

How To Properly Plan for **BUSINESS SUCCESSION**

There's not always a child to become the next leader of your company. How you pass the baton — and to whom it's passed — can determine the success of the business for generations. **By D. Craig MacCormack**

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BOUT EIGHT months before Crestron Electronics founder George

Feldstein died in November, he stepped away from day-to-day control of the company he founded 45 years ago, and turned control over to Randy Klein, who was named CEO. As part of Feldstein's decision, he elevated his son Dan to vice chairman and COO.



In the weeks that followed Feldstein's death, the succession plan he set in motion was viewed as another master stroke for the family-owned company that revolutionized the industry since he started it 45 years ago.

"When you have one driving force, like Crestron had with George, there's always a possibility of some sort of drift after he's gone, but it's good that he stepped aside because that gave [Klein and Dan Feldstein] the opportunity to lead the company before they needed to," noted Dawn Meade of Net-AV during a discussion on AV Nation's "AV Week" shortly after Feldstein's death.

Among commercial integrators, there are some shining examples of effective succession plans too. Examining how they came about can provide integrators some insights and thoughts about how they too can prepare for the future.

Passing the Baton

Jim Pressley, chairman and principal founding partner at Unified AV Systems, bought the company his father started in 1976 as Multimedia Services in the early 1980s and turned leadership over last June.

But a lot happened in those intervening 30 years, not the least of which was a merger with Video Systems of the Carolinas in 2011 and setting up an employee stock option plan (ESOP) with one-third of the new company. The sale allowed Video Systems VP Roger MacWhirter to retire and join the board of directors and made Pressley and Video Systems president Bruce Banbury the new leaders of Unified AV until Barry Goldin took over last summer.

None of the three men had children who were interested in succeeding them,

so they turned to Goldin, who had joined Unified AV about 18 months ago after a lengthy stint as VP of business development for another AV integrator.

Goldin is "managing to the strategy put together by the board of directors," says Pressley. "I'm trying to stay out of his way. That's an important thing to do to give someone the responsibility you hired them to take on and trusted them to handle."

"You always want to be able to pass something on to your heirs if they're interested, but I just liked the idea of being in business for myself and that's why I bought the company from my dad," adds Pressley, who remains involved with Unified AV on the financial, administration and strategic side. Banbury is still involved on the sales side of the company.

"It's always hard to realize you're not going to be doing something, but it's been

relatively easy to turn the operation over to Barry,” says Pressley.

Finding the Next Generation

While there are plenty of companies that set it up so parents pass the company and its leadership on to children or other relatives, Beacon Communications chairman and CEO Michael Hester, who started the company with his wife Kiffe in 1998, learned early that idea wouldn't work in his family.

His son worked for Beacon for a while, but Hester says he eventually had to let him move on to a new career when he realized his son wasn't happy working in the integration space. That meant he and his wife had to figure out who they could entrust to become the next generation of Beacon leadership.

Hester, 63, turned the reins over to Brad Walsh (president), Brooks Wood (CIO and VP of sales) and Robin Wurst (CFO) last May. Kiffe helped to launch Beacon U, which is an inside sales training program to help newcomers learn how to achieve the success she did as the company's top salesperson for 13 years.

“The culture of the company is extremely strong, and it's very important everyone on that team share that. We went over that a lot the last few months,” says Hester. In some cases, he asked his new team how they felt about different aspects of the business and various decisions they had to make to gauge whether the trio would be the right one to lead Beacon into the future.

“I don't expect them to actually be me, but I wanted them to understand what's important to me, to our business and to our customers,” says Hester. “It was hard for me to see our managers make mistakes, especially when I knew they were making them, but I had to let them learn.”

Getting Outside Help

Industry association USAV Group includes succession planning in its advisory services but doesn't offer it as a formal program for its members, says CEO K.C. Schwarz. He and other USAV officials were part of the succession plan discussion at Unified AV, where Schwarz is on the board of directors.

“As we were putting USAV together,



the demographics weren't lost on us," says Schwarz. “(Succession planning is) just part of our industry and we try to be responsive to our members.” That means adding topics including valuation and preparing for transitions to its member meetings.

What's made succession planning especially important in recent years, says Schwarz, is the rise in major illnesses such as strokes, cancer and others among owners and top executives. He's seen those numbers go up over the past five years or so. More often, though, the problems come from the fact company leaders aren't thinking about what will happen to the business after they're gone.

“In many cases, they're so focused on running the business that they're clueless about the transition,” says Schwarz. “We try to be really honest with them and tell them it can be a multi-year process.”

When transitioning from parent to child, it's important not only to determine if the potential heir has the passion to run the company but also to bring in third-party help to figure out if they're capable of all the responsibility that comes with it, says Schwarz.

If selling the company, the most important factor is determining its

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worth. USAV will help members put together range valuations based on financials, owner debt and several other factors. That can be a sobering discussion, says Schwarz. “It can often be much less than they thought,” he says.

