

# Planning Successful Ownership and Leadership Transitions

## 2010 ASLA Annual Convention

**ASLA Annual Meeting & EXPO**  
The Premier Event for Landscape Architecture Professionals  
September 10-13, 2010

**DC'10**  
Earth Air Water Fire  
DESIGN

### 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

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### 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**

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### 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

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### Ownership Transition Options

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

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### Why So Many Transitions?

**October 15, 2007:**

First Baby Boomer filed for Social Security retirement benefits.

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### The Economic Downturn



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### 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



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### 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



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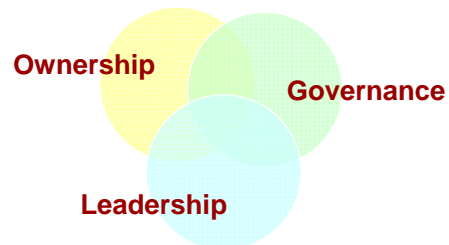
### Why So Many Mergers?

- 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



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### Ownership, Leadership & Governance



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### 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



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### Internal or External Transition?

#### 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



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# Planning Successful Ownership and Leadership Transitions

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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

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### 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

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### Internal Transitions

#### Why offer ownership?

- Succession planning
- Retain key people
- Recognition
- Increase skills and capacity
- Redefine roles
- Marketing opportunities

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### Internal Transitions

#### 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

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### 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

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### Internal Transitions

#### 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?

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### Firm Value

#### Highest to Lowest:

- Strategic Acquisition
- Merger
- Internal Sale
- Closing up shop

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### 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

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### Valuation Adjustments

#### Adjustments to Net Income

- Owners' compensation
- Discretionary bonuses
- Profit sharing contributions
- Charitable donations
- Redemption costs
- Assets expensed
- Unusual or one-time expenses

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### 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

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### 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 transition actually looks like



Presented by  
**Joe Healy, AIA, LEED AP**  
Managing Principal

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# Planning Successful Ownership and Leadership Transitions

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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

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### Re-establish a base line

Common language and meaning  
Understanding Expectations, Respect, Trust  
Tools and Process



### Principal Evaluation Criteria

Open Development Process  
Consent Adoption  
Application

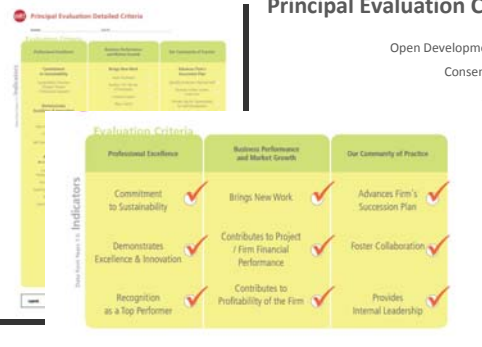


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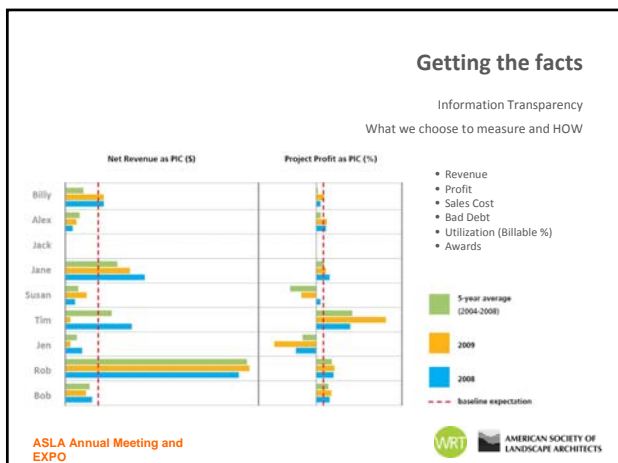
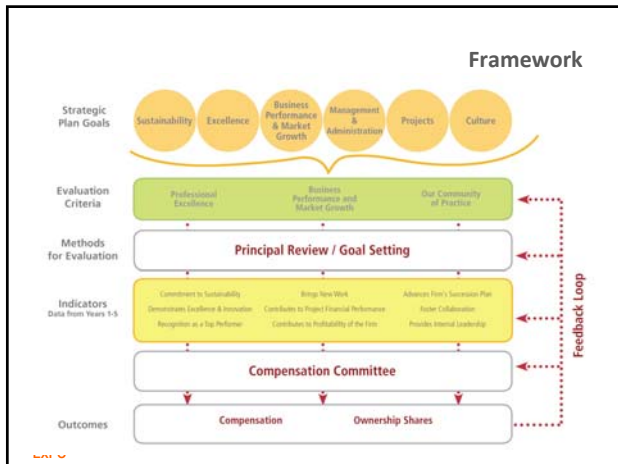
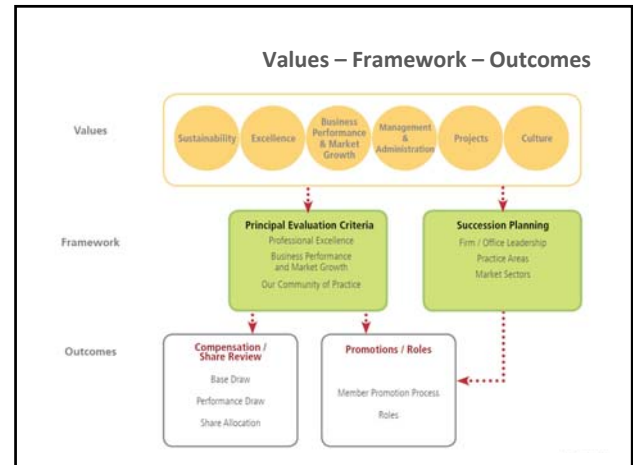
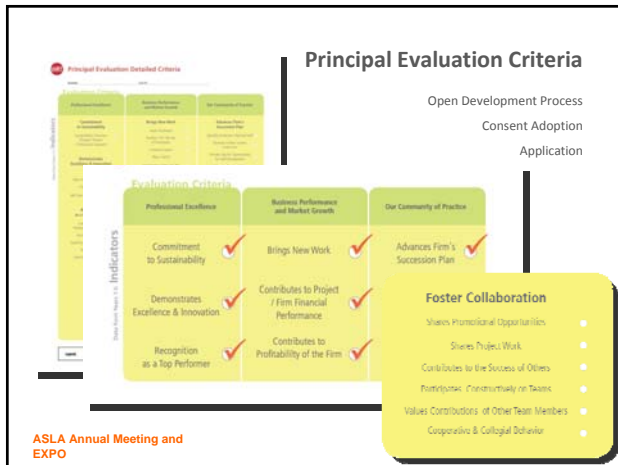


