. Another reason I have hesitated is because I wanted to wait for perfect information. We're never going to have perfect information, so we must move forward without it. Finally, I have often hesitated out of a sense of loyalty or compassion. Removing someone from a position of leadership is painful. But at the end of the day, you've got a greater responsibility to the larger organization than you do to any individual. “Life's too Short.” Today, I make the changes.



Augie Nieto **The Grass is Always Greener**

The worst mistake I have ever made was thinking that the marketplace that I was not competing in would be easier than my current market. It was in 1995 and the commercial health club market was slowing down. I decided to focus limited resources on the consumer market thinking that the grass is greener. Not only did I fail in the consumer market, I fell behind in the commercial market.



Peter Roy **Know your Business**

In 1981, I had opened my second store, one of the first natural food supermarkets in the country and had leveraged myself to the hilt. One of the covenants in my debt agreement was that I had to maintain 51% of the stock, which completely boxed me in. I couldn't borrow and I couldn't take in new equity. The only way to get expansion capital was through operating profits which would take years. My first mistake was agreeing to this covenant. I was afraid to give up “control.” Big mistake. What I failed to realize then was that you have control as long as you're doing a good job. You lose it when you stop performing. That was the first mistake, which led me to a bigger one.

In 1985, I was asked to participate in the creation of the River Walk in New Orleans. So, here I am. I can't raise any money to expand and I wanted to do something new, creative and fun. So, I came up with this absolutely outrageous plan to do a European food emporium, which would capitalize on all of the hot trends in food retailing, including Germany bakers, hundreds of kinds of cheese and a wine bar. The developer had wanted a deli, a bakery, and a wine bar in the marketplace but they had not planned on one vendor doing the majority of it all. I signed a lease to do 70% of it myself. The developer agreed to finance the whole thing and give us some working capital to boot. My board approved it. It was one of those situations where you should be careful what you wish for.

By 1:00 on opening day, I realized that I had made an epic mistake. We'd been open for three hours and we hadn't sold one piece of fruit, one piece of cheese, one loaf of bread, and we had 100 people waiting in line for sandwiches. At that point I realized, I had just built an 18,000 square foot sandwich shop with rent of \$20,000 per month! There was no way the numbers were ever going to work. I had grossly miscalculated our customer base.

It took me 14 months to close it all down and get out. I lost over 50% of the equity I had built. Things that don't start right, never end right. I got into the deal for all the wrong reasons. I completely lost my focus. We were about natural food supermarkets, not tourist oriented food service. To be successful one must understand what it is that you do, what you do well, what your business is all about, and always check your personal motives for the decisions that you're making.



Pam Peeke
Employer vs. Friend

The worst mistake is blurring the line between employer and friend. It can be easy to do. For example, many of us become close to our executive assistants. They're right there for you in everything from scheduling to strategy. The problem occurs when that person shows impairment, whether personal (a drug addiction) or professional (weak interpersonal skills) because now you're not just dealing with an employee. You're dealing with a friend, which makes it 50 times more difficult to fire them, demote them or otherwise curtail their responsibilities. It is better to keep your personal life separate.



Gale Bensussen
Prep for the Press

Several years ago, I was asked to do a T.V. interview. I was told it was all about the wonderful vitamin industry, how it was growing, how the major players were getting into the business,

how many consumers were using vitamins and supplements. It sounded like a great opportunity. I asked for more details but was told, "Don't worry about it. It will only take about a half hour."

So, in comes the interviewer, two cameras, make-up artist, lights, etc., and this is a "Roast the Vitamin Category" piece that they had been working on for months. I found myself in a horribly difficult, defensive position with the

"We must understand our capabilities and our strengths and whether you can be good at the two or three driving forces that account for the success of a company."

— Ira Brind

interviewer pulling out bottles from a variety of stores, saying, "These are all the same products, but they have different prices. Explain that. What do you mean by natural? What do you mean by this? What do you mean by that?" It was a very difficult four hours. The interview was aired. It wasn't particularly good but not catastrophic. So be prepared when dealing with the press, do it on your turf, under your terms and with your data.



John Young
Don't Wait

The worst mistake I ever made was a mistake of inaction. Several years ago I had a colleague whose job was to open new hotels. He was very effective but I kept hearing about things which were morally and ethically questionable. For example, illicit relationships with cocktail waitresses, having work done at his home by hotel contractors and some suggestion that he had been stealing hotel goods. As these allegations accumulated, I started an investigation but there was no way of substantiating any of them.

After a lot of debate, we warned him that any future actions that caused us to question his integrity would lead to his termination. All seemed well until a grand opening party at one of our hotels. The General Manager issued two drink tickets to each employee but he insisted on getting more. Since the GM was two levels below him in the organization, she was in an appalling position. She understandably gave him the extra tickets. He then fed the drinks to one particular cocktail waitress who was attending the party. She became so drunk that he decided it was necessary to drive her home. She woke up the following morning in her home not knowing how she got there and believing that she had been raped. Criminal charges were filed and he was terminated.

The real issue is that this might have been prevented if we had acted earlier. Considering the consequences to the waitress, our company and him personally, it would have been far better to fire him when his behavior was questioned and take the risk of him suing us for unfair dismissal rather than waiting.



Ken Dychtwald
Recognizing Limitations

In the late 90s after raising a substantial sum of money, I launched five businesses simultaneously. With too many

unknowns and my expectations out of line with reality, everything came tumbling down. How did I think that I could do so many different things at the same time and be successful at them all? We need to understand our limits, especially when so many things are out of our control. So be careful not to bite off more than you can chew.



