

Local companies make ESOPs work; different reasons drive decision

BY LAUREN OXNER

Five years ago, Kevin Adams, CEO of CB Richard Ellis Memphis, made a big decision about the future of his company: He decided to sell 100% of the firm to his employees through what is called an employee stock ownership plan.

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who are providing that service, not by passive investors," he says. "I wanted to give people the opportunity to grow in this company."

Mary Sharp, COO of CB Richard Ellis Memphis and trustee for the company's ESOP, says another significant advantage of an ESOP is its function as a succession planning tool. For owners who aren't interested in sell-

Adams is like many other business owners who have turned to an ESOP as a viable option for their companies.

He had a feasibility study conducted to make sure this plan could work for his company, a commercial real estate services firm.

Adams' main motivation was his desire to make the company more efficient while giving back to his employees.

"We are a service company, and service companies need to be owned by the people



Adams

ing to an outside party, ESOPs provide an avenue for keeping ownership in-house. Sharp says there is a marked change in employee attitude when they have the opportunity to own part of the company. "Every single employee of this company owns stock, which has resulted in a higher level of pride in the company," she says.

95% of CB employees have put their own money into the ESOP, on top of what comes out of their paycheck automatically. The stock has gained 19% in value since the ESOP started in 1995, Sharp says.

George Geerdes, CEO of Professional Development Associates, Inc., came in to assist Adams in the design of CB's ESOP. Geerdes says the company has experienced success with its ESOP because it started with the right motives.

"An owner must have the desire not to take but to share," he says. "For this thing to work, you've got to have a quality company with quality earnings; they have it."

Geerdes points out that there are instances in which ESOPs are not advantageous. Reasons range from a lack of education within the company about the ESOP design to the company being too leveraged to the employees not being seen as vital components of the company. Also, in the case of many family businesses, owners want to keep the business exclusively within the family.

Dave Harris, a valuation specialist



Hatcher

at Southard Financial, highlights another complication within the ESOP process: the negotiation that occurs between employees and their boss. "Since the boss is used to calling the shots, and the employees are used to toeing the company line, it is not an easy thing for both to sit down at the bargaining table as equals," Harris says.

Michael Hatcher's company has only been using an ESOP since February, but there was a three-year preparation process to make it happen. President of landscape and lawn services company Michael Hatcher & Associates, he says the ESOP looked like an attractive option in terms of exit strategy when he started thinking about retirement.

"I have watched how companies outside the landscaping industry are organized, and I saw no real exit plan for the departure of the CEO," he says. "I didn't want this to happen to my company."

After completing lots of research, Hatcher decided he wanted an exit strategy that wouldn't force him to sell outside the company; the ESOP provided that option of keeping the business in the hands of the people who are already integral parts of the company.

Hatcher says ESOPs give his 86 employees hope for future growth. His adoption of the ESOP has attracted and retained people who want to one day own their own business, he says,

and the ESOP lets them play a key role in the direction of the company as well as their own livelihood.

Hatcher says the company's value has been increasing 12% annually and most recently saw \$10 million in annual revenues. Though in the down economy the company will probably try to simply maintain this level, Hatcher believes the ESOP will create more unity among company managers and other employees. To ensure this culture of unity, Hatcher employs what he calls a "three year cliff," meaning an employee must have been with the company at least three years before participating.

"My biggest assets are my people, and I asked myself, 'How do you grow and develop them into the skill sets that they need?' The ESOP, I believe, will help this greatly."

Another Memphis firm, Smith-Doyle Contractors, started its ESOP in 2007. Wayne Smith, CEO of the firm, also felt that it was a good exit strategy option. He always had the intention to transfer ownership of the company to his employees when he got ready to retire. As time went on, though, he decided to take action.

"About six years ago, I did designate a few people I trusted and entered a succession agreement with them; but as time went on, the company's value went up, and I kept not leaving," he says. "Rather than making them wait 20 to 25 years or until I decide to leave, I decided to find a vehicle to give them ownership while I'm still here."