

TheDeal Magazine

Voice of the deal economy

Entrepreneurial acquirer

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Published June 19, 2009 at 1:53 PM



Corporate structure and entrepreneurial drive have a yin and yang relationship. Most businesses need a measure of both, yet the two often clash, with some of the most dramatic flare-ups coming after acquisitions of entrepreneurial outfits by bigger, more established companies. When somebody does a string of deals that strikes a successful balance, it's worth taking notice.

So meet Jim McCann, founder and CEO of **1-800-Flowers.com Inc.** Over the past 33 years, he built the company from a single florist shop in New York into the leading retailer of flowers and gifts in the U.S., with 10 brands and \$919 million in sales in 2008. Acquisitions

-- eight in the last decade, including the purchase of DesignPac Gifts LLC for \$38 million in April of 2008 -- have played a big role. "I'm a bootstrapping kind of entrepreneur," McCann says, "so our DNA said that whatever we had we would build. But as we developed as a company, it turned out to be frankly more productive for us to consider not starting everything for ourselves."

That's truer than ever these days, with the retail market under great pressure. Although McCann projects a 5% to 10% decline in sales for fiscal 2009, the company's first ever, he says the recession is presenting his financially strong firm with opportunities for more deals in areas such as gourmet food, where its fastest-growing division already offers chocolate, popcorn and wine.

As in the past, any acquisitions will likely be done with a view to bringing in new people as well as new products that can benefit from 1-800-Flowers.com's Web platform, 30-million-customer database and fulfillment and distribution capabilities. "It's one of the reasons we've done them," says McCann. "It's an efficient way to acquire talent that's already proven."

McCann says about 60% of the company's executive team has joined through deals. That's certainly impressive, considering the way some acquirers struggle to retain entrepreneurial types after a big payday. How does he do it? "I don't think we're terribly unique in culture," he says. "But being an entrepreneur is lonely. And if we can craft a situation where you're part of a team, a team you like, a team you respect, a team that brings value-added to your business, and you can have less risk and at least a similar upside, then I think we've addressed at least the downside of being an entrepreneur and left the upside in place."

The crafting has several elements. One is making part of the purchase price contingent on the execution of a two- to four-year business plan for the target, with greater rewards for overperformance and reduced ones for falling short. Many acquirers avoid such arrangements if they possibly can, but McCann swears by them.

"There's always an earnout," he says.

Another element is a compensation program that combines base pay, cash bonus opportunities and longer-term incentives to inspire the new managers to do bigger and better things with the new assets available to them.

The program is important, as the company showed in December, when it announced measures to help get it through the recession. Along with paying down debt and scaling back (and maybe selling) its home-décor and toy unit, it also adjusted the compensation program to make up for the fall in its stock price, which topped \$12 in 2007 but was around \$2.45 in mid-June.

Finally there's the chance to build within the 1-800-Flowers.com framework. David Taiclet, president of the company's Gourmet Food & Gift Baskets unit, is a good example here. Taiclet was previously co-founder and co-owner of Alpine Confections Inc., which 1-800-Flowers.com purchased for \$85 million in 2006 in a deal that brought it the hundred-year-old Fannie May chocolate brand. Since then, says McCann, Taiclet and his team have built a \$30 million online business from scratch.

McCann hopes to repeat the pattern. Among the recession-response measures he took in December was stepping up preparations for acquisition opportunities that might arise. Direct-to-consumer gourmet food, he explains, is a fragmented, \$16 billion business, with many thinly capitalized companies that need to make the transition from catalog to Web distribution. (Current leader **Harry & David Holdings Inc.** had \$545 million in sales in 2008.)

McCann's business development duo -- David Siegel, senior vice president for strategy and corporate development, and Jon Brodsky, senior manager for strategic initiatives -- are tracking the possibilities.

McCann and his team think they can build the biggest player in the gourmet gift category. Based on their record, there are probably more than a few entrepreneurs out there who agree -- and would like to help.

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