$49.95

mdm premium

MDM Special Report:

Succession Planning for Distributors

Table of Contents

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967
by J. Van Ness Philip

Publisher
Thomas P. Gale
tom@mdm.com

Editor
Jenel Stelton-Holtmeier
jenel@mdm.com

Associate Publisher
Craig Riley
craig@mdm.com

Associate Editor
Eric Smith
eric@mdm.com

Contact Information
Questions, comments, article proposals, address changes or subscription service to:

Gale Media, Inc.
2569 Park Lane, Suite 200, Lafayette, CO 80026
Tel: 303-443-5060 Fax: 303-443-5059
Website: http://www.mdm.com

Subscription Rates
To subscribe to Modern Distribution Management, please call 303-443-5060, email dillon@mdm.com or **http://www.mdm.com/subscribe.**

Subscriptions are available by online delivery and/or first-class mail. Nine years of archives of MDM are available online to subscribers.

Published twice monthly; $395/yr., $415 U.S. funds other countries). Six-month and two-year terms are now available. For group subscription rates and site licenses, please contact Dillon Calkins at 303-443-5060.

ISSN 0544-6538

mdm.com

Positioning for the Future

Succession planning requires a strategy with vision

The growing worker shortage and ongoing consolidation story have placed distribution at a crossroads, and only the companies that adequately groom the next generation of C-suite executives will flourish. This article examines the challenges companies face regarding developing a succession plan and first steps to overcoming those hurdles.

By Eric Smith

As the second-generation owner of the manufacturing business her father founded in 1950, Pamela Kan understands the conflicted feelings that parents experience when passing a company down to a son or daughter. Though they want to preserve their legacy and see their creation endure, they are so attached to the company that transferring it to descendants can feel like "handing off your child to another one of your children," says Kan, president of Bishop-Wisecarver Group, Pittsburg, CA.

"Succession in a family business is very emotional; it's really personal," she says. "The problem for most families is they tend to think only about the impact to the people in the family. They forget about the impact to the rest of the company."

Succession planning is the process of determining who will own and/or run a business following any one of multiple scenarios, such as a sudden death, early retirement or even a planned departure. And it impacts every company, whether private or public, large or small, family-owned or otherwise. When a business doesn't properly groom the next generation of leadership to take over, it risks falling behind in an already competitive marketplace, and then fading into irrelevancy as customers leave and valuations sink.

Businesses in all industries must plan for their succession to ensure survival, but because distributors and manufacturers already face a talent shortage and a growing number of baby boomer executives on the brink of retirement, those that operate without a plan have a greater chance of stagnation and decline.

"Companies that don't prepare the next generation of leaders will not have the people they need properly trained and ready to move their enterprises forward," says Bob Mucciarone, COO, F.W. Webb Co., Bedford, MA. "Investing in your people on an ongoing basis is a long-term growth strategy."

Create a Vision, Form a Strategy

Strategy is the foundation of succession planning, which can include passing the business down to a family member, actively acquiring and retaining talent, creating an employee stock-ownership plan (ESOP), forming an aggressive management-training program to prepare future leaders, selling to a competitor – or some combination of these.

But even before mapping out its long-term growth strategy, a company must have a vision, says Skip DeVilling of DeVilling & Associates, a recruiting and consulting firm for industrial companies.

DeVilling, who is constantly on the search for high-level executives to place at the distributors and manufacturers that hire him, sees firsthand that too many companies have no idea where they hope to be with regard to revenue or employee numbers or locations in five, 10 or 20 years. Executives retire before sharing institutional knowledge down the ranks. Owners don't know who will replace them or other executives, and if they do, they don't adequately train their successors.

Without vision, status quo creeps in and companies wither.

"They do what they did before and that's not good enough today," DeVilling says. "You only know what you know, so if all of a sudden there's a change in management, whether it be succession or a person retiring, those positions have changed dramatically over the years. The mistake people make is they don't recognize the change and they don't recognize where they want to go."

Once a vision is established, the next step is creating a strategic plan for the entire business, one that details each department and position – its duties, its requisite skills and education, its salary range – yet can evolve over time as the company grows and its needs change. This living document outlines strengths, weaknesses, opportunities and threats in all facets of the company, making it easier to recruit should the need arise for finding a salesperson or CFO.

"Everyone needs to get comfortable with the fact that this is a continuous process," says Tom

Roberts, president, cfm Distributors, Kansas City, MO. "All of the succession components should continue to run throughout the life of the organization, as generations of leaders will come and go. The sooner you make the essential components of succession planning a part of your organizational culture, the more the natural evolution and growth of the organization becomes a part of daily life. We are all one day closer to retirement every day."

DeVilling says this process isn't easy in distribution, an industry with many traditional family-owned companies that have operated a certain way for decades and continue to do so, even as innovation drastically alters the landscape.

But a vision and a strategic plan sometimes aren't enough. Sometimes companies need outside help. "No one should go through a succession plan with people just in the organization," DeVilling says. "There always should be a mediator, there always should be somebody bringing in new thoughts and rounding out this process."

Whether that means hiring a third-party consultant or seeking family business planning advice from places like the Kellogg School of Management's Center for Family Enterprises – where Kan went for assistance when it was time to take over Bishop-Wisecarver from her father, Bud Wisecarver – getting a different perspective is critical for the process.

Outside help is especially crucial for family-owned businesses, which face an array of challenges from determining if offspring has the skill set and the desire to take over the company to deciding which children (if there are more than one) should have which responsibilities. But no matter how many or how few parents and children are discussing the fate of business' future, Kan reiterates the need for open communication when it comes to forming the vision and creating the strategy to achieve it.

"It's really no different than running a business," she says. "If there's not good communication in the business and there's not good communication in the family, succession is going to be tough and it will be emotional and it will be hard on the company and hard on the family."

Kan also says succession must include the option of saying "I'm going to blow this up" and treat the second-generation business as a startup. It's a challenge, but necessary for growth amid the disruptions of changing market trends.

"If you want your company to survive, you've got to put people in place to lead the company, that can not just manage through that change but exploit that change for the good of the company," Kan says. "That can be hard to do within a family's skill set. Sometimes it's in your best interest as a business to bring someone in from the outside to run the business."

Find, Develop, Retain Talent

Bringing in people from outside is something national distributors do frequently. Talent acquisition is a priority not only for immediate job fulfillment but also for long-term succession, and distributors seek highly qualified employees with hopes of grooming them through management track or leadership development programs for top-level positions.

At Arrow Electronics, Englewood, CO, the company holds annual talent workshops where managers discuss employees' performances during the year and dissect their potential, says Donna Tikkanen-Davis, the company's vice president, human resources, global employee capability.

Tikkanen-Davis outlined Arrow's three categories for evaluating employees based on their succession preparedness for various roles. "Ready now" means they could serve as a replacement immediately; "ready soon" means they could be prepared to serve as a replacement in six to 18 months; and "ready later" means they could serve as a successor in roughly two years. This process avoids key positions going unfulfilled and keeps Arrow focused on finding and promoting talent throughout its ranks.

"We hold our managers accountable for developing people," Tikkanen-Davis says. "They're required to put development plans in place for the top 15 percent of their team. They have to identify the time frame someone will develop as well as the specific action, and that could be job rotation, it could be a special assignment, it could be a lateral move. We're really monitoring and supporting and tracking what's happening at various levels of the organization regarding talent development and talent movement."

F.W. Webb takes a similar approach to grooming current employees for promotion, fostering what Mucciarone calls a "pathway to growth for everyone with the motivation and talent to take on more responsibility."

"We encourage our employees to seek new opportunities within the company, and we support their ambitions with training to prepare them for current and future openings," he says.

"Ingrained in our culture is the expectation that our managers will continually identify Webb people with talent and ambition for leadership positions."

Associations are stressing the importance of talent to members, as well. Emily Saving, vice president of professional and program development for Heating, Air-conditioning & Refrigeration Distributors International, says the association in the last few years began talking about succession planning with its members and will continue doing so – not just for C-suite positions but for all roles within an organization.

"Talent and how you identify, retain and utilize your talent is the most important differentiator between a good company and a great company," Saving says. "It's crucial that our members start paying attention and really start using some of the tools and resources to better position themselves as leaders of talent."

One resource HARDI provides members is its Emerging Leaders program, which the organization launched a year and a half ago. Open to employees of member companies who have been targeted for upper management positions, the program is focused on grooming talent and providing networking opportunities, and its popularity has seen it double recently from 40 people to 80 people.

"It ensures that their current talent is going to also grow into their future talent, that their skill sets aren't going to become stagnant and they're not going to become irrelevant," Saving says.

Succession planning might seem overwhelming for a company owner focused on pricing, e-commerce capabilities, finding new customers and expanding to different markets. That's why John Salveson of Salveson Stetson Group, which helps companies search for talent inside or outside their ranks, says it is imperative for distributors to empower their human resources departments with the task of recruiting and developing talent. While the HR role has traditionally been administrative and transactional – making sure benefits are in place, payroll is accurate, employment applications are filled out – Salveson argues for shifting the HR model to one that is transformational.

"(HR professionals) are really good at finding and attracting talent. They're really good at developing executives and organizational plans. They understand how the business works. They should be the CEO's right-hand person on these issues," Salveson says. "My experience is, many wholesale distributors haven't made the transition in HR from the traditional transactional position to the much more strategic transformational role. That's a simple thing they can do."

Starting with a simple task can pay huge dividends. Because failing to plan for a company's succession could spell disaster if a COO suddenly jumps ship or a longtime owner unexpectedly dies.

"This is a ticking time bomb," Salveson says. "You've got to get serious about this if you're not already."

Executing the Strategy

Best practices for implementing a succession plan

Even if a company has a vision, strategy and talent for its succession plan, challenges remain for ensuring it will prosper beyond its current leadership. Distributors share their best practices for succession, from identifying talent to forming new C-suite positions to creating employee stock ownership plans.

By Eric Smith

Succession planning is easy to define but not always easy to execute. That's especially true for distributors, who routinely list it as a pain point for their own businesses, as well as for the industry, because of an aging workforce and growing talent gap. Beyond creating a vision and strategy, and then working to attract and retain talented employees as outlined in Part 1 of MDM's look at succession planning, distributors must incorporate succession planning into their culture.

When electronics distributor Arrow Electronics Inc., Centennial, CO, last year named Andrew Bryant as COO of the company's global components and global enterprise computing solutions businesses, company President and CEO Michael Long mentioned succession planning as part of the reason for the appointment. It remains top of mind for the company, which hosts annual talent workshops where department managers identify high-potential employees for promotion.

"The critical element of succession planning, historically, is continuity," says Donna Tikkanen-Davis, Arrow's vice president, human resources, global employee capability. "I think the new element of succession planning and management is attracting and retaining talent."

Graybar, St. Louis, MO, also works throughout the year with managers and senior leadership as part of the distributor's "people strategy," which is designed around the identification and development of talent within its ranks.

"We make sure we're all working together on the same page to identify who our talent is and help all our employees grow within the organization," says Beverly Propst, the company's senior vice president, human resources. "Having a good assessment of your talent is so important."

The process of identifying and grooming candidates for C-suite positions should begin early, according Bob Mucciarone, recently appointed to the new position of COO at F.W. Webb Company, Bedford, MA.

"Companies should assess their strengths and weaknesses in the sales function and operationally, and to evaluate both these aspects in terms of their organizational chart," he says. "Once the review is completed, companies can begin the employee training process to bring along their key performers. It all starts with early training and placing employees in positions where they can excel and move up in the organization."

Some companies have made succession planning such a high priority they create positions to ensure it occurs. Earlier this month WinWholesale named Matt Newcomer as director of talent acquisition and succession planning to "recruit and groom future leaders and entrepreneurs who will get the opportunity to run a distribution business," says Corporate Communications Manager Maury Williams.

The appointment underscores the Dayton, OH, distributor's aim to build on the success it saw in 2014 with double-digit revenue growth by opening more locations and adding employees.

"Succession planning is a prudent step and Matt will take an active role in making sure we identify and prepare the right people to move into key positions, both at local companies and at corporate," Williams says.

While replacing a CFO who retired after decades, developing a high-potential employee before she bolts for a competitor or appointing a new president because the last one died unexpectedly can seem to be daunting tasks for a company otherwise absorbed with expanding market share, adding products or deciding where to build its next distribution center, these moves are essential to any company's long-term prosperity.

"I've never met a business leader who doesn't say that people are critical to their business," says Graybar's Propst. "Sometimes they will even say people are the most important part of their business. We certainly believe that people are the most important part of our business, and if that's the case, succession planning is not something you would want to leave to chance."

That means not waiting until the last minute – a resignation, retirement or even untimely death – to find a successor but instead actively seeking talent at all times, says Emily Saving, vice president of professional and program development for Heating, Air-conditioning & Refrigeration Distributors International, which advises members to begin succession planning if they haven't already. Saving suggests that companies develop a process for filling the pipelines of all positions, assess its current bench strength and create a road map to address turnover.

"You need to always be on the lookout for talented people and always figuring out who's next to fill those gaps," Saving says. "It requires a precision focus on the future."

Owens & Minor Inc., Richmond, VA, recently displayed that focus on the future when the company's board of directors announced a search to replace retiring President and CEO James L. Bierman. The board said Bierman informed it of "his own horizon for retirement and asked that a search for his successor be initiated."

"Transitioning from one leader to another is a significant event for any company, and we believe it is vital that we identify the right person to lead Owens & Minor into the future," Bierman said. "In looking ahead, I recognized that this executive leadership transition could take a significant amount of time. Therefore, I thought it was appropriate to begin the process now, in order to ensure a seamless transition."

But with distribution executives citing a talent gap in the industry, a seamless transition might seem unattainable, says John Salveson of Salveson Stetson Group. That may mean looking outside of the industry for the right person, something his firm always does when it conducts a search for a senior-level wholesale distribution position.

"There are other areas that have done a better job of developing people," Salveson says. "There's a lot of people in (wholesale distribution) leadership roles who have been there for a long time, really are experts in the company for which they work, may or may not have a family connection or ownership connection, which makes them people who are not going to move. It would be very rare for us to present a slate of candidates for wholesale distribution role that doesn't include people from outside that sector."

Smaller, family-owned companies must be especially mindful of their succession needs, which might be centered on talent acquisition and retention but also include strategies beyond replacing an outgoing executive with another. One option is selling to a private equity firm or a competitor. Consolidation is an ongoing theme in distribution and manufacturing, and divestment could be the right exit plan for companies that aren't concerned with legacy, don't have offspring to take over or simply want to cash out.

Another option is an employee stock ownership plan (ESOP), in which the owner sells shares of the company to its workforce, something cfm Distributors, Kansas City, MO, implemented 15 years ago. President Tom Roberts said the plan hinges on paying attention to three components – ownership, leadership and tasks – while also making sure the stakeholders carefully consider the desired outcome for the company and the options that will help them achieve it.

"A leadership succession plan is more than placing a name in a slot," Roberts says. "It is the development of necessary skills to accomplish the required tasks, learning to listen and communicate with staff, vendors and customers to develop solutions, constantly accessing strategic opportunities and threats, while all the time charting a course to success for all. None of this is possible for the successor leaders without organizational support, for the buy-in of the lead is more important than the skills of the leader."

No matter what the succession plan looks like, Propst says focusing on a few basics – "knowing who your top talent is, what kind of skills you need in your organization today and what you think you're going to need in years to come" – will pay huge dividends.

"If you take that information, process it and put together a plan so that it all comes together at the end, you'll be well-invested for the future," she says. "It doesn't need to be a complicated process, but it does need to be something that you pay attention to."

Mayer Electric: Protecting the 'Goose'

Succession planning should not be spontaneous in family businesses

Mayer Electric, Birmingham, AL, has been a family business since its founding in 1930. CEO Nancy Collat Goedecke spoke with MDM about the processes the family developed and the challenges they have overcome to keep the company healthy and thriving.

By Jenel Stelton-Holtmeier

Preparing a business for succession increases the likelihood of a smooth transition, according to Craig Aronoff, co-founder and principal consultant for The Family Business Consulting Group Inc. "Preparing the ground is probably more important in 90 percent of the cases than who you actually select," he says.

That means beginning the discussion well before the current leadership or ownership is ready to step aside.

When Nancy Collat Goedecke was about 30 years old, her father, Charles Collat, asked her and her siblings if they understood what it meant to be potential future owners of a business. "We said that we thought we did," recalls Goedecke, now CEO and co-owner of Mayer Electric. "He said, 'I don't think you do.'"

Laying the Groundwork

Collat didn't leave the discussion at that. Instead, he launched a process to prepare the siblings for their eventual roles, beginning with sharing the fable "The Goose that Laid the Golden Egg." While the siblings were in their 20s and 30s, the story they heard often as children went a long way toward bringing them together.

"They told us we had to keep that goose – Mayer Electric – healthy," Goedecke says. "And that goose – Mayer – was bigger than any one of us individually. That was the premise and our foundation for moving forward."

The family engaged Aronoff to help lay the groundwork for eventual succession.

"You really need to understand the environment in which the business is operating," Aronoff says. "You really need to understand the business and its strengths and its weaknesses."

Goedecke's parents and the company's CFO began teaching the Next Generation – which is how the siblings referred to themselves at the time – about the business, from reading and understanding financial statements to the responsibilities of ownership.

And it meant addressing some questions that can be very difficult for family businesses, beginning with: Should the company stay a family business?

As with all families, the siblings didn't agree on everything, but when it came to the business they were unanimous on three critical pieces around succession. The first was that they wanted Mayer to remain a family business.

"We wanted it to be there for our children and our grandchildren and our associates' children and grandchildren," Goedecke says.

The second thing they agreed on: They wanted the best person to run the company – even if that person wasn't a family member.

"In many family businesses, there's the notion that a family member is going to lead the business, and it's regardless of their skill set or ability," Aronoff says. "The old notion is that businesses were treated like royal houses." It didn't matter what the first in line for succession knew or could do, he was the heir. "If that started wars with other countries, so be it."

The Next Generation recognized that this approach wasn't necessarily the best way to keep the business healthy and growing, which meant they had to learn how to recognize who would be the best person for the job and then figure out how to inject objectivity into the process.

The third critical decision made by the Next Generation was that, if possible, they wanted a "blood Collat" to be chairman of the board to maintain the family connection to the business.

Challenging the Decisions

"It's easy to say those three things, but it's very different to walk the talk," Goedecke says.
The first challenge arose in the mid-2000s when a large, well-known company expressed interest in buying Mayer Electric. Goedecke's parents were making the final decision, but the Next Generation was old enough to discuss the prospect and come to their own conclusions.

If the deal had gone through, the family's children and grandchildren "would probably have been set for life," Goedecke says. But what would it mean for the associates and their families? How would it impact the suppliers and the customers?

"Understanding what the business meant for so many, it was a very easy decision," she says. Goedecke, her brother and her sisters came back and said they weren't interested – their parents had already arrived at the same decision.

In 2007, a challenge to the second decision arose. The company's president – a nonfamily member who had been with the company for more than 30 years – announced his intent to retire. Because of Mayer's culture, the family decided to launch the search for a successor internally. They engaged Aronoff and other outside resources to help with the process.

Nine internal candidates initially put their hats in the ring – "an incredible number," Aronoff says. That pool was winnowed down to five finalists – one family member and four nonfamily associates.

Eventually a nonfamily member, Wes Smith, was selected as the president. Smith had started as a temporary worker in Mayer's Montgomery, AL, warehouse and worked his way up through the company. "To me, that speaks volumes to all of our associates that you can be whatever you want at Mayer Electric," Goedecke says. "You don't have to be born lucky, like I was."

Even though the family member wasn't chosen to lead the day-to-day operations of the company, everyone involved in the process agrees that the best decision was made. Three of the four remaining candidates – including the family member – are still with Mayer.

The Challenge of Family

The biggest challenge many family businesses have to face is family.

"As close as we were, learning to work together, forming as a group, storming as a group, norming and performing as a group takes time," Goedecke says. And with a nine-year age difference between her – the oldest sibling – and her brother – the youngest – it also required them to learn to respect where they each were in their lives.

When they began the process, Goedecke

was in her early 30s with kids; her brother was just graduating college. Their priorities in life were significantly different. For example, when it came time for the group's fall meeting, her brother would say he couldn't meet because Alabama had a football game that weekend.