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### Getting the facts

Honing in on Shared Expectations

	INDIVIDUAL ASSESSMENT			COMMITTEE ASSESSMENT		
	PROFESSIONAL EXCELLENCE	BUSINESS PERFORMANCE	COMMUNITY OF PRACTICE	PROFESSIONAL EXCELLENCE	BUSINESS PERFORMANCE	COMMUNITY OF PRACTICE
Principal						
A	●	○	○	○	○	○
B	●	○	○	○	○	○
C	●	○	○	○	○	○
D	●	○	○	○	○	○
E	●	○	○	○	○	○
F	●	○	○	○	○	○
G	●	○	○	○	○	○
H	●	○	○	○	○	○
I	●	○	○	○	○	○
J	●	○	○	○	○	○
K	●	○	○	○	○	○

● 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



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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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**How do we measure collaboration?**  
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**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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# Planning Successful Ownership and Leadership Transitions

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**How do we measure collaboration?**  
How do we weight criteria?

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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



Bryant Park New York, NY

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Washington Monument Washington, DC

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Columbus Circle New York, NY

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Seasonality, Materials and Details

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To  
create  
places  
that  
enhance  
life.



National Gallery of Art Sculpture Garden Washington, DC

**OLIN**



Comcast Center Plaza Philadelphia, PA

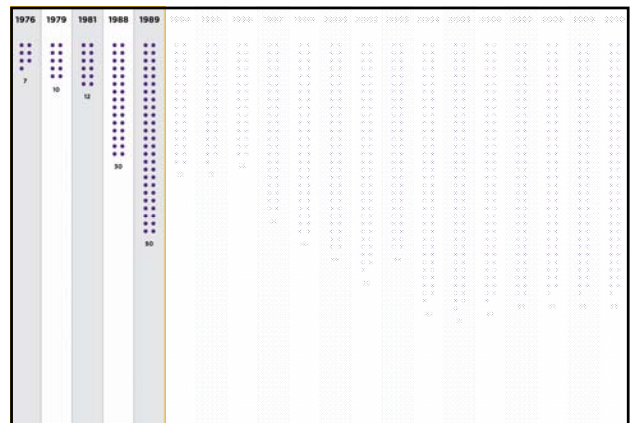
**OLIN**



Simon and Helen Director Park Portland, OR

**OLIN**

The Entrepreneurs



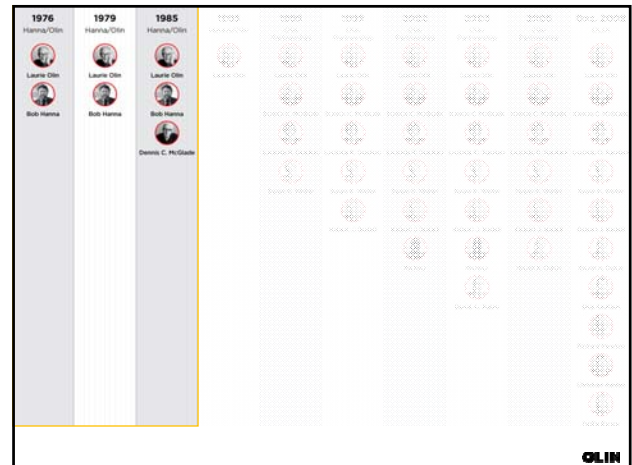
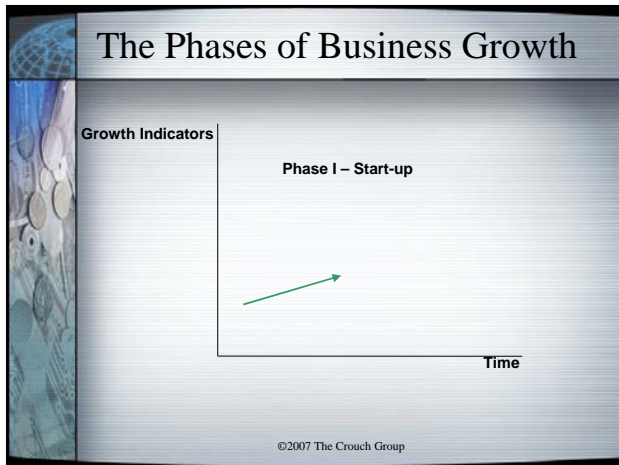
OLIN Office Size

