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Time to replace yourself

Sooner or later, most founders will need to hire a CEO to take their place. Here are four who did it right - and one who blew it.

By Carlye Adler, FSB contributer
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(FSB Magazine) -- Heidi Albert can perfectly recall the moment she knew her time was up. It was late 2006, and business was booming at Doctor Bobby, a children's allergen-free skin-care company she had co-founded three years earlier with pediatric dermatologist Dr. Robert Buka. (He's known to his pint-sized patients as "Dr. Bobby.") Nearly 200 stores across the country were selling the irritant-free creams, soaps and shampoos.

Doctor Bobby (drbobby.com), headquartered in Chicago, wasn't profitable, and Albert hadn't yet drawn a paycheck, but the future looked promising. Then she received a call from a big marketing company that wanted to invest in Doctor Bobby, create an infomercial (ginzu knives, anyone?) for the line, and introduce Albert to its contacts at big box stores. The CEO was torn. While the opportunity might boost sales, wouldn't it also dilute the cachet of her brand?

Albert spent the next few weeks calling business colleagues and friends for advice and eventually decided not to partner with the marketing company. More revolutionary, though, was her realization that while she was great at developing products, setting the company's long-term growth strategy was beyond her.

"There were so many paths to growth - the infomercial company, high-end department stores and pharmaceutical companies - but I didn't have the tools to make the right decision," says Albert, 37. "Suddenly I felt as if I was out of my league. I had to put my ego aside and ask, 'Who do I need to help me?' "

At that moment Albert - a control freak who once prided herself on managing everything from keeping the books to sweeping the floors - decided she needed a boss.

An entrepreneur's decision to step down is a hard and humbling one. After all, who wants to face up to her limitations? But that day almost inevitably comes. Some business owners find themselves unable to drive their company to the next level. Others discover that they simply don't enjoy the complexities of running a larger company. Another factor: Boomer business owners are now reaching retirement age, and many are seeking a new CEO to lighten the workload or polish up the company for sale.

In some cases the decision to change leadership is forced on an entrepreneur. Some two-thirds of venture-backed startups find it necessary to replace founding CEOs with more seasoned outside management, says Pascal Levensohn, founder of Levensohn Venture Partners (levp.com) in San Francisco, which has backed several successful tech startups, including BigFix, Rapt and Veraz Networks (two of the three are now run by a different CEO). Although that kind of high turnover is less likely at companies not backed by VCs, Levensohn argues that the factors that necessitate a change in leadership affect all companies.

"The skills associated with building and managing a company differ from those it took to start the company and build the products or technology," says Levensohn. "Very few are best at both." Historically only a tiny fraction of entrepreneurs - legends such as Gert Boyle of Columbia Sportswear (Charts), Michael Dell of Dell (Charts, Fortune 500), and Fred Smith of FedEx (Charts, Fortune 500) - have steered their companies from the early days all the way to greatness.

Experts say company founders can be blinded by their passion and overly attached to their dream and are therefore more likely to stick with business plans they've created or products they've launched or people they've hired - long after the outside world can identify the need for change.

This "founderitis" phenomenon can alienate staff and stunt growth, says Charley Polachi, a partner at Polachi & Co. (polachi.com), an executive-search firm in Framingham, Mass. Polachi says that it takes an enlightened entrepreneur to see the need to seek out more experienced management.

Stepping down can be a "heart-wrenching experience," says **Dora Vell**, the founder of **Vell** & Associates (**vell**.com), an executive-search firm in Waltham, Mass. One entrepreneur said it was as ifmhe had spent years building a Ferrari, and then, when it was ready, he wasn't allowed to drive it. What worried Albert was hiring someone who didn't care about the company as deeply as she did. Says she: "Would someone else think about it when on the chairlift on a ski vacation? "

Albert's first step was to write a job description for a candidate with a marketing background and experience in operations. She wanted someone who had run a big consumer brand but who was creative and comfortable enough to work with her limited budget. The candidate also had to fit into the culture of her ten-person startup. That meant no suits, no help desk and no company car. No huge salary either, although Albert would offer a 10 to 20 percent equity stake in the firm.

