Planning Successful Ownership and Leadership Transitions

**2010 ASLA Annual Convention**

**Planning Successful Ownership and Leadership Transitions**

**Presenters**
Michael Strogoff, FAIA, Strogoff Consulting, Inc.
Joe Healy, AIA, LEED AP, Wallace Roberts & Todd
Lucinda Sanders, ASLA, OLIN

**Learning Objectives**

1. Develop an effective transition plan that supports your strategic goals
2. Understand criteria for identifying and evaluating prospective future leaders
3. Enable leaders to make informed decisions about whether to sell internally or externally

**Seminar Overview**

1. The Changing Landscape
2. Leadership, Governance and Ownership
3. Internal & External Ownership Transition Options
4. How to Value a Landscape Architecture Firm
5. Case Study: Wallace Roberts & Todd
6. Case Study: OLIN
7. Identifying and Mentoring Leaders
8. Q & A, Discussion

**Ownership Transition Options**

- Internal ownership transition
  - From within
  - Recruit from outside
- External Merger, Sale or Acquisition
  - Merger / Stock Swap
  - Stock purchase
  - Asset purchase

**Why So Many Transitions?**

**October 15, 2007:**
First Baby Boomer filed for Social Security retirement benefits.

**The Economic Downturn**
The Economic Downturn

- Large firms starting again to expand geographically & into new markets
- Small firms focusing on fewer markets and retrenching
- Fewer mid-sized firms
- Most firms searching for new marketing strategies

Why So Many Mergers?

- **Demographics**
  - Baby Boomers (born 1946 – 1964)
    - 77 million approaching retirement
    - Replaced by 20% fewer Generation Xers
  - Next generations more cautious, more life-balanced, fewer financial resources
  - Demand for talent has exceeded supply
  - Fewer architects getting licensed
  - All this means fewer owners

Why So Many Mergers?

- Expansion (geographic, new markets, new services, new building types)
- Large institutional and corporate clients
- Mid-size firms getting squeezed
- Smaller firms lacking transition plan or options
- Access to infrastructure (marketing, production, technology, HR, management)
- Broad set of leadership skills required to succeed

Ownership, Leadership & Governance

- **Ownership**
- **Governance**
- **Leadership**

Internal or External Transition?

**Internal Transitions**
- Principals retain control
- Continuity of culture and values
- Retains and rewards key employees
- More gradual transition / longer timeframe
- Client acceptance

**External Transitions**
- Unproven leaders / lack of candidates
- Candidates more risk averse
- Less liquidity, more risk, longer timeframe
- Need to make affordable (less $$, salary supports living expenses, savings for home)
- Dependent on future growth and profits
- Morale suffers if value decline
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Internal or External Transition?

External Transitions
- Higher price, more liquidity and less risk
- Access to more capital
- Usually shorter time frame
- Greater marketing opportunities
- Adds skills and capacity
- Ability to redefine roles
- Professional opportunities

Internal or External Transition?

External Transitions
- Difficult to find the right buyers and sellers
- Confidentiality
- Cultures difficult to match
- Employee and client defections
- Loss of control

Internal Transitions

Why offer ownership?
- Succession planning
- Retain key people
- Recognition
- Increase skills and capacity
- Redefine roles
- Marketing opportunities

Criteria for future owners and leaders
- Shared values and belief in the firm’s vision
- Ability to think strategically about the future
- Client-centric focus and ability to nurture clients
- Industry thought leader
- Passion for delivering high quality services
- Commitment to assume broad responsibilities
- Leadership, delegation and team building skills

Internal Transitions

Criteria for future owners and leaders
- Marketing, technical and/or operational skills
- Interpersonal skills
- Tolerance for and willingness to assume risks
- Trust, integrity, discretion and sound judgment
- Personal reputation and references
- Financial stability
- Contributions toward short- & long-term profitability

Why become an owner?
- Opportunity to shape firm’s future & create positive impact on people’s lives
- Professional growth
- Opportunity to choose projects to pursue
- Ambition and recognition
- Seat at the table / decision-making
- Access to key financial & operational information
- More effective marketing platform
- Potential for more income

Internal Transitions

Internal Transitions

Criteria for future owners and leaders

Internal Transitions

Why become an owner?
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Internal Transitions
Incoming owners’ considerations
- Roles, responsibilities and governance
- Is my vision compatible?
- How do I fit into the long-term succession plan?
- Who else is being offered ownership?
- Will I make more $$$?
- How much is the firm worth?
- What liabilities will I incur?
- What if the firm is not profitable?
- What if I decline the offer?

