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Scribendi

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In late August 2018, Patricia Riopel and Enrico Magnani were sitting on their back porch drinking a glass of wine and discussing the whirlwind that had been their life since they graduated from IESE in 2011. They laughed as they reminisced about how they ended up married owners of an editing and proofreading services company based in the small town of Chatham, Ontario, Canada.[1] It had already been a lot of work, but they felt like they had only just begun.

When Riopel and Magnani started discussing the artificial intelligence (AI) technology developed in-house as a potential value driver for the company, there was a moment of silence. They knew it was a departure from their original plan. With the financing of a search fund,[2] they had purchased an editing and proofreading company that had solid economics in a niche market—something search fund investors traditionally love—and now they were discussing the possibility of building a software company focused on AI—something search fund investors traditionally avoid. Even so, they didn't want to miss out on a good opportunity.

The board meeting had gone well yesterday, but they were given the task of providing a strategic recommendation for the company by the next meeting on August 28, 2018, and they still weren't sure what they would recommend. Everyone was excited by the potential of the new scheme, but there were significant differences in opinion about the best approach.

[1] Chatham is a town of about 45,000 inhabitants in rural Southwestern Ontario, about 75 km east of Windsor, Ontario, Canada, and Detroit, Michigan, USA.

[2] A search fund gives funding to one or more entrepreneurs, called "searchers," first to dedicate time to search for an established company to acquire and then, conditional to approval, to acquire it. The entrepreneurs then manage the company and return dividends to the investors. Search fund investors generally look for stable, cash flow-generating businesses.

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Riopel and Magnani were not sure if they could convince their investors to endorse their somewhat radical shift in the business model—after all, the business was doing quite well, and most of the investors were not looking for a high-risk prospect when they decided to invest in the Scribendi acquisition 14 months ago (on March 17, 2017, after 19 months of searching). Riopel and Magnani felt that a pivot had the potential to catapult their company from a relatively obscure, albeit well-performing, editing platform into a home run.

Background

Patricia Riopel, born and raised in Montreal, Canada, worked between 2007 and 2014 first as a financial controller for her family's business and then for Développement International Desjardins, the NGO of the largest cooperative-based financial group in North America, with a two-year hiatus (2009–2011) to study for her MBA at IESE in Barcelona. She had worked in Rwanda, Tanzania, Spain, Uganda, and Panama, where she was the COO for the Centro Financiero Empresarial, a local microfinance institution.

Enrico Magnani grew up in a village near Imola, Italy. Following his master's degree at the University of Bologna, he worked mostly in strategic consulting for McKinsey, initially in Milan, but eventually in projects all over the world, ranging from South America to Africa and the Middle East, and in a wide range of industries, including telecommunications, banking, and aerospace. While working his way up to a managerial role, Magnani was given the opportunity to work in a Mexican SME and support the launch of a startup in Panama.

Magnani and Riopel both began their MBAs at IESE Business School in the fall of 2009. Though they came from quite different cultural and professional backgrounds, they quickly realized that they shared many common interests and complementary skills. Their years at IESE would be the foundation for their long-term personal and professional partnership.

After completing their MBAs, Magnani returned to his position at McKinsey, which had sponsored his studies, and Riopel continued her career building sustainable microfinance institutions in the developing world. After several years of crossed paths and leaves of absence, with both working across multiple regions spanning the globe, they were tired of long separations and fruitless attempts to work in the same country. They knew they had to make a change.

It was during a stay at a small village in Northern Italy in the summer of 2014 that they thought a less risky approach to entrepreneurship might be acquiring a company that they could run together. Of course, they didn't have the necessary capital up front, but they remembered an MBA class from back in 2010 about the search fund model. This model supports one or two individuals in the prime of their careers who have the time, skills, and energy to run a business with funding to search for and purchase an SME, using the support of a group of investors who want to diversify their portfolios.

It was the perfect recipe. A search fund provided Riopel and Magnani with the opportunity to purchase a business together without having to front the capital themselves; moreover, they would be able to choose any region or country in the world that interested them, so long as the area had an economy to support an SME. They decided to focus their search in Canada since Riopel had many connections there, and it seemed to be the most feasible in terms of immigration for Magnani.

They arrived in Montreal in February 2015, married a month later, and began to fundraise during their honeymoon along the California coast. They were able to raise $532,000 US for their search by June 2015, an incredible pace for any search fund, and Associés Magnum Capital Partners started operating in September 2015.

After 17 months of diligent searching in Canada, they decided to focus on a company based in Chatham, Ontario, that seemed promising. Not only did it fit most of their criteria (i.e., a growing business over five years old with a solid revenue base and scalability), but the owners were ready to sell, as the company had grown too large for them to manage.

Scribendi

Chandra Clarke founded Scribendi in 1997. As a reporter turned managing editor of a local newspaper, Clarke had seen many press releases riddled with poor spelling and grammatical errors, which often failed even to stay on message. She also observed that the freelance editing market was ripe for disruption; at the time, typical editing jobs still involved marking up by hand using hard copies that were sent through the post. Clarke left her job and coded the first version of the Scribendi website in December of that year. The site allowed clients to select an editing service, upload a document for editing, render payment, and have the document returned by email. The site was profitable from year one.

Terence Johnson joined the company in 2003 as an equal partner when he and Clarke married and he immigrated to Canada. By then, the company had grown considerably, and role specialization was required. An Oxford graduate and technophile, Johnson took over website development and enhanced the platform. He rewrote the website's code, installed new security protocols, and oversaw compliance to accept online credit card payments. Clarke focused on operations, hiring more editors and the first support staff while drafting policies and procedures that would allow Scribendi to grow steadily.

The platform at the core of Scribendi was designed to connect writers and editors. The writers were a diverse group of academics, journalists, novelists, and others, many of whom were not native English speakers. Scribendi made the process of placing an order simple, quick, and transparent. A writer simply selected the appropriate service for their needs, entered the number of words in their document, and instant quotes in the currency of their choice were generated based on the type of editing required and the different options for delivery. Clients chose a deadline (rush orders were more expensive), submitted the document, and, once payment was confirmed, waited for an email signaling the order's completion. Orders were paid in advance, which meant that no time was lost in payment collection.

Editors looked at incoming orders to see the associated deadline and pay. An editor then accepted an assignment, completed it before the deadline, and returned it to the writer via the platform. Usually, the time allotted for an edit was, for example, a few hours for a short document or 2–3 weeks for a novel. Most tasks were individual assignments, although many customers returned repeatedly with new documents to edit. By 2018, between 200 and 300 orders were placed every day, and 1.5–2.3 million words were being edited via the platform at any given moment. However, demand was seasonal, and the number of "words in progress" could be as low as 1 million or as high as 3 million. While the platform allowed editors to process orders automatically, sometimes client requests were not clearly expressed. Such exceptions often required considerably more time and effort.