DJC
THE DAILY JOURNAL OF COMMERCE

# Preparing to pass the baton effectively

By: Kent Hohlfeld March 24, 2017 4:42 pm

Andrea Bainbridge, who founded interior design firm Bainbridge in 1983, purchased WGS Planned Interiors & Design when its owner retired. (Sam Tenney/DJC)

One of the side effects of the Great Recession was that a lot of architects and designers ended up extending their careers longer than they intended originally. But with an improving economy and many firms now on solid economic footing, many owners and lead principals are finally ready to retire. "We had a very large amount of folks that planned to (retire) in 2008 and 2012," Jordan Ramis shareholder Brad Eriksen said. "The reason we are seeing more (transitions) is firms are on firmer economic footing." Managing an ownership transition can be a daunting and time-consuming task. "I recommend looking at five years down the road," Eriksen said. "It is a very long-term process. Even once everything is in place, you are looking at six to nine months, and there is a lot of leg work to get done." The first step, according to Eriksen, is to decide which succession route to pursue. Local firms have generally followed one of three options. The first is an outright sale of the firm to a new owner. Another is to elevate a current employee to owner or partner. And a third is to transfer to a group of partners. Business owners should begin by determining whether any current employees can or want to take over, Eriksen said.

When Randy Jurgens decided to end his 37-year career at the helm of Jon R. Jurgens (now JRJ Architects) in 2012, Tom Wesel stepped up to become principal owner. Running his own business had always been an ambition for Wesel, and he had worked with Jurgens while pursuing a graduate degree at the University of Oregon. Wesel knew ownership would be an option when he came to the West Coast from NBBJ's office in Columbus, Ohio. "I enjoyed the exposure of the smaller firm," he said. "Randy invited me back with opportunities for buyout, and I came back in 2004." Planning ahead was a key aspect that made the transition a relatively smooth one. "A recipe for success is in the planning," Eriksen said. "Start thinking about selling well in advance. It gives the architects time to do their due diligence. It just gives you a much greater chance of success." Another factor was Jurgens' willingness to help make sure clients were comfortable with the new management. "Our clients knew he was around, but it was clear to the staff they didn't have two bosses," Wesel said. One aspect that took some adjustment, Wesel said, was administrative responsibility. Suddenly Wesel was not just dealing with major clients and projects; he was choosing health insurance and 401K plans. "It wasn't a shock, but it was a new experience," he said. "I still really like to be hands on with the clients. Dividing those hands-on client management duties and the office management was different." The only change that clients noticed was a name change from Jon R. Jurgens to JRJ Architects. “Our letterhead looks a little different,” he said. ”It wasn’t a big change in the industry. I was blessed to take over a firm that had strong reputation.”

While choosing a single leader from within can often be a relatively straightforward endeavor, creating a partnership can be more complicated, but secure a firm’s position over the long haul. Scott | Edwards Architecture added six partners when one of its founders, Kelly Edwards, decided to retire in 2013. A key aspect of the transition was creating a system that would allow the firm to continue doing business far into the future. “(Going to a partnership) really fit with the culture of our firm,” said Sid Scott, principal of Scott | Edwards Architecture. “There is about a 20-year age difference between the partners. We want the partnership to continue for many years.” They established a system where partners put in equity to the firm for the percentage of ownership. While Scott has the highest equity stake in the firm, the remaining six all have the same percentage. Scott said that the keys for partnership success ranged from educating the new partners about their responsibilities to designing a business structure that would work with seven participants. “It is always an eye-opener,” he said. “You live through everything as it is going. You learn and make mistakes. It is a growing process.”

Making sure everyone is on the same page can be more difficult as a firm adds owners. “Every time you add a player on either side of the agreement, you have to get them to speak with one voice,” Eriksen said. Having a culture that prioritized individuality was important to making the new partnership work. “For employees there was a good sense of ownership,” said Lisa McClellan, who was brought on as one of Scott | Edwards Architecture’s new partners. “As an employee you are always able to sort of run your own ship.” McClellan said being able to have a hand in guiding the firm and to add another woman in ownership at an architectural firm were the biggest draws of partnership for her. “It gives me the chance to go out and get the kind of jobs I want,” she said. “I have much more confidence to generate work.”

If handing the reins to someone inside a firm is not possible, then selling to an outside party becomes an option. WGS Planned Interiors & Design chose this route when owner Paul Gibbons decided to retire. “I had 43 years in the business and had a whole series of other interests that I had been delaying,” he said. “It was time to push the rest button.” Gibbons looked at his employees first, but no one stood out. “They didn’t want to have the responsibility of being a business owner,” he said. “That wasn’t a viable option from my perspective.” **That’s where Andrea Bainbridge, principal owner of Bainbridge,** entered the situation as a prospective buyer. Reaching an agreement in such a sale usually requires an outside party to evaluate the firm and determine a starting price for negotiations, according to Eriksen. However, Gibbons and **Bainbridge** bucked that trend and negotiated a deal themselves. “What Paul prided himself in and what we pride ourselves in is having extremely long relationships with clients,” **Bainbridge** said. Bainbridge bought Gibbons’ operation in its entirety. Then Gibbons stayed around for months to help **Bainbridge** develop a relationship with clients. “It was primarily about making sure my client base that I had developed over 40 years was taken care of,” Gibbons said. “She is a business lady that had a very similar philosophy. We spent a fair amount of time to see if I could make the transition to her firm.”

Valuing intangible assets is always one of the toughest parts of the sale process. A firm’s hard assets like computers, tables and offices are often fully depreciated and replaced. Intangible assets like a client base and future profits draw buyers. After hammering out a handshake deal, **Bainbridge** got three of Gibbons eight clients to become permanent patrons of her service. Gibbons got to move to Aurora, where he pursues his passion for making ornate knives. “We got three excellent clients, so it was good profit for us,” **Bainbridge** said. Regardless of which transition method is chosen, a big part of making it successful is maintaining strong relationships.

“I would make sure that if you have sustaining clients, those relationships are solid,” Wesel said. “If you don’t have a history with a repeat client, you can have 50 percent of your work gone. Your relationship has to be solid.” Getting good advice well in advance of a possible transition is also vitally important. “Talk to your advisors,” Eriksen said. “Whether it’s insurance, accountants or lawyers, getting that advice makes it go a lot smoother.”

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