

Becoming An Owner in Tough Times

with Charlie Gross

As the economy was going into a tailspin, Charlie Gross was looking for capital.

After being in the school business for 30 years, he wanted to make the move from employee to school owner. His timing, however, made things interesting.

“It was an incredible journey,” said Gross, who was ultimately successful in his quest and became the owner of Touch of Class School of Cosmetology in October 2009. “You have to be willing to live with the ups and downs of the journey.”

Long, Winding Road

Gross’s journey to the Dallas cosmetology school began about three or four years ago, when he set school ownership as a goal. “The value of owning a school versus working for someone who owned schools became apparent,” he explained.

That goal immediately presented him with a number of decisions. He needed to determine which type of school he wanted to buy, which market he wanted to search in, and which schools he wanted to target.

“I started off looking for a target, and one of my issues was that once you get your target then you have to put your financing together,” he said. “It was difficult.”

Paying for his purchase presented another set of choices, although the stumbling economy immediately eliminated some potential lenders.

“A year and a half ago, the credit market tanked at the same time we were doing this,” Gross recalled. “That drove going to banks or the Small Business Administration out as a potential funder.”

When you go to people for money, other than banks, they want ownership. How much ownership are you willing to give up to get those investors?

The absence of a bank loan option left private equity firms and angel investors as his primary source of funding. He not only needed to find investors who were interested in the type of purchase he was making, but investors who wanted to put their money into the area of the country where he wanted to buy a school.

Once he found investors who fit these criteria, he had to make sure they were willing to give him the degree of control and ownership he was looking for.

“When you go to people for money, other than banks, they want ownership,” he noted. “How much ownership are you willing to give up to get those investors?”

The Right School

Before working out the investment details, however, Gross needed to find a school to buy. He concentrated on cosmetology schools, as he had experience in this area and knew they offered a solid return on investment.

“I went looking for cosmetology schools and schools in a good

market,” he says.

“The size of the market was important.”

The majority of cosmetology students are 18- to 34-year-old women, so Gross began focusing on areas of the country with

a large number of women in that age range.

“That became my primary target,” he said. “Through my experience in different companies, I knew I could get 0.5 percent of that 18- to 34-year-old market.”

You have to come to grips with the fact that the people you’re talking to have to fit into your sector; they have to fit into your price range, which includes how much they invest and the revenue they are looking for, and the geography.

Dallas/Fort Worth is the fifth largest market in the country for this target group, and is the area Gross ultimately invested in. He had done marketing in the Dallas area since the 1980s, and was comfortable with the market.

When narrowing his search down to specific schools, he got input from people in the school industry and did some searching himself.

“I went looking for schools that were for sale using brokers, as well as approaching schools that were not readily known to be on the market, and just started asking questions,” he said.

The school he eventually purchased was recommended to him by a broker and was also mentioned by others. A day after the broker talked to him about the school, a person he knew in the Department of Education as well as an industry consultant also approached him about the school.

“It all just came together,” Gross said.

The Right Investors

The search for financing did not go as smoothly. Gross began his search



CHARLES S. GROSS graduated from Towson State University with a B.S. in Education following his honorable discharge from the Navy. He began working at a middle school in a challenging urban area in Virginia. During the next few years, while teaching and coaching in the public school system, he suc-

cessfully pursued his master’s degree.

Charlie’s initial entry into the business world was with DeVry, starting as a regional admissions representative, and getting promoted to national director of admissions over the next two years. His success at DeVry led to being recruited to Education Management Corporation, experiencing rapid promotion to vice president, admissions within his first year. Next, Charlie made a career move to Lincoln Technical Institutes where advertising was added to his admissions responsibilities.

During the next decade, Charlie gained exposure and success in the area of direct response

advertising, developing his own unique proprietary system to track advertising. Empire Beauty School bought his company and Charlie joined their operation at a senior corporate level to take charge of their advertising and admissions endeavors, where he expanded a multi-site school operation from 21 to 38 locations within five years.