Unable to afford an expensive executive-search firm, which can cost anywhere from $100,000 to more than $200,000, Albert headed the search herself. Recruiters, predictably, and some entrepreneurs say that's not the way to go.
("You wouldn't have an ex-wife picking out a new wife," argues recruiter **Vell**.)

Albert contacted everyone she knew in marketing and came up with a list of about 20 people. After a series of phone calls, about half of them emerged as promising enough to meet. Rather than use a formal interviewing process, Albert gauged how much each candidate knew about her company and how much passion he displayed. As she reasoned, "If they didn't do any homework for the interview, what kind of work are they going to do when they get the job?"

The search, Albert recalls, was uncannily like blind-dating. She quickly dismissed "Mr. Arrogant," a savvy executive who promised to do wonders with the company but who Albert felt cut her off and didn't listen to her. She was outraged by "Mr. Out of Work," who seemed interested in Doctor Bobby only so that he could get back in the game and be more attractive to other employers.

Then, as in dating, Albert met someone, and she "just knew." Two of her contacts had recommended Dee Fortson, 36, a brand-strategy consultant working on Tropicana at PepsiCo and a marketing whiz who formerly ran Sara Lee's coffee brands. Fortson also happened to mirror Doctor Bobby's customer demographic - "an educated mother who wanted the best for her kids" - and she immediately related to the product. After several meetings Albert learned that Fortson was methodical and detail-oriented and knew how to work with big retailers. "Dee was exactly what I was looking for," says Albert. "She knows what I don't."

Albert, who had spent six months looking for a CEO, was finally ready to let go. It turned out, however, that her ideal candidate wasn't ready to take over.

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Fortson was pregnant with her second child and felt she couldn't commit to becoming CEO just yet. Albert asked Fortson to join as the head of marketing, with the possibility of becoming CEO if their collaboration proved a good fit.

Sometimes it's wise to take things this slowly. "Hiring your replacement is the single most important decision a founder makes for the company," says Verne Harnish, founder and CEO of Gazelles (gazelles.com), a corporate university in Ashburn, Va., which helps founders grow their companies. "We see that in about 80 percent of these situations where the transition is successful, the founder already knew the replacement."

While Albert remains CEO and has no formal timeline for moving Fortson to the top management spot, it is clear that her arrival has brought substantial changes. "For Heidi, Doctor Bobby is a labor of love," says Fortson. "For me it's an opportunity to make a difference and take the business to the next level."

With that mindset, Albert and Fortson plan to raise $1 million to expand sales in the U.S. and to enter foreign markets, such as Korea and New Zealand. They are busy developing new product lines (sunscreen, for example) and hope to reach profitability by next year.

The biggest change at Doctor Bobby is not what is happening to the company but what has happened to Albert. Never one to ask for help - she broke her foot three years ago and lost ten pounds because she wouldn't let anyone bring her food - she now admits her weaknesses. "I felt as if I had a choice," says Albert. "I could have a company that continued as it was and I could say I did it all myself - or I could have a super-successful company that I could say I helped grow."

Hire a CEO with deep pockets

Like most successful entrepreneurs, Seth Lippert and Sergio Fernandez de Cordova saw an opportunity where others didn't - this time in the crowded, $6-billion-a-year outdoor-advertising market. As they walked around New York City, they noticed empty or underutilized space on the sides of buildings, scaffolds and billboards. Why not fill that space with ads?

After founding Fuel Outdoor (fueloutdoor.com) in 2003, the duo went door-to-door pitching clients to advertise in those spaces, working relentlessly and even sleeping in their office. The New York City-based business exploded in its first year, going from owning the rights to sell advertising on six properties to owning the rights to 35. Because they had to pay for each new spot before they received any money from advertisers, the young entrepreneurs found themselves in a constant cash-flow crunch. Neither took a salary, and Lippert eventually moved into his parents' basement in New Jersey. Worse, by growing so quickly - and tying up an ever-increasing amount of capital - they were driving Fuel into bankruptcy.

