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IN-DEPTH

Passing the Torch

Some of the IT industry's top innovators are within striking distance of retirement age. Here's a look at what that means for them, their companies and the channel.

By Anne Stuart

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If there's anybody who should have retirement all figured out by now, it's Howard Diamond. "I've retired multiple times," he says with a laugh. "I'm either very good at it -- or not good at all."

Several years back, Diamond took early retirement from the chairmanship of Level 3 Communications LLC of Broomfield, Colo. That lasted a year or so, but soon he was back in the saddle, most recently as CEO of ePartners Inc., a Gold Certified business-solutions provider based in Irving, Texas. In December 2007, Diamond retired from ePartners, turning the reins over to a handpicked successor.

But Diamond hasn't exactly ridden slowly into the sunset. In addition to helping raise his 1- and 3-year-old sons at home in Boulder, Colo., he's still consulting, serving on corporate boards, speaking at conferences -- and, like many others throughout the business world, trying to figure out what happens next. "A friend of mine called me about six or eight months ago and said, 'Guys like you and me used to be retired -- but now we're just unemployed,'" Diamond quips.

And, like many others in the Microsoft partner community, he's keeping an eye on other leadership transitions in the channel and looking at what similar transitions in leadership -- especially in the current economic environment -- might ultimately mean for the channel itself.

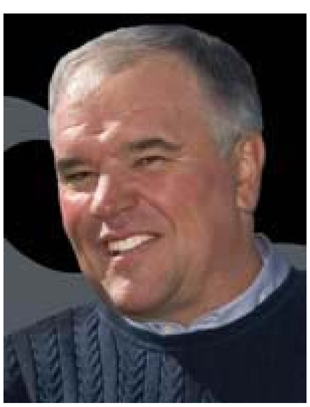
Age Wave
In 2011, only about a year away, the oldest baby boomers will mark another milestone. The oldest of the boomers -- the post-war generation of 76 million Americans born between 1946 and 1964 -- will begin turning 65. That is, of course, the traditional age for retirement, and it will usher in yet another era of boomer-driven change.

"For the next 18 years after that, about 10,000 people per day will be reaching the age of 65," says Ken Dychtwald, an author, speaker and CEO of Age Wave, a San Francisco-based consulting firm that specializes in aging-related demographics. Meanwhile, people are living longer as well. Dychtwald points out that Americans born in 1900 had an average life expectancy of about 47 years. By 2000, average life expectancy had risen to 78 years -- a bigger jump in one century than in the preceding 900 years. "Today, many people have 85 or 90 or even 95 in their sights," says Dychtwald, who is himself a boomer. "So at 40, 50 and 60, they're no longer 'over the hill.'" In fact, many people in that age range don't consider themselves middle-aged, says Dychtwald, who narrated the PBS documentary "The Boomer Century" for PBS in 2007. Instead, he says, boomers tend to view this stage of life more as "middlescence," a kind of grown-up adolescence that's a time of uncertainty, but also of potential new opportunity. Says Dychtwald: "Increasing longevity is resetting many of life's clocks."

Many IT industry leaders -- including many in the Microsoft partner channel -- fall squarely into the boomer cohort, and they know exactly what Dychtwald's talking about.

Some hope to leave the business for good at a certain age, but haven't yet decided whether that means simply retiring, turning the company over to their offspring, selling it to employees or pursuing a merger or acquisition. Others hope to follow Diamond's lead into "semi-retirement," leaving their companies but staying involved in the industry. Still others may adopt a lower-profile of the example set by Microsoft Chairman Bill Gates, who stepped away from day-to-day operations at the company last year at age 52 to devote more time to his philanthropic work with the Bill & Melinda Gates Foundation. Gates now works only part-time at Microsoft, but he retains his title and remains active in the company's overall direction.

Still others had carefully scripted retirement or transition plans that were placed on hold or shelved entirely during the economic meltdown of the past year-plus. "You're hearing a lot of people say 'I wanted to sell my company in the next year or two,' and they're enormously frustrated by the fact that the business is worth less today than it was 24 to 36 months ago," Diamond says. "So they're hanging around longer than they otherwise might have because they're convinced -- or they hope -- that the market will come back."



"Many partners are approaching 25 to 30 years in the business, and they're wondering what their exit plans look like. There are a lot of discussions like that going on right now."

Arlin Sorensen, Chairman and CEO, Heartland Technology Solutions

Some older boomers -- those 62 and up -- may also opt to cut their losses by taking early retirement or unloading their businesses, then applying for Social Security benefits. In fact, The Associated Press reported in September that applications for retirement benefits were up 23 percent overall from the year before, a much larger than expected increase; Social Security officials attribute the jump to both layoffs and early retirement. (The shift also means that, for the first time since the 1980s, Social Security will pay out more in benefits than it collects in taxes over the next couple of years, adding to the overall federal deficit.)

The Outliers
It's no coincidence that so many channel leaders are at this particular stage at this particular time, according to best-selling author and *New Yorker* staff writer Malcolm Gladwell. In his latest book, "Outliers: The Story of Success" (Little, Brown & Co., 2008), Gladwell examines the combination of factors behind the extreme success of certain people, from hockey players to rock superstars to pilots to technology entrepreneurs. Gladwell's chapter on the latter group points out that many of today's top IT innovators -- including Gates and other Microsoft top executives -- were not only baby boomers, but were all born in same few years in the mid-1950s (see "Right Time, Right Place").

So it's not surprising that some of those key players -- who are now in their 50s -- are either making exit plans or have already bowed out. Besides Gates, the most publicized departure was probably that of Jeff Raikes, former head of the Microsoft Business Division, who retired at age 50 in September 2008 after 27 years with the company. Raikes didn't stay home for long, though; that same month, Gates named Raikes the new CEO of the Gates Foundation. However, two of Redmond's other top executives -- CEO Steve Ballmer and Chief Software Architect Ray Ozzie, both 53 -- haven't made public any possible plans for retirement or succession.

Right Place, Right Time

In "Outliers: The Story of Success" (Little, Brown & Co., 2008), Malcolm Gladwell says that the 20th century's greatest IT innovators excelled -- at least in part -- because they were all born at precisely the right time: the mid-1950s.

That meant that many IT industry leaders were just the right age to take advantage of the personal-computer era, which Gladwell says dawned with the January 1975 debut of the Altair 8800, a $397 do-it-yourself microcomputer kit. If these IT pioneers had been born just a few years earlier -- say, before 1952 -- they'd probably be married and working full-time in 1975, too old to be fooling around with a mail-order computer. Anyone born a few years later, say, in 1958 or so, would still be in high school -- too young to fully participate in the PC phenomenon.

"The perfect age to be in 1975, in other words, is old enough to be a part of the coming revolution but not so old that you missed it," Gladwell writes. "Ideally, you want to be 20 or 21, which is to say, born in 1954 or 1955."

To support his point, Gladwell cites the birthdates of some technology titans:

- Bill Gates, born in October 1955
- Steve Ballmer, Microsoft CEO, born in August 1956
- Steve Jobs, co-founder and CEO of Apple Inc., born in February 1955
- Eric Schmidt, chairman and CEO of Google Inc. and former CEO of Novell, born in April 1955

Gladwell also points out that all four co-founders of Sun Microsystems Inc. -- Bill Joy, Scott McNealy, Vinod Khosla and Andy Bechtolsheim -- were born in 1954 or 1955. (And although Gladwell doesn't mention Microsoft Chief Software Architect Ray Ozzie, he was born in November 1955.)

Gladwell acknowledges that all these IT executives were bright, talented, curious, ambitious and hardworking. But he also attributes their accomplishments at least in part to simple timing: "Their success was not just of their own making," he concludes. "It was a product of the world in which they grew up."

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Other boomer executives elsewhere in the IT industry have made high-profile decisions about their businesses. Most notably, H. Ross Perot Jr. -- chairman of Perot Systems Inc. and son of the former presidential candidate -- brokered a deal to sell the Plano, Texas-based company that his father founded in 1988. The buyer: Dell Inc. The price tag: $3.9 billion. The deal, announced in September, is expected to close before Feb. 1, 2010. It wasn't clear at press time how -- or whether -- the younger Perot, who is in his early 50s, would fit into the newly expanded Dell, although a company press release said he was under consideration for a spot on Dell's board of directors.

