TODD SCHURZ: WE'RE ALL IN THIS TOGETHER…WHATEVER 'THIS' IS

It's extremely rare for a fifth-generation family business to still be in the same industry they started out in. They have to pivot, but as they pivot, how do they make sure none of the family members get left behind? Todd Shurz of Schurz Communications describes his family's successful transition to a new industry.

Todd Schurz:
I've been with the company 30 years; advertising was 70% of our revenue 30 years ago, this year will be 2%. At our peak of our employment, we had 2,400 plus employees and now we have 425.

I'm a member of the fifth generation of ownership. We are the first generation that has owners who are not employed by the company, as well as owners who don't live in the communities where the company has operations. And so, one of the questions we were grappling with is, how does one engage as an owner if you're doing it in a different way? And what does it mean to be a responsible owner?

Esther Choy:
How does one engage as an owner? And what does it mean to be a responsible owner? And what if you're struggling as the owner of the enterprise that has been in the family for three or more generations? What would be the right thing to do?

Hi! I am Esther Choy, the executive producer and your host of Kellogg's Center for Family Enterprises' own podcast series: Family IN Business. A podcast that features stories of leaders, their families, and the family enterprises they transformed.

In this episode of Family IN Business, we're blessed with a story of how Todd Schurz led his family enterprise through a major transition? Who's Todd?

Todd Schurz:
I'm Todd Schurz. I'm the president and CEO, Schurz communications.

We began in 1872 as a newspaper, moved into radio when that industry began, and moved into television when that industry began. Everything was in South Bend, Indiana for the first 88 years of the company's history, and then started moving into other communities, moved into cable in the early 1960s, very much an advertising-based business. I've been with the company 30 years; advertising was 70% of our revenue 30 years ago, this year will be 2%. So, we have moved very much from an advertising-based focused business. We exited broadcasting in 2016, and we exited publishing in 2019. And so, we are out of traditional media altogether, but we felt like where those industries were going and our size and our risk tolerance, it didn't make sense to stay there, it was time to go elsewhere.

Esther Choy:
It’s time to go elsewhere. Todd would summarize the essence of the big move this way, that they’ve exited industries with very strong headwinds and entered instead into industries with strong tailwinds. That sounds very, very straightforward and obvious now, after everything is said and done. But if you were in their shoes at the time, contemplating even the question of whether you should exit the industries that your ancestors built might feel – to some – sacrilegious. And how do you figure the right answer as the fifth-generation ownership group?

Jennifer Pendergast:
So, if you look at the history of multi-generational family enterprises, it's extremely rare that the business they're in today is the one they started out in. So, evolution is not only common, but almost a precondition for survival.

Esther Choy:
That’s Dr. Jennifer Pendergast, the executive director of Kellogg Center for Family Enterprises

Jennifer Pendergast:
It takes a very strategic leader who is widely accepted, trusted by the shareholder group that this person's got it. They have a plan.

Esther Choy
So, what kind of plan did Todd have? Before we get too far ahead of ourselves, let’s set the context. For example, what were some of the major shifts that had nudged Schurz Communications towards this big move?

There were four. Number one.

Todd Schurz:
I'm the fifth generation; there are eight in our generation. We are the first generation that has owners who are not employed by the company, as well as owners who don't live in the communities where the company has operations. And so, one of the questions we were grappling with is, how does one engage as an owner if you're doing it in a different way? And what does it mean to be a responsible owner? And that was a couple of years of conversations.

Esther Choy:
Todd’s personal definition of ownership is not just whose name is on the stock certificate. Instead, he thinks of ownership as – who -- is going to take responsibility. We’re going to do a deep dive into this definition more in just a moment. But first let’s find out the other three major shifts that had brought about the ultimate pivot for Schurz Communications.

Here's major shift number two.

Todd Schurz:
We added two independent directors in 2009, we added a third in 2010. And so, this change in governance is really a key. Another key part of this was the recession that we went through in 2008, 2009.

Esther Choy:
Ah… the Great Recession. That would be number three.

Todd Schurz:
The first quarter of 2009, advertising revenues were down 20 to 30% in every single one of our segments from the same quarter of the previous year. And so, we thought we were diversified and we were in a way, but still when advertising is such a big portion of your business, we were clearly not as diversified as we thought we were. And that began some discