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How I navigated a partnership break-up

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Eight years ago Leona Watson made a dramatic move from marketing into cooking when she started Cheeky Food Group, which hosts team-building exercises and organises cooking classes for corporates and other groups. It's set to turnover $3 million this year.

But Watson ran into trouble early in the company's history when a partner wanted different things. While the split was amicable, Watson says the lack of a shareholder agreement made the situation harder than it needed to be.

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How is Cheeky Food Group performing? Do you describe yourself as a catering group?

We're not exactly a catering company. We provide food and materials, and you cook it. We're a team building and events company, so we do a lot of Christmas parties [and] a lot of conferences around Australia. We take the cooking class idea and turn it into an event. Sometimes we have hundreds and the largest event we've done is 500 at the Melbourne Convention Centre.

We're turning over about $3 million. Business flattened out during the financial crisis, but since then we've had great growth – sitting on about 35% for this year.

Describe the early days of the business. How did you form a partnership?

In the early days, there were three of us. We were all working in the business part-time, and one partner left after a year. It was originally run through my own personal company, and we ran the books through that. We tried to keep overheads low.

At one point, my partner said we should think about closing up. And I said, no, what we should do is focus on just one aspect of the business we were doing. We were spread too thin.

That's when we formed our own company, and for the next few years we were part-time. I was doing marketing consulting, and it got a point where Cheeky Food Group was growing well, and it was a definite business model. I had to do it full-time.

It sounds like you were growing quite rapidly.

We took on quite a lot of extra overheads. We had myself, the chef part-time, somebody else part-time, and so on. The thing I was most concerned about was protecting our investment – I wanted a business coach in the company to help us grow. You have to be ready to do that, because it's a big move.

What came out of that process?

One of the elements that came out of that, which was great, was what do we really want as partners? It was an amicable discussion, but it was around the context of: do we grow, or do we build to sell?

And so we were on different pages, and I made an offer to buy this partner out. But it became so much harder than it needed to be because we didn't have a shareholder agreement.

Were there any other discussions taking place, or was the buy-out the main topic?

The buy-out price was the topic of discussion. There were so many different options, spread out over a large amount of time. And because you're so emotionally attached to everything in the business, it becomes difficult to work out a price that's reasonable.

Were you happy with the end result?

Would I have liked to have paid less? Would my partner have liked more? Yes. And that's why you have these shareholder agreements in place, so you know where you're starting from. Even if it's something simple, as long as it's reasonable.

How did you come to that selling price?

There was simply no structure. I put a price out there, my partner put a price out there, and there was no basis for what was right. We simply had to get to a point where we accepted the outcome.

The entire process was amicable because we were friends, but it still wasn't less difficult.

What have you learned going through that process?

A lot of people I talk to don't have these shareholder agreements in place. And I tell them to hurry up, because even if you aren't thinking about selling your stake, there may come a point in time where you need to. And it becomes crucial to have planning in place.

If I've learned anything through this whole process, it's that you need to get your fundamental legal processes down, especially in your first year. I don't know if we took it seriously enough, and we certainly didn't have that infrastructure in place.

Either have this conversation at the start of your company, or if you're thinking about being bought out, get the right processes in place then.