Planning Successful Ownership and Leadership Transitions
2010 ASLA Annual Convention

Planning Successful Ownership and Leadership Transitions

Presenters
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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

**Internal 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
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 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

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

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
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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

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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

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

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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

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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”)

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HOW TO....
A chapter in WRT’s story
what leadership transitions actually look 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

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

Time to hit the RESET button

Principal Evaluation Criteria
Open Development Process
Consent Adoption
Application
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Principal Evaluation Criteria
- Open Development Process
- Consent Adoption
- Application

Foster Collaboration
- Share information on力争
- Share projects
- Highlight in the company’s goals
- Promote inter-departmental synergy
- Values: Contributions of the Team Leader, Compensation & Change Management

Framework
- Professional Excellence
- Reputation & Market Growth
- Management & Administration
- Culture

Values – Framework – Outcomes
- Compensation
- Ownership Shares
- Performance Shares
- Performance Share
- Value Creation
- Leadership

Compensation Committee

Getting the facts
- Information Transparency
- What we choose to measure and HOW

Exceeding Expectations
- Meeting Expectations
- Opportunity for development
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It’s all about the conversations
Individual: growth, development, support

It’s all about the conversations
Individual: growth, development, support
Firm-wide: strategic

Connecting it to age, practice building, markets

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

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
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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

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The Practice

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Bryant Park New York, NY

Washington Monument Washington, DC

Central Park New York, NY

Seasonality, Materials and Details
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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

OLIN Office Size
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The Phases of Business Growth

Growth Indicators

Phase I – Start-up

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1977 Hanna/Olin Partners

1979 19th and Market Street Office

1982 20th Chestnut Street Office
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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Growth Indicators

Phase II–Entrepreneurial Expansion

Permanent Small Business

Time

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Entrepreneurial Expansion

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The Phases of Business Growth

Phase II – Entrepreneurial Expansion
CRISIS: MANAGEMENT TEAM & SYSTEMS

Permanent Small Business

Time

American Society of Landscape Architects Design Honor Award 2003: J. Paul Getty Center, Los Angeles, CA
American Society of Landscape Architects Design Honor Award 2009: Gap Headquarters, San Francisco, CA

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The Phases of Business Growth

Growth Indicators
Sales
Number of Employees
Number of Customers
Add More Facilities
Etc.

Phase II – Entrepreneurial Expansion
If Phase II crisis is unresolved: Permanent Small Business

Phase III – Professional Management

The Phases of Business Growth

Growth Indicators
Sales
Number of Employees
Number of Customers
Add More Facilities
Etc.

Phase I – Start-up
Phase II – Entrepreneurial Expansion
Permanent Small Business

Time
**Planning Successful Ownership and Leadership Transitions**

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**Joining the the Top 10%**

- Growth Indicators
- Ceiling of Complexity
- Management Ability

(Developed by Dan Sullivan - The Strategic Coach)

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**Break Through Performance**

- Growth Indicators
- Ceiling of Complexity
- Management Ability

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**The Gap**

- Phase II-III Transition
- Revenue
- Expense
- Time

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**BOARD OF DIRECTORS**

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

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**BOARD OF DIRECTORS**

- SETS
- STRATEGIC
- VISION
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**BOARD OF DIRECTORS**
- Sets strategic vision
- Project typologies

**BOARD OF DIRECTORS**
- Sets strategic vision
- Project locations

**BOARD OF DIRECTORS**
- Sets strategic vision
- 1 office? 2 offices? 3 offices?

**BOARD OF DIRECTORS**
- Sets strategic vision
- Do we grow?

**BOARD OF DIRECTORS**
- Sets strategic vision
- Design vision

**STRATEGIC VISION**
- CEO
  (Ensures the strategic vision is realized)
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CEO LUCINDA SANDERS

MANAGEMENT TEAM

RESEARCH
DESIGN OPERATIONS
INFORMATION TECHNOLOGY
FINANCE
BUSINESS DEVELOPMENT

HUMAN RESOURCES
ASSOCIATE REP

CEO

MANAGEMENT TEAM

RESEARCH SKIP GRAFFAM
DESIGN OPERATIONS BOB BEDELL
INFORMATION TECHNOLOGY CHRIS HANLEY
FINANCE STEVE DUBIN
BUSINESS DEVELOPMENT DANEIL MAZONE

HUMAN RESOURCES SYDNEY KOERNER (DAVID RUBIN)
ASSOCIATE REP CRICKET BRIEN (RICHARD NEWTON)

OPERATIONAL PLAN
(HOW DOES THE OPERATIONAL PLAN GET CREATED?)

STRATEGIC VISION

CUSTOMER FOCUS
DESIGN OPERATIONS
PEOPLE PERFORMANCE
FINANCIAL STABILITY
INNOVATION & ENTREPRENEURSHIP

Shaping the Future
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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

Contact Information

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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