Luckily Lippert, 30, and Fernandez de Cordova, 32, had put together a formal board of directors in 2004 (they paid them in phantom stock options) - made up of experienced industry executives, a real estate attorney and a venture capitalist - who could flag problems early and suggest fixes. The board also introduced the founders to Michael Freedman, a seasoned outdoor-advertising executive with financial experience, who invested in the company and later was chosen by the founders and the board to step in as CEO.

"Energy does one thing, but nothing can replace years of experience," says Lippert, who previously had the CEO title. "We needed someone we could get advice from at midnight - not just money," adds Fernandez de Cordova.

Freedman did answer calls at midnight - and found Fuel money too. He had brought in Och Ziff Capital, a large hedge fund, as an outside investor. Bolstered by new capital and experienced management, Fuel made several acquisitions (five outdoor-advertising firms and additional New York City properties), bringing its portfolio to 3,000 ad displays. Now one of the top outdoor-advertising companies, Fuel, which is reinvesting all its profits, booked $20 million in revenue in 2006 (up from $3.5 million in 2005, pre-Freedman. (And Lippert moved out of his parents' place).

While the founders say the decision to hand over the company was unpleasant at best, they have no regrets. "It was the best thing we ever did," says Lippert. "It made our dreams come true - our company wouldn't be around without it."

Date before you marry

David Wasilewski, the then COO of Spanx (spanx.com), a hosiery maker, was at a Saks Fifth Avenue in Atlanta checking out a display of the company's slimming intimate wear, when he overheard a customer complaining about the dearth of Spanx size A nude fishnets. Wasilewski knew the customer had a point. Sales of Spanx had taken off after Oprah had promoted it as one of her favorite products, and keeping the hose in stock was always a challenge. The COO swapped contact info with the disappointed customer, Laurie Ann Goldman, formerly the head of licensing at Coca-Cola, and then encouraged Spanx founder Sara Blakely, to call her for advice.

Although Blakely, who had launched Spanx in 2000 with a pair of cut-up pantyhose and $5,000, wasn't looking to cede day-to-day control, she was eager to hire someone with big-business experience. ("We were flying by the seat of our pants," she admits.)

Two years later Blakely brought Goldman on as a consultant to the Atlanta-based company, paid her hourly to start, and then switched to a flat rate six months later. After a year and a half of working side by side, Blakely made Goldman CEO. Under her leadership Spanx has increased its product line, expanded into Europe and bagged new accounts such as Target (Charts, Fortune 500).

Goldman also helped launch new categories, including Hide & Sleek and Slim-Cognito, which Goldman peddled to her clients' intimate-apparel departments rather than their hosiery sections - a smart decision, since the stockings sections are shrinking in most stores.

Blakely - who retained 100 percent equity in her company - turned her focus to creating products, marketing and schmoozing with customers. "The person who starts a company from nothing," says Blakely, 36, "is not always the best person to grow it. Realizing that has been liberating."

Not only does Blakely enjoy her renewed focus on the creative part of the business but she's grateful for the chance to pursue other opportunities. She appeared on Fox's reality TV show "The Rebel Billionaire," featuring her business hero, Richard Branson. As first runner-up, she won $750,000 and Branson's help to launch the Sara Blakely Foundation, which is focused on helping women globally through education and entrepreneurship.

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Now Spanx, which has more than 100 products and recorded about $150 million in retail sales in 2006, up from $85 million in 2005, is growing wisely (you can find your size at Saks). Blakely is back to what she does best: starting something from scratch and eliciting expert advice to help it grow.

Find a CEO who can do what you can't

Bolo Systems had hit A wall. CEOs Robin Gregory and Michael Williamson, who had quit their accounting jobs in 1991 to start their financial software firm, built a staff of 17 and a collection of loyal customers in the oil and gas industry. But Denver-based Bolo (bolosystems.com) could not seem to reach the next level. Worried they would start losing their employees, the two founders knew it was time for a change.