Ira Brind
Ask the Right Questions

I was in the truck leasing business, and we were doing well. We were buying a lot of trucks. So, I thought “vertical integration.” We decided to buy a dealership. I analyzed the numbers and asked a lot of questions. I answered all the questions correctly. It was just all the wrong questions. So, we bought this dealership, and it ended up being a disaster because running a truck leasing business is very different than running a dealership. We understood the specs, but a dealership is not about the specs, it is about marketing, sales, and merchandising whereas our leasing business was about service. We must understand our capabilities and our strengths and whether you can be good at the two or three driving forces that account for the success of a company.



Mike Morris
For the Sake of Change

Several years ago, I was brought into a company by a new management team who wanted to do things differently. Change for the sake of change. I identified a new enterprise wide software to run the company. The software was new in its architecture and its overall design. The user community wanted new software but they wanted it to do what the old software did. Despite the fact that we had absolutely no experience with the software, we moved forward with it. When the trouble started it became apparent that we had no support

from senior management and the users never adopted it.

What I learned was that you must understand your business and your strategic goals before changing any integral part of your operations. Today I would not partake in a project where there wasn't a corporate sponsor. Changes in technology require the support from senior management who can bring the business insight and guidance. Technology in search of a problem is doomed to fail.



Ellen Marram
Beware of Averages

About 20 years ago, I was running a division of a large food company. Our strategy was to build our product's image as a healthful product. We wanted to reward current users and attract new people who were interested in healthy living. So the VP of Marketing suggested we do a promotion where, for a certain number of boxtops, consumers could send away for a celebrity's exercise video. I asked about the person's “Q” scores. “Q” scores are a tool used to measure a celebrity's popularity. The VP of Marketing said “I checked out the “Q” scores-they're fine.”

So we contracted with the celebrity and we printed and shipped millions of packages with the video offer. But the celebrity, while extremely popular with our target audience, was also very controversial to some people. A radio talk show host saw the promotion and started agitating. Pickets started forming. The letters started coming. I have read many complaint letters in my life, but some of these were really scary. I don't like being threatened by anybody but there was a food product at the center of this controversy. We had to pull the promotion. Some might say that I made a mistake by giving in and pulling the promotion but to this day, I know I did the right thing. It was a very important reminder that when lives could be at stake, other things you believe in have to take second place.

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Making Mistakes



Victory goes to the player who makes the next-to-last mistake.
— Chessmaster Savielly Grigorievitch Tartakower

Experience is the name everyone gives to their mistakes.
— Oscar Wilde

Every great mistake has a halfway moment, a split second when it can be recalled and perhaps remedied.
— Pearl S. Buck

We're all proud of making little mistakes. It gives us the feeling we don't make any big ones.
— Andy Rooney

A mistake is simply another way of doing things.
— Katherine Graham

If it is a mistake of the head and not the heart don't worry about it, that's the way we learn.
— Earl Warren

Anyone who has never made a mistake has never tried anything new.
— Albert Einstein

It's also clear that I should have asked more questions before I approved the program. I forgot that averages never tell the whole story. When I was a kid my father taught me to be suspicious of averages. He said that if there were nine women in a room and one of them was nine months pregnant, the average woman would be one month pregnant.



John McCarthy
Customers Know Best

In 1981, I was the Executive Director of the International Racquet Sports Association. As most of our members were becoming primarily fitness organizations, we realized that our name no longer fit what most of our members were doing. We hired a name change consultant who after six months came up with a new name – Exercere. After our Board of Directors approved the name change, we went out to our customers who were alarmed and dismayed. We almost made a major mistake. We failed to think about the impact on the customer. This experience taught me three things.

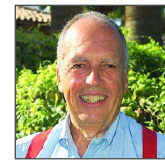
First, don't surprise your customers. Discuss any decision that is going to affect your company's interface with your customers with your customers first. Second, when you're working with consultants, no

matter how specialized their expertise, do not give up control. In this case we deferred too much to our consultant. He may have known a lot more about name changes but we knew a lot more about our customers. Finally, you can never underes-

“Never own a business where the company's success is totally dependent on one person.”

- Arthur Warshaw

estimate the power of your name. Your name is how people know you. It's how they relate to you. It's how they envision you and changing a name or anything that's going to affect how your customers perceive you is like playing with dynamite.



Arthur Warshaw
Seduced by Profits

I was in charge of a group of seven businesses. Six of them were experiencing declining revenue and significant losses; turnarounds by anyone's definition. The seventh was a healthy, growing and profitable business. I was successful in returning the six troubled companies to health through a combination of strategic, tactical, organizational and operational changes. I faced the problems in a logical and linear way, applying “irrefutable logic” to each situation. Changes were made effectively and quickly and all of the “unhealthy” businesses went on to grow and prosper. The “healthy business” was my mistake!

The healthy business was led by a charismatic, talented and undisciplined executive. It was a business with no brand equity, weak middle management, no unique technological or manufacturing expertise and no barriers to entry. My mistake was being seduced by the growth and profit and failing to act on the risks associated with an entire business built on one person. If that person left, the business would “vaporize.” I was unwilling to reorganize and risk the existing growth and profit. You know the end of the story, the person left and the business vaporized. The bottom line is never own a business where success is totally dependent on one person. If you find yourself in this situation, take the risks associated with reorganizing or exit. ●

 **NORTH CASTLE PARTNERS**
Investors in Healthy Living & Aging

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