Meanwhile, out in the channel, many partner executives are hoping for similar -- if much smaller-scale -- success in eventually turning their companies over to someone else.

Exit Signs
"People are definitely discussing ways to exit the business," says Arlin Sorensen, chairman and CEO of Heartland Technology Solutions (HTS), a Gold Certified Partner based in Harlan, Iowa. "Many partners are approaching 25 to 30 years in the business, and they're wondering what their exit plans look like," adds Sorensen, who falls into that category himself. "There are a lot of discussions like that going on right now."

The issue isn't a shortage of options, he says. "It's which of those options is most effective in terms of accomplishing the objectives that you're trying to get done. Each option available out there gives you some of what you want, but it's hard to find one that works for everything," he explains.

Sorensen should know. He's already begun examining possible scenarios for his business's future. Among his main concerns: making a clean, smooth transition. "There have been some high-profile failures when people have tried to exit their businesses," he says. "They've tried to step away, and then they've had to come back to fix things. Personally, that's one of my fears. When I step away, I want to step away without worrying about coming back."

But that's easier said than done, says Sorensen, who has seen the business he founded on his family's farm in 1985 grow to an 80-person company with locations in five states. "There's a lot to learn. You've got to think about the employees and the customers and all these different facets," he says. "It's difficult to align all the factors."

However, he took the first steps earlier this year, when he promoted Connie Arentson, formerly vice president of professional services, to HTS company president. Earlier in the year, Sorensen tapped Scott Scrogin to head the Heartland Tech Groups (HTGs), the grassroots partner support network that Sorensen founded in 2001 (see "P2P Power," April 2008; "Partnering With Peer Groups," September 2008; and "P2P Power, Version 3.0," July 2009).

Sorensen remains CEO and chairman, but leaves the nuts and bolts of company and peer-network operations to their new leaders. "I was getting tired of day-to-day stuff, and I wasn't running the company as effectively as I wanted to," he says in explaining the decisions. "I decided to find younger blood and let them have at it with passion and energy." Both moves have been seamless, Sorensen adds: "I haven't even had to have a discussion with either of them about how it's going."

Meanwhile, the promotions have allowed Sorensen to focus on business and market strategy, looking at issues such as how HTS should adapt to meet demand for cloud-based computing. "Our days of selling hardware and software are numbered, in all likelihood," he sighs. "It's the biggest change in the industry, really, since Windows 95. So we're spending a lot of time trying to figure that out."

Meanwhile, the new leaders are helping the company and the peer-group network prepare for whatever happens down the road. "If we choose to sell the organization, I've got people in place" to ensure a smooth transition, Sorensen says. "I'm positioning myself not to have to be involved long-term because I'm vital to the business. I've seen people making these three- to five-year employment agreements to stay on. When I exit, I want to exit. I don't want to just change jobs."

Choosing presidents was step one in what Sorensen expects to be a lengthy process: "All the common wisdom I'm reading says that it takes five to seven years to do this right," he says. Next up: learning about options involving employee stock ownership plans. "I've got some employees who may want to be involved in ownership," he says.

Meanwhile, he's leaning on the same advisors who guided his company during its aggressive growth years to help him think through exit and succession planning. "One mistake that I see people making a lot is that they try to do this stuff on their own," Sorensen says. "It's really important to surround yourself with the right team" -- which, in his case, includes a banker, an insurance representative, an accountant and an attorney, among others. "These issues are complicated, and there are so many things that are connected. Every decision you make has an impact. You choose a path and find that the tax implications are terrible for that route. You choose another path, and you find out the legal implications are overwhelming. It's a not just a big deal. It's a huge deal."

But Sorensen adds that no matter which path he eventually selects, he'll keep the stakeholders -- his family, his employees and his customers -- in the loop throughout the process: "Whatever I do, I'll keep everybody well-informed so that there are no surprises," he says.