Firm Value
Highest to Lowest:
- Strategic Acquisition
- Merger
- Internal Sale
- Closing up shop

Common Internal Valuation Metrics
Appropriate Metrics:
- Adjusted net worth
- Weighted net income
- Weighted net fees
- Current backlog
- Projected net earnings
Do not use:
- Multiple of gross income
- $$$ per employee

Valuation Adjustments
Adjustments to Net Income
- Owners’ compensation
- Discretionary bonuses
- Profit sharing contributions
- Charitable donations
- Redemption costs
- Assets expensed
- Unusual or one-time expenses

Valuation Adjustments
Adjustments to Book Value
- Depreciated assets with remaining value
- Expensed assets with remaining value
- Assets not included
- Work-in-progress
- Accounts receivable
- Accounts payable
- Unusual liabilities

Key Metric For M&A: EBITDA
- EBITDA: Earnings before Interest, Taxes, Depreciation and Amortization
- Multipliers: Range is 3 – 5 x EBITDA
- Price dependent on terms
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Items that Add to Value
- Portfolio and marketing resources
- Market penetration
- Ability to obtain new business / retain clients
- Intellectual capital
- Staff quality & depth, future leaders
- Consistent profitability and growth
- Engineering and management skills
- Existing resources and assets
- Backlog
- Lack of litigation and claims history

Items that Detract from Value
- Limited market focus, depth or skills
- Owner(s) don’t remain
- Undercapitalized
- Clients defect
- Financials are inaccurate
- Work is over-billed
- Little or no backlog, lack of growth
- History of claims
- No strategic advantages

Why Valuations Differ
- Purpose of valuation
- Motivations of seller
- Strategic value to buyer
- Amount of perceived risk
- Profit history
- Revenue projections
- Future outlook

Payment Methods – Internal Transitions
- Cash (at time of closing or paid over time)
- Promissory note (secured or unsecured)
- Bank loans (usually requires firm’s guarantee)
- Deferred compensation
- Bonuses / foregoing salaries increases

Payment Methods – Acquisitions
- Cash (at time of closing or paid over time)
- Promissory note (secured or unsecured)
- Bank loans (usually requires firm’s guarantee)
- Deferred compensation
- Stock in Buyer’s company
- Incentive bonuses (“earn-outs”)

HOW TO....
A chapter in WRT’s story
what leadership transition actually looks like
Presented by
Joe Healy, AIA, LEED AP
Managing Principal
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An ongoing process
Building “Leadership Capacity”
Building and sustaining a “Leadership Culture”

Systemic & Pervasive
in all things
Leadership Opportunities for all

Time to hit the RESET button

Re-establish a base line
Common language and meaning
Understanding Expectations, Respect, Trust
Tools and Process

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Principal Evaluation Criteria
Open Development Process
Consent Adoption
Application

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Open Development Process
Consent Adoption
Application
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Principal Evaluation Criteria

Open Development Process
Consent Adoption
Application

Foster Collaboration
Share Interdepartmental Edge and Ideas
Seven Projects/Projects/Projects is the Core of the Business
Producer/Producer and/or Team
Value: Contribution of New Business
Innovation & Alert

Framework

Values – Framework – Outcomes

Principal Evaluation Criteria
Professional Excellence
System Performance and Market Growth
Our Community of Practice

Success: Honing
Future Office Leadership
Place in the Firm
Incentive Factors

Getting the facts

Information Transparency
What we choose to measure and HOW

Compensation Committee

Scientists on Shared Expectations

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American Society of Landscaping Architects

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**It’s all about the conversations**

**Individual:** growth, development, support

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**Connecting it to age, practice building, markets**

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**Questions we are still trying to answer:**

- How do we measure collaboration?
- How do we weight criteria?
- It’s an art not a science.
  - Don’t lose the heart
  - Balancing accountability with creativity and/or individuality

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Questions we are still trying to answer:

- How do we measure collaboration?
  - How do we weight criteria?
- It’s an art not a science.
  - Don’t lose the Heart
  - Balancing accountability with creativity and/or individuality
- Mentoring, support, training.
  - Learning moments
  - Embedded feedback loops
  - Making space
- Honest feedback is a gift.
  - Holding back hurts all

- The Practice
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To create places that enhance life.