That change, they admitted, would have to start at the top. The partners recognized that as co-CEOs, keeping the books and acting as the company's technologists, they were doing too much. Worse, they were slowing things down. "We were the bottleneck in everything," says Gregory. "We were like a couple of lieutenants managing a platoon. We needed a general to take on the whole army - and free us up to do what we did best, which was technology and software."

They started a search for that general, canvassing customers, consultants, clients and others familiar with the company. After months of looking, the CEOs met a stellar candidate, Rick Slack (another candidate referred him). The duo liked that he was an industry veteran with a track record of taking a company from $5 million to $20 million and that "he didn't ask for the moon," says Gregory, when negotiating a salary.

Even so, it took the founders many months to make the decision to hire him. ("You're afraid to acknowledge to the world that you need to make a change and to say I'm deficient or not good," explains Gregory.)

Since coming on as CEO in June 2004, Slack, 50, has built a new management team, set clear goals for the future, and instituted a culture of accountability. "It was a small group of all-rounders before," says Slack, describing the previous approach as "responsible for everything and accountable for nothing."

Freed from day-to-day management, the founders now have more time to focus on product development, which has resulted in the launch of one of its most innovative products, Bolo's Executive Dashboard (a Web-based back-office application for oil and gas executives). With the changes, Bolo saw revenue jump 150 percent, from $2.2 million in 2004 to $5.7 million in 2005. Last year the company, which management says is profitable, did $12.3 million in revenue.

The founders credit Slack with changing their organization - and their lives. "I now enjoy my job more than I ever did, and I had loved it for the last 15 years," says Gregory. "But today the company is more valuable, and I'm in a role where I'm more efficient."

Beware of flashy resumes

After running his management consultancy, based in the Southeast, for four years, founder Nick Danger (not his real name) decided to hire a CEO to help it go national. In mid-2006, after nine months, multiple meetings and more than $150,000 in search-firm fees, he was certain he had the right candidate. The 27-page profile provided by the search firm highlighted the potential hire's years at IBM, experience growing a $5-million-a-year company, and rave reviews from references. "She looked perfect on paper," says Danger.

Perfect on paper, though, doesn't always mean perfect in practice. Within six months of hiring the CEO, Danger watched some of his clients walk away, including two marquee accounts - together valued at $1 million. Two key employees also quit.

It wasn't that the new CEO was incompetent - she was highly organized; it was that her passion for processes and systems fit poorly with Danger's small company. The firm prides itself on its family-centric culture, where employees' spouses know one another and Danger's clients have his home phone number.

Employees from hell

Through meetings with employees and suppliers, Danger learned that they were turned off by the new CEO's attitude, which they found "pompous," and her style, which they felt was "dictatorial."

They said that they missed the energy of the past and felt that under the new regime they were "just a number." "We lost our entrepreneurial spirit - the self-motivating, self-correcting attitude that was in our DNA," says Danger.

By the end of 2006, Danger fired the CEO. Now he's back as CEO again, and the company is set to collect $3.5 million in sales in 2007. While Danger says the experience was very difficult (he says he lost both sleep and more of his hairline), he learned a valuable lesson in terms of cultural fit and chemistry. "I picked the wrong person. I was sold on her blue-chip background, and I was blinded by her track record."

He calls the hiring mistake a painful and expensive lesson, but says he's not giving up on hiring a CEO. "I still think there's the right person out there for us," he says. That person is not someone with a big-company background, however - it is another entrepreneur.

Danger, who came to the U.S. from the Middle East with a suitcase and $100, says the new job qualifications include experience such as having run a lemonade stand as a kid, having parents who are entrepreneurs, or not thinking of the workday in terms of 9 to 5. "I'm looking for people who borrowed against their credit cards to make payroll," he says. "These people get it."

***Dora Vell** is the CEO of Vell Executive Search, a premier retained technology executive search firm in Boston. Ms. Vell is an internationally recognized expert in executive search for technology CEOs,COOs, CIOs, Vice Presidents and board members. She works with start-up organizations through Fortune 50 Firms. She can be reached at dora@vell.com.*