**OLIN**



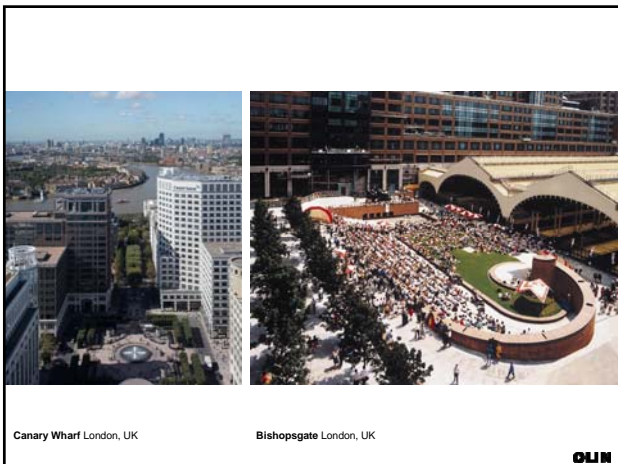
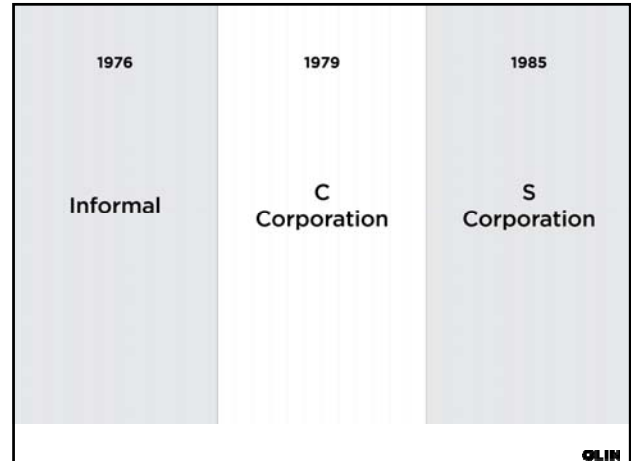
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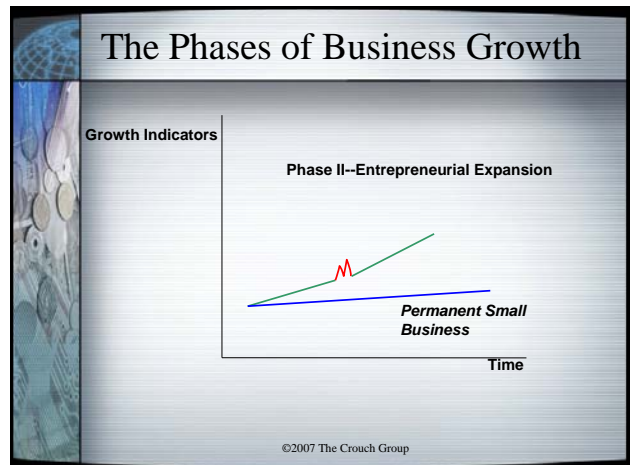
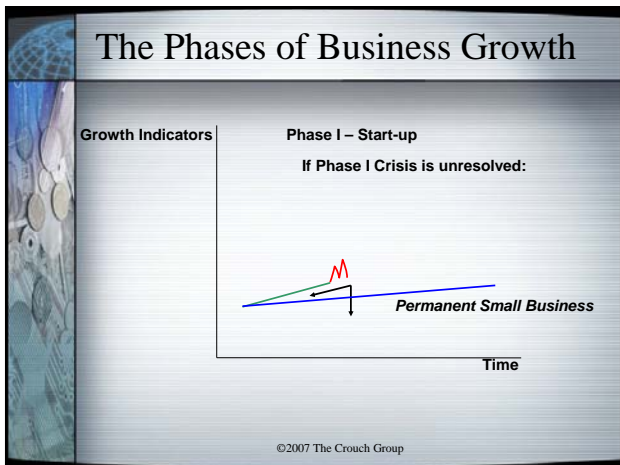
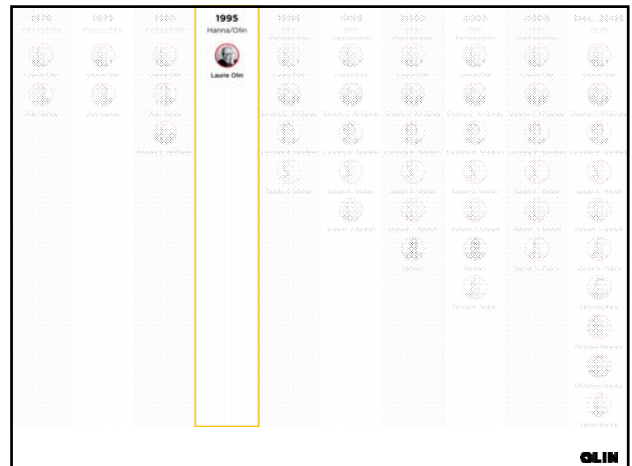
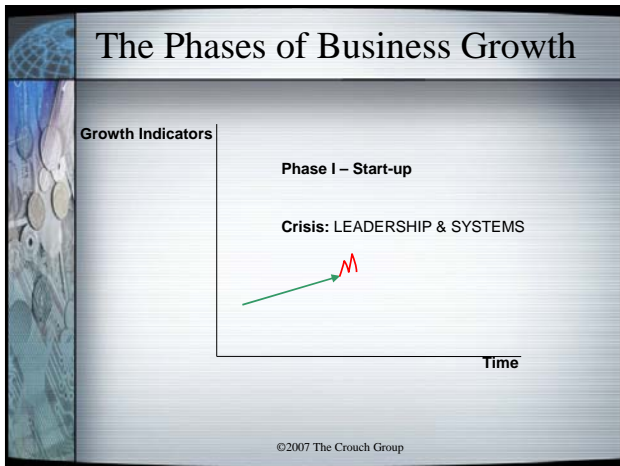
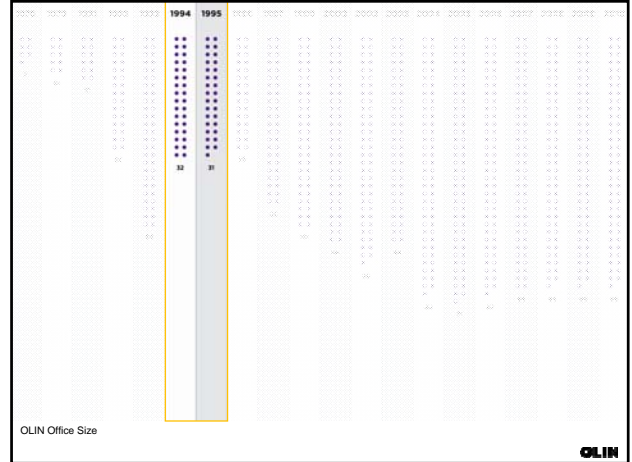
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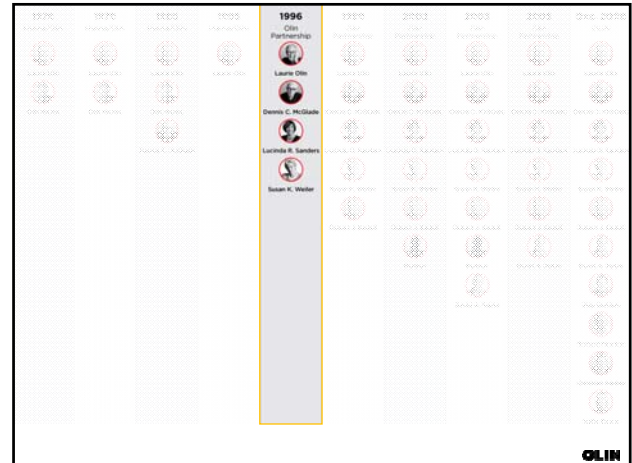
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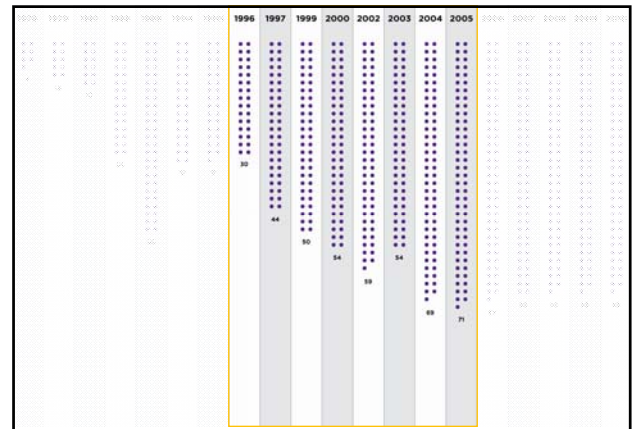
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Entrepreneurial Expansion



1996 Olin Partners

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OLIN Office Size

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2000 421 Chestnut Street Office