National Gallery of Art Sculpture Garden
Washington, DC

Comcast Center Plaza
Philadelphia, PA

Simon and Helen Director Park
Portland, OR

The Entrepreneurs
The Phases of Business Growth

Growth Indicators

Phase I – Start-up

Crisis: LEADERSHIP & SYSTEMS

Time

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The Phases of Business Growth

Growth Indicators

Phase I – Start-up

If Phase I Crisis is unresolved:

Permanent Small Business

Time

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The Phases of Business Growth

Growth Indicators

Phase II–Entrepreneurial Expansion

Permanent Small Business

Time

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Entrepreneurial Expansion

1996 OLIN Partners

2005 421 Chestnut Street Office

2006 Public Ledger Building Current OLIN Office
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The Phases of Business Growth

Phase II – Entrepreneurial Expansion
CRISIS: MANAGEMENT TEAM & SYSTEMS

Permanent Small Business

Time

Rake Organization

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The Phases of Business Growth

Growth Indicators
- Sales
- Number of Employees
- Number of Customers
- Add'l Facilities
- Etc.

Phase II – Entrepreneurial Expansion
If Phase II crisis is unresolved:

Permanent Small Business

Time

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The Phases of Business Growth

Growth Indicators
- Sales
- Number of Employees
- Number of Customers
- Add'l Facilities
- Etc.

Phase I – Start-up
Phase II – Entrepreneurial Expansion
Phase III – Professional Management

Permanent Small Business

Time

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Joining the the Top 10%

Ceiling of Complexity

Growth Indicators
Management Ability

Time

(developed by Dan Sullivan-The Strategic Coach)

Break Through Performance

Ceiling of Complexity

Management Ability

Time

(developed by Dan Sullivan-The Strategic Coach)

The Gap

Phase II-III Transition

Revenue
Expense

Time

The Gap

Board of Directors

BOB BEDELL
DENNIS MCGLADE
LAURIE OLIN
DAVID RUBIN
LUCINDA SANDERS
SUSAN WEILER

Board of Directors

SETS
STRATEGIC
VISION
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Shaping the Future
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(THERE IS A NEED TO MANAGE HOW MUCH WE UNDERTAKE)

\[ \text{BALANCE} \]

\[ \text{PROBLEM SOLVING} \quad \text{INNOVATION} \]

2008 \quad 2009 \quad 2010 \quad \text{BEYOND}

The Culture

The Culture

The Culture

Teaching

Working Together

US Embassy London, UK

Syracuse Connective Corridor Syracuse, NY
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Internal Transitions

Keys to success
- Start early
- Identify, motivate and mentor the best and brightest
- Establish a realistic valuation
- Communicate often and openly
- Let others make mistakes
- Constructively evaluate each other and hold each other accountable
- Designate areas of responsibility
- Remain available as a resource

Mergers & Acquisitions

Keys to success
- Four components:
  1. Strong cultural compatibility
  2. Provide professional opportunities to key leaders and staff
  3. Make sense from respective clients’ perspective
  4. Strong, tangible marketing synergies
- Start early, allow enough time
- Approach from strategic marketing perspective
- Know your value proposition
- Communicate often and openly
- Develop rapport between parties
- Seek outside advice

Why M&A Deals Fail
- Unrealistic expectations
- Business not transferable
- Incompatible cultures
- Lack of communication
- Current principals not ready
- Different goals among seller’s shareholders
- Key people unwilling to remain
- Seller’s financials not organized or credible
- Looming liabilities
- Inflexible on key issues

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