Editorial

Preserving Company Culture is Critical for Buyout Firms

Despite a shaky equity market in which funds have dried up and loans are hard to come by, private equity firms and investment banks are digging up cash to invest in our industry.

For some, the cycling industry is attractive because it offers a solution to transportation and environmental issues. Lehman Brothers Merchant Banking invested in SRAM in part because it fit its philosophical approach to invest in companies that address climate change.

For others, the cycling business creates its own appeal, as was the case when a group of cycling enthusiasts created a private equity firm to purchase Titus Cycles earlier this year.

A cash infusion can boost promising but undercapitalized companies and give them the resources to tap into the social and economic trends currently favoring cycling.

But with new capital comes higher performance expectations. Investment groups often set short-term profit goals in order to turn around and sell a company for a healthy gain. And private equity firms are notoriously impatient, ready to slash jobs and cut expenses if those goals aren't immediately met.

In the quest for higher profit margins and satisfying investor payouts, outside investors have the potential to lose sight of what interested them in a company.

In the case of many bike businesses, it's an entrepreneurial company culture fueled by people who are passionate about their products and their business.

Preserving the unique culture of a company is critical, especially when merging it with another company. Investors need to be careful not to strip away the core values and principles that made a company worth owning.