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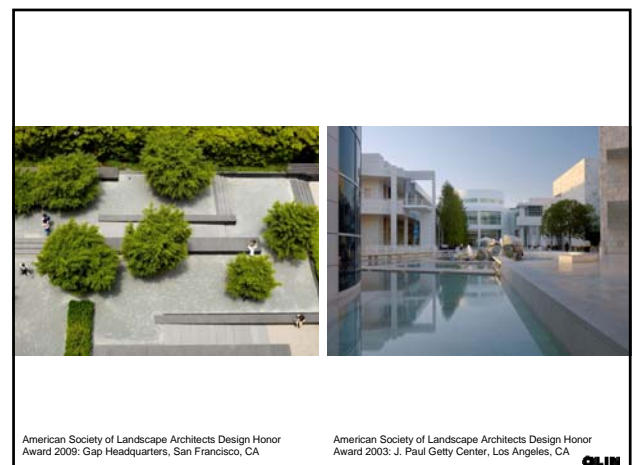
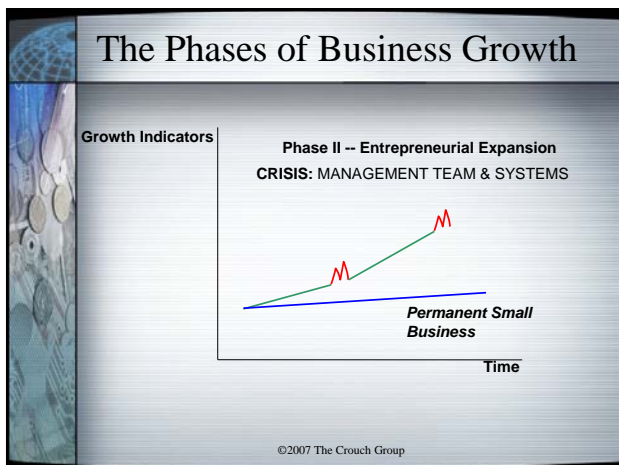
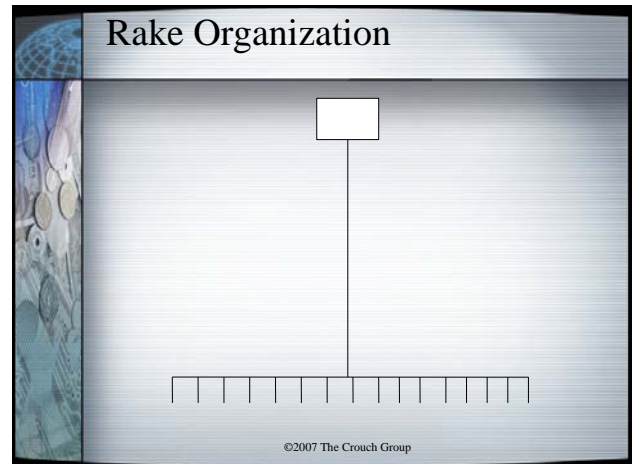
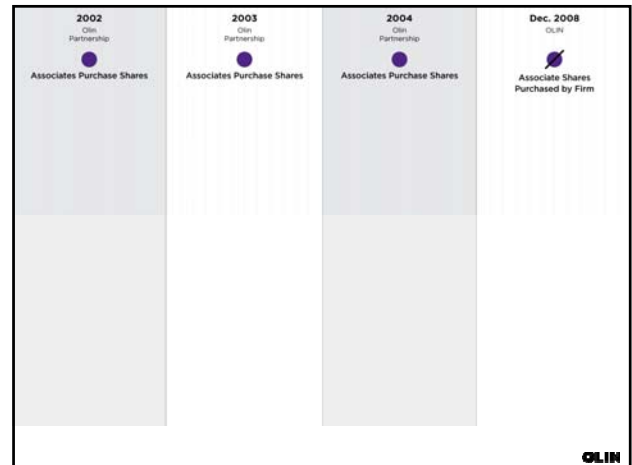
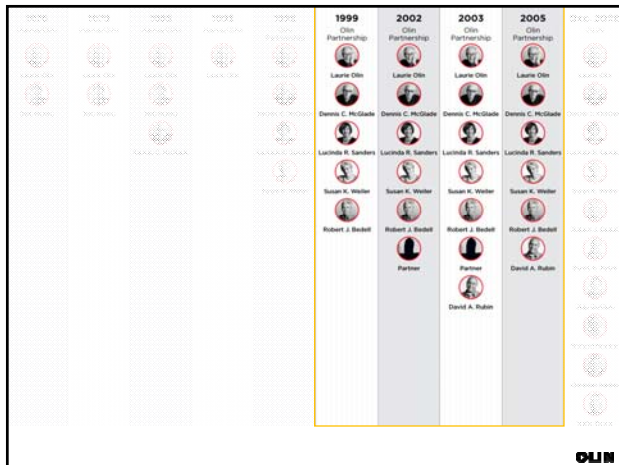
2006 Public Ledger Building Current Olin Office