"We would get frustrated because to us it was just some football game," Goedecke says. "But it was important to him at the time." Fast forward 15 years, to when Goedecke's children were in college, and she found herself saying she couldn't meet that weekend because Alabama had a football game.

"It's hard to appreciate where other people are in their lives," she says.

Another challenge is parental involvement. It can be difficult for any parent to allow their children to make their own decisions and potential mistakes, but allowing them to go through their own process can be a great learning experience.

"When I first started working with the Next Generation group, it became clear that we had to tell daddy and mama to butt out – in much nicer terms, of course – and to let them have their own meetings," Aronoff says.

The siblings took on the responsibility for running their own meetings, without an obligation to report on what happened. They had to work out their own issues to come together as that cohesive group to be able to make the right decisions for the business – to continue protecting the goose.

As difficult as it is to get siblings on the same page, the challenges are compounded when families grow and the business gets passed down to other generations. "Siblings are raised in the same house with the same values," Aronoff says. "With cousins, they're in different houses, and spouses and different values are introduced."

As the number of owners increase, the dynamics of the ownership group change, he says. Families need to place more emphasis on how they organize the ownership group, not just how they organize the business.

For companies the size of Mayer – which had sales of about $741 million in 2014 – succession should not be spontaneous, whether ownership or management succession, Aronoff says. Policies should be established to inject objectivity into each decision, and processes should be in place to ensure the best people are identified early and prepared for the future roles they will play.

And there are no special favors for family members at Mayer. Goedecke's ownership group established clear policies for future family members that want to be involved in the business of Mayer Electric. If they want to work full-time at Mayer, they are required to have a four-year college degree, work outside the business for at least two years, and be successful in that job, such as earning a promotion. And there must be an opening at the company they are a fit for – a position won't be created for them.

The first member of the fourth generation – G4 – met the requirements and joined Mayer Electric full-time in October 2013.

Looking to Future

Succession planning isn't just for family members or management teams. Mayer Electric has launched discussions to ensure critical roles filled by outside resources – including Aronoff – also have a continuity plan.

"One day I was meeting with the group, and Nancy's father came in," Aronoff recalls. "He took me aside and said: 'Look we're talking about succession for everyone – for the chairman, for the board, for the executive positions. We're talking about succession for everyone – except you. Who's going to be your successor?'"

Because Collat viewed Aronoff as a permanent resource filling a critical role for the company, he wanted to make sure that when Aronoff could no longer fill that role that there would be someone else already ready to take on the responsibility.

They also saw an opportunity to start preparing G4. Between the four siblings in G3 – which is what the Next Generation is now called – there are 10 children. At the time of Collat and Aronoff's discussion, they ranged in age from 7 to 17 years old.

"Being 60-plus, I'll admit to not being able to relate to 20-somethings as well as I can relate to 40-, 50- and 60-somethings," Aronoff says. "So it made sense to bring in a younger consultant from my team to work with the next generation."

So they tapped Stephanie Brun de Pontet to be G4's adviser.

While the group was younger than G3's members when they started preparing, "I think we had something going for us in that they had seen the value and the importance that their parents had placed on having these meetings," Goedecke says.

The first family meeting bringing G4 into the fold began the same way that G3's did, with the fable "The Goose that Laid the Golden

Egg." The meeting included many fun activities focused on learning to work together.

Because G4 grew up connected to the company, it's likely they already had a sense of how their parents' ownership group worked together. But it wasn't until a later family meeting that G3 really saw how well they understood.

A then-11-year-old member of G4 asked to attend the big family meeting and was told he could participate but had to sit quietly. "I thought he was playing on his iPod Touch the entire time," Goedecke says. "But after the meeting, he handed his iPod Touch to his mom, who handed it to me. … He was taking notes the entire time."

What he wrote at 11:

The spirit of the family will move us along.

Don't step up too quickly. We have 25 years to do this.

Don't let conflict get in the way.

"There was a good bit more, but at the end he wrote in big capital letters: AND PARENTS, LAY OFF!" Goedecke recalls. "While he was young, he got it. It was a lesson for us, because as parents we still form and storm and norm as a group, but we had to let them go through the same processes that we did. "