While he's trying to shape his own company's future, Sorensen notes that many partner executives in the HTG peer network regularly discuss similar issues -- even if they're years away from leaving their businesses. "We have them do life and legacy plans that look at succession planning and exit strategies. That's a constant thing that's kept in front of them; they update it once a year," he says. "There's a lot of discussion about it at every meeting: How do you do an acquisition or a merger? What steps do you need to take? What about disaster recovery? Retirement? Estate planning? They're planning for the future in eight to 10 categories that we ask them to think about constantly."

Family Affair?

Conamex International Software Corp., a Gold Certified consulting and IT solutions company based in Montreal, Quebec, Canada, is heading into its 25th year in business. But co-founder and Vice President Elisabeth Vanderveldt isn't thinking about getting out anytime soon. "I'm a masochist. I'm in it in for the long run," Vanderveldt, 49, says with a laugh. But she acknowledges that she and husband Robert L'Esperance -- the company's other co-founder and its chief technologist -- will have to consider the question eventually.

No matter what route they take, Conamex's co-founders want to make sure that their well-established business lands in the right hands. "You want to turn it over to people who are respectful and will maintain the relationships you've built with your clients," Vanderveldt says. "You don't just want to hand it over and see everything you've worked on for 25 years ruined."

Their biggest concern: A dearth of younger people with the right combination of technical expertise, business acumen and burning desire to jump in and take over a busy IT company. "We don't see an influx of knowledgeable people to take over this business in the way that we'd normally think of it," says Vanderveldt. "The IT industry is supposed be one of the largest producers of employees going forward, but I'd like to see where all the people are going to be coming from. We can't find enough people now to handle all the work we get."

She's particularly concerned about recruiting and retaining younger women for IT careers. To that end, she has been active in the Women in Leadership & Technology network, an offshoot of the International Association of Microsoft Certified Partners (see "Channeling Power," February 2009). In a forthcoming project, she plans to launch Gen Inc., a video-oriented Web site designed to get young and teenage girls interested in technology.

Meanwhile, Vanderveldt entertains the possibility that one or more of her own three children, now aged 17 to 21, might want to take over the business someday. Two have an affinity for IT; one even has two IT certifications. "But that's five years or more out," she says of a potential succession. "We've told them, 'If you have absolutely no interest in this, feel no pressure whatsoever.'" Strong, sincere interest -- really, that burning desire -- is a critical element for anyone on the receiving end of a succession plan, she adds: "It's what makes the difference between an exit strategy that's successful and one that's simply not going to work."

Meanwhile, Vanderveldt sums up her current approach this way: "Keep building up the business now, and decide the best way to exit when the time comes."

Channel Implications

Meanwhile, the channel itself is feeling the impact of many of the same factors that are influencing its boomer leaders to re-examine their own personal and business blueprints. "The channel is still looking for direction," Diamond says. "But the channel is still needed. Even with the Internet, even with [Software as a Service], there's a role for the channel going forward."

What's changing, he says, are purchasing patterns. Diamond recently spoke at the Massachusetts High Technology Council conference on innovation, where he participated in a one-to-one mentoring session with a young entrepreneur who had developed an application that Diamond considered a "nice-to-have" option. "I told him that people aren't going to buy nice-to-haves right now -- they're only buying things that address their pain points and that have very clear ROI," he says.

The businesses most likely to survive the transition to a new generation are those that target these two goals. "What's not happening now -- and what's not going to be happening for a long time -- is this vague approach of 'Trust us, if you buy this solution, your company is going to run better or have improved productivity or communications,'" Diamond says. "You won't get people to sign purchase orders or cut checks that way. They want to know that something will specifically increase productivity or reduce head counts. Things with soft returns are very hard to sell right now."

The antidote, he says: "We need creative sales models." For example? "We're starting to see a model in which people are saying, 'We passionately believe that our solution will save you money. We will install it at no upfront cost to you -- but we'll take a chunk of the savings.' There are new ways of getting technology into a company if you believe the ROI is there." Partner companies that succeed in adapting are those most likely to make the transition to the post-recession economy -- and to their own next generation.

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