OLIN



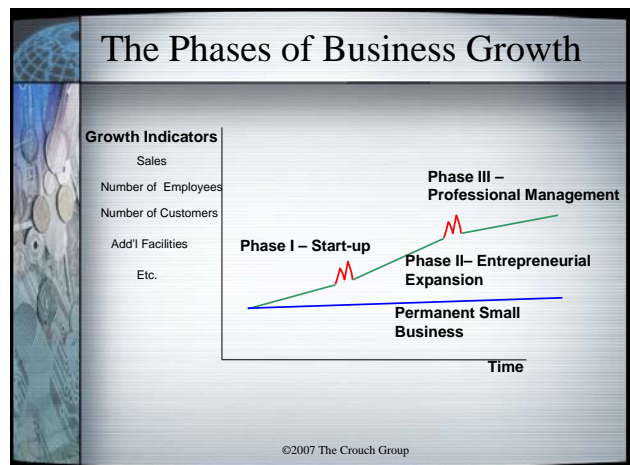
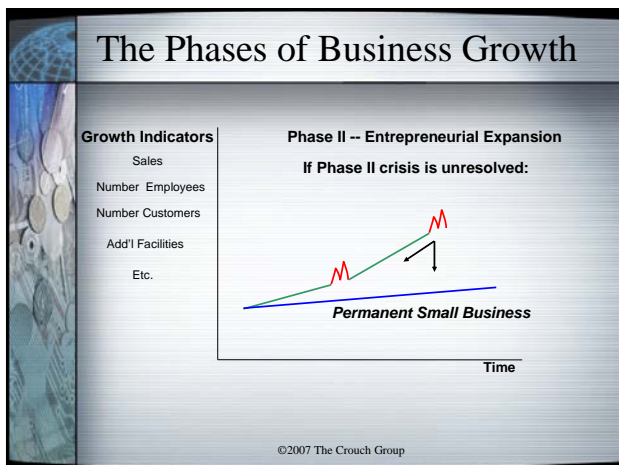
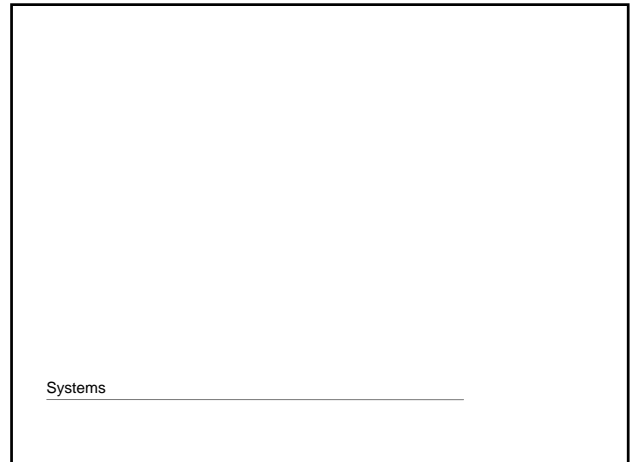
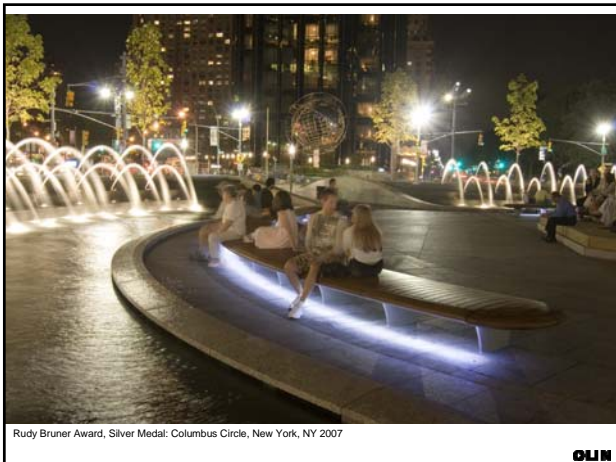
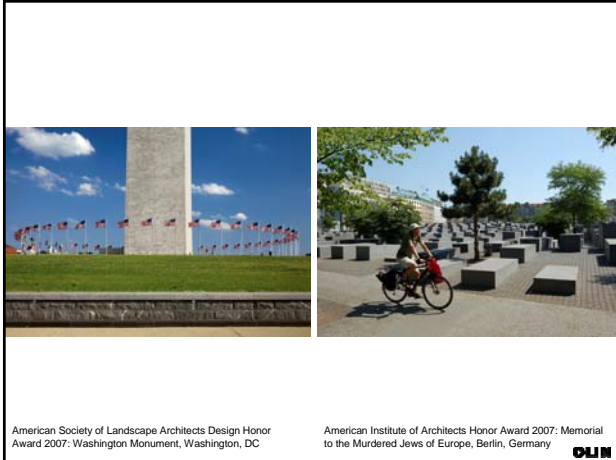
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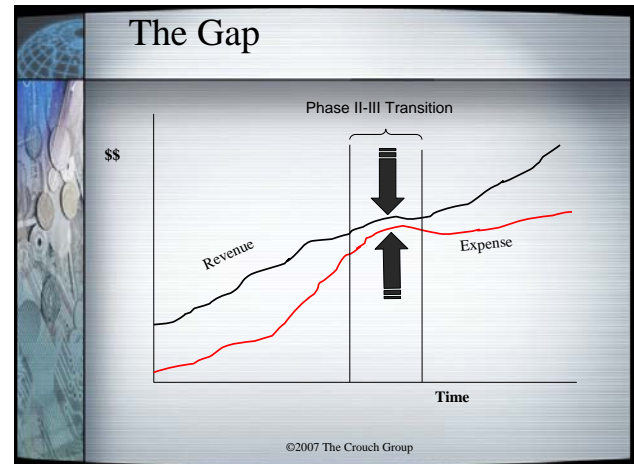
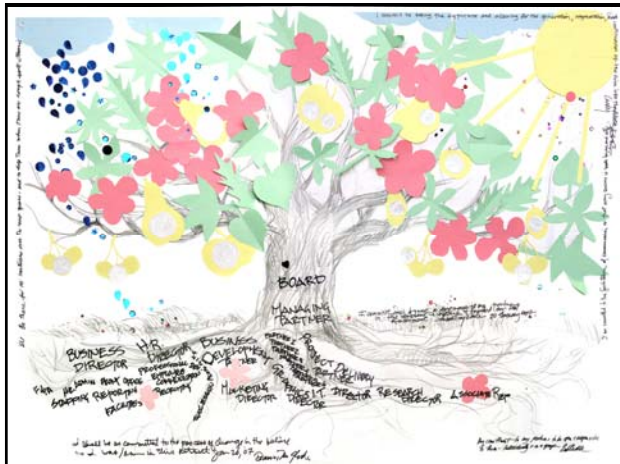
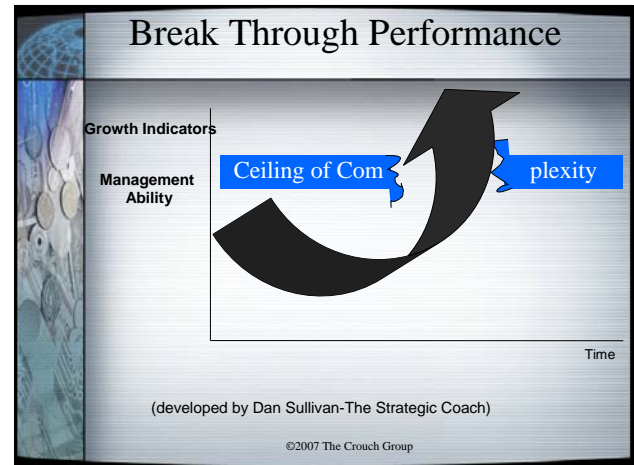
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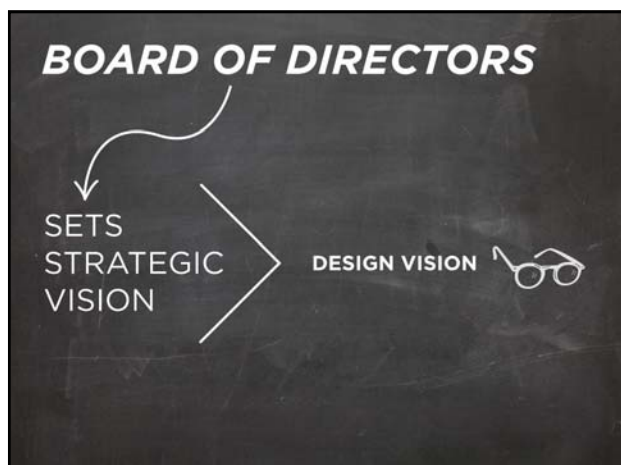