USAV then puts together a two-page company information sheet and advises owners to tell employees the company may be going on the market, so they don't hear about it through the rumor mill. The face-to-face meeting between potential sellers and buyers “can be very emotional,” says Schwarz.

Sellers talk about why they want to sell the company and buyers discuss why they want to buy it and it's important “to under-

stand where the ‘nos’ are right up front,” he says, meaning if there are conditions that would rule someone out as a potential buyer, they must be on the table as early as possible.

Schwarz and other USAV officials have been part of about a half-dozen transitions so far, he says, and says most do not include any sort of exclusivity windows for potential buyers to hammer out a deal without other bidders being allowed to make their pitches.

Sellers need to come armed with legal and tax lawyers to help them understand the deal structure, tax consequences, the pros and cons of asset vs. stock purchases and S-corp considerations.

Jay Myers, founder and CEO of Interactive Solutions, has written two business advice books and says the issue of succession planning is secondary for many family-owned companies.

“They think about the future in an informal way, but it’s undervalued in the level of importance,” he says.

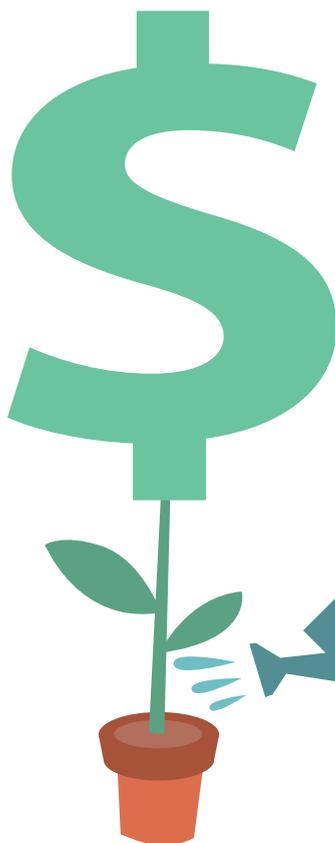
Succession planning among key staff is a crucial component, says Myers, noting those who might be next in line should have some idea about where key manuals, source codes and design documents live in case they need them sooner than expected.

Moving Forward, But Still Involved

Interestingly, the Hesters stepped aside at a time of “tremendous growth,” with Beacon building from 49 employees at the start of 2014 to 81 at the end of last year. The decision to step aside was “very emotional” and “a lot harder than I thought,” says Hester, but he was comfortable he had made the right decision for the future of his company.

“It had to be a win for me, a win for the management team and a win for the clients,” says Hester. “Even though I’m not involved day to day anymore, it’s still my baby. For the first 10 years, I was doing just about everything. I was the sales manager, operations manager, pretty much everything. It was hard for me to let go as we brought more people in.

“It took about 10 years to feel like we’d arrived with our backlog, our relationships with our customers, those sorts of things. I wanted to feel good about (stepping aside). I wanted it to feel right and be comfortable with it,” he says.



“It had to be a win for me, a win for the management team and a win for the clients.” —Michael Hester, Beacon Communications, who also notes, “You should always set your company up for sale from day one.”

For now, Hester remains a presence. Beacon’s new management team must alert him to any purchases of \$25,000 or more and let him be part of the vote about whether to buy them. He also sees monthly reports, talks to Walsh every few weeks and gets regular updates on financials and sales; at the same time, he says he’s enjoying his newfound freedom.

“For the most part, I’ve kind of let it go, but if I had to come back, I would,” says Hester. “It’s my baby and my financial livelihood. I’ve tried to be here and be supportive. I’m kind of like a cheerleader.”

Hester has set up revenue and sales goals for the Beacon management team, and says 2014 was such a good year, the team could earn as much as a full year’s salary as a bonus.

“They’re making sure this continues for them — and for me and my wife,” says Hester.

Lessons for Others

Pressley knows he’s not alone in having to deal with complications, delays and headaches in moving the company to the next generation. “Everybody in this industry has

the same issues,” he says.

Hester has one piece of advice that can eliminate a lot of problems when the time comes to move on. “You should always set your company up for sale from day one,” he says.

Notes Myers, “The key is having a strong management team in place so they can keep the business moving forward.”

That was an important piece of Crestron’s transition, especially considering Feldstein was the sole owner before his death.

“Good, effective companies are looking five, 10 years down the road,” said Adrian Boyd, senior systems designer at Avitecure AV, during the AV Week discussion.

AV Week host and AV Nation founder Tim Albright compared Feldstein to Apple co-founder Steve Jobs, noting both were the “inventor and force” behind their companies.

“What [Feldstein] instilled in that company was passion for finding new solutions, better solutions, great answers,” says former Crestron employee George Tucker, now of integration firm WorldStage. “That’s the lasting influence he’ll have.” **CI**