Following this success, Charlie accepted a position as president and chief operating officer with Shelton Ogle Enterprises, a privately held company. Through Charlie’s innovation and management, this multi-site enterprise experienced increased student population and attendance, and expanded geographically for the first time in twenty years.

Charlie continues to be an agent of growth in the beauty school business, purchasing the Touch of Class School of Cosmetology in October 2009.

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with two partners and they began by looking into bank loans, since that would mean they would not have to give up any ownership of the school in order to obtain financing.

However, the banking industry was not in a position to lend them the amount they were looking for.

“We put a lot of effort into the banking industry, but that ended up being a black hole you don’t want to go into,” Gross said. “We were doing this when the credit and lending problems all blew up. Banks told us if we had gone to them a year before, it wouldn’t have been a problem.”

Since banks were not an option, he searched for the right private equity firm to finance the purchase. It had to be interested in investing in education in the Dallas area and be looking to invest the amount Gross needed. In addition, the school’s return on investment had to match the investment firm’s figures.

“You have to come to grips with the fact that the people you’re talking to have to fit into your sector; they have to fit into your price range, which includes how much they invest and the revenue they are looking for, and the geography,” he said. “If you have a group that only wants to invest in the southeastern part of the country and you’re looking in the north, it won’t happen.”

Another component was how much money the investors were willing to put into the business beyond the purchase price. Financial partners must invest operating capital as well as purchase capital, Gross notes.

“The purchase price is only one part of your investment,” he said. “Once you buy it you have to operate it. If you want to grow it, you have to put money in to grow it.”

In addition, Gross looked for investors who fit his personality. He wanted to find a group that would

allow him to have a good percentage of control over the school.

“Some of the groups we looked at wouldn’t consider you unless they kept 95 percent of the business,” he noted. “One company we looked at would give us 9 percent, and we had to split that among all the partners.”

Revealing Moment

As the search for financing went on, Gross’s two partners realized they would have to invest more money than they had originally planned in order to provide additional operating capital, especially in facilities and education, to have an operating stake in the school.

Gross became concerned when one investor did not show the dedication to an operational role in the business Gross had expected.

“I have known him for 15 years, and although he had told me he wanted to do this, what he told me he wanted to do and what he ended up doing became two different things,” Gross says.

The dispute was not about money, but was about getting things done and learning the business. The investor came from outside the school business, and did not learn the role Gross was expecting him to take on.

In the end, Gross got funding for the school from three private equity investors as well as his two partners. One of his original partners ended up taking a diminished role with the school and the other invested the amount he had originally intended.

Gross is the only investor involved in the operation of the school, and owns a significant percentage of it.

“It’s a very healthy percentage,” he said.

Educating Investors

The other investors are not involved in the school industry, so before ob-

taining private equity financing Gross had to educate them on what could be gained by owning a cosmetology school.

“They did not believe in cosmetology and that’s where I had to sell them on the value of a cosmetology school versus the value of a medical or paralegal school,” Gross said. “My business plan had to be very well done; my history had to show success in that area.”

Gross has decades of experience in the school industry, and that helped him when he was looking to make the school purchase. He began his career as an admissions representative for DeVry, and a year later was in charge of admissions for DeVry schools nationwide.

He held a similar position with the Art and Fashion Institute, and became responsible for admissions for all of the Education Management Corporation schools. Working with these publicly traded companies gave him experience presenting to stockholders.

“You learn how to deal at a high level with different types of people,” he said.

Connections

Gross has also worked with Empire Education Group as senior vice president of marketing and was senior vice president of admissions for Dalfort Training.

His diverse experience helped put him in touch with people who had knowledge of private equity groups. When working with Dalfort, he got to know the Prizker family of Chicago. He also worked with Lehman Brothers when it was looking to get private equity in the school business.

“That put me in touch with private equity firms such as First Chicago,” he said. “You learn how they think.”

Even when the investors he spoke with were not quite right for him, they still proved to be valuable connections.

“Those organizations looking for schools wanted a higher revenue stream than we were looking at,” Gross said. “They wanted at least \$10 million. We were looking in the neighborhood of \$1 to \$2 million.”

While these investors did not give him money, they helped him find someone who could.

“Because of our relationship they gave me advice on how to find other people,” he said. “Strong relationships in the investment community and a good history in school business were key, key ingredients.”

Working with Michael Cooney at Workforce Communications was also helpful. “He has a lot of contacts across sectors,” Gross said. “I looked at him as a resource.”

Lessons Learned

Charlie Gross, who purchased Touch of Class School of Cosmetology in the Fort Worth/Dallas area, offers these tips on finding funding for a school purchase:

- 1. Know yourself.** Accept that there will be ups and downs in your search.
- 2. Know your partners.** “They have to stand tall during the search,” Gross says, adding that if they are going to be part of the deal, they are going to have to contribute time, energy and focus.
- 3. Know your investors.** “The more you know about them the more you know if it’s going to be a good fit or not,” Gross said. “Once you’re in a relationship with them and they control the relationship, it had better be a good fit.”
- 4. Know what you’re getting into.** Do your due diligence on schools you’re interested in purchasing. “Know what you’re buying,” he says. “Know the market because surprises hurt you.”

In the end, it was an investor who found Gross. One of the people Gross had known when he was in school operations searched him out and helped him put together the investment group.

“One of these people knew of me from the past, and had watched me operate schools,” Gross said. “Because of what he was exposed to he searched me out on his own, and he became the key to putting together the investment group.”

Double Checking

Before completing his purchase of the school, Gross looked carefully at the company he was about to purchase. A deal for a different school stalled when the school could not provide clean financial information.

“One target looked good on paper, but once we did the due diligence we never got good financials and that became a problem,” he said.

When it came to the Touch of Class School of Cosmetology, however, the school’s financials showed that the asking price was a good one.

“The school had a good reputation,” he said. “I checked through the accrediting body and regional department of education.”

He did have one surprise after the deal was made, however. He underestimated how much electricity the school used.

“Probably the biggest negative surprise we had was the amount of electricity we needed,” he said. “We needed \$50,000 more in construction costs to bring in electricity. The former owner did not have enough electricity for his students to use all the hairdryers. One of my lessons is check the electricity.”

He remains on good terms with the school’s former owner, however, which has been important.

“During the transition and to move forward, it’s a critical part of your success,” Gross said.

Successful Deal

In the end, it was about 18 months from the time he began searching for a school to the day he could call himself an owner. Once he found a school he wanted, he made contact with the owner in June, began due diligence in July and closed the deal in mid-October.

Since none of the other investors are involved in the day-to-day operations of the school, and all are from outside the Dallas area, Gross keeps them updated on the school’s financial picture. He meets with investors

monthly and provides a weekly dashboard report showing success and areas that need to be worked on.

So far he has had good news to report. The school’s student population of 100 is 14 percent ahead of budget, and is six months ahead of schedule.

“Since our student population is doing well and we haven’t had to go back to them and ask for more money, they’re very hands off,” he said.

He plans to open more branches and eventually dominate the Dallas/Fort Worth market, although under Department of Education restrictions as a new school owner, he cannot grow to more schools until he has a year of financial history under his belt.

“We want to do organic growth,” he said. “Our goal is to maximize the market. Based on the market size of 18- to 34-year-old females, our market share should be 4,000 students.”

He plans to change the school’s name later this year, and is doing

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branding research and developing a short list of names with input from students.

Many Components to Success

The school purchase has turned out well for Gross, but it is not just one thing that makes such a move have a happy ending. A solid background in the school industry taught Gross that it takes a number of things to bring success.

“Know the total functioning of a school,” he said. “The education and operations side, advertising, the admissions side. The more you know the better off you are in being able to judge good people.

“It’s like a marriage,” he adds. “Having good people, knowing the market, and having good investors are what makes it work.”

**Career
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REVIEW**

Written by Terri Dougherty.