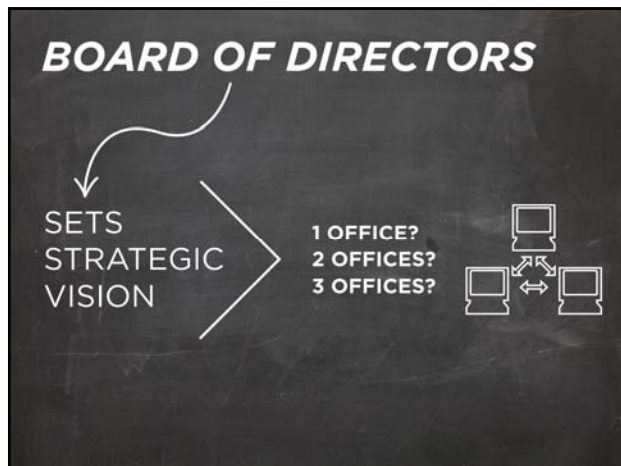
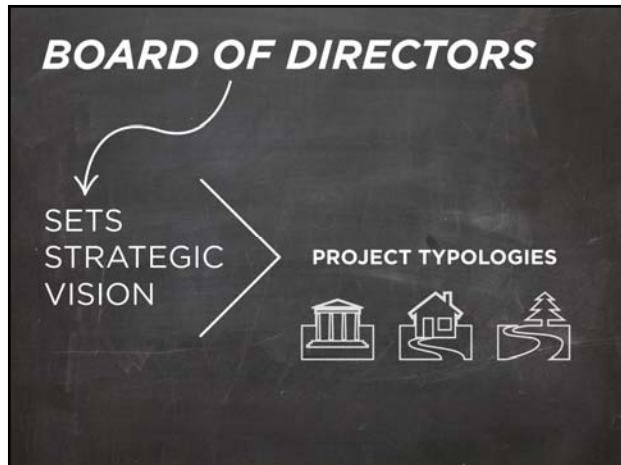
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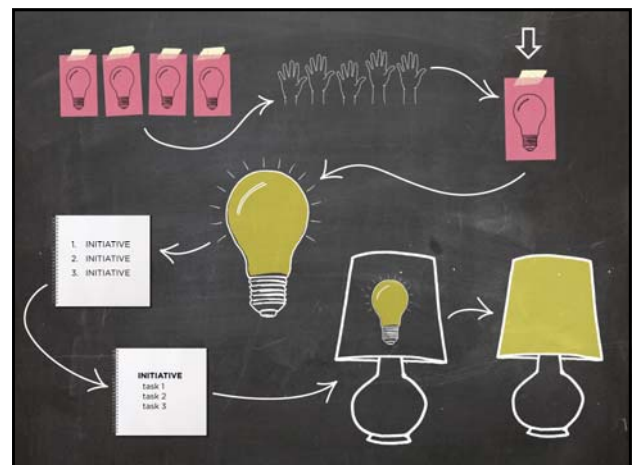
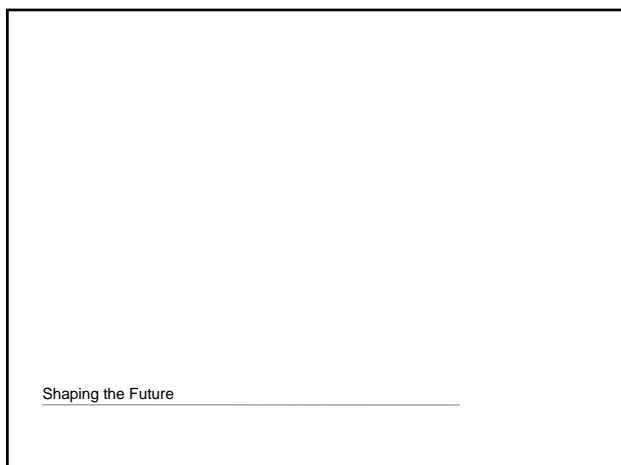
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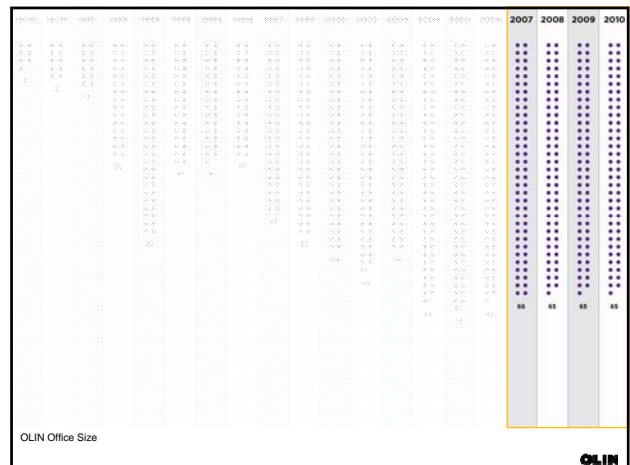
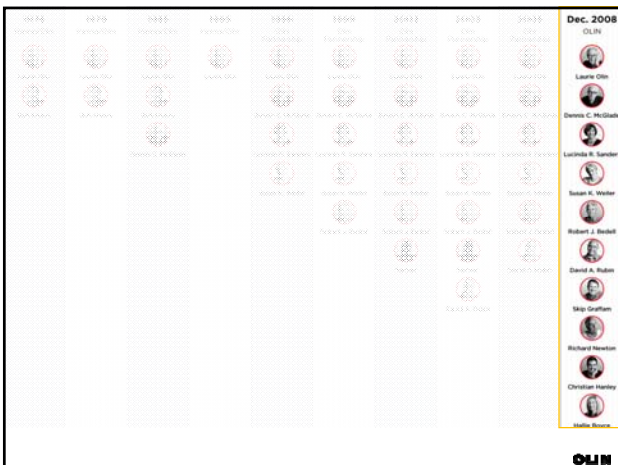
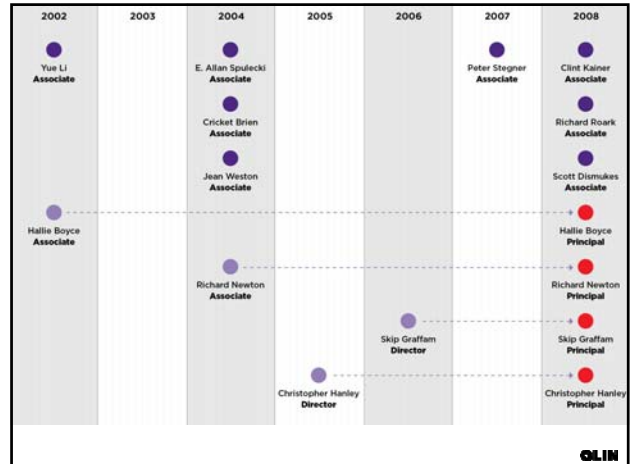
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### Internal Transitions

#### 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



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### 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



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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



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September 10-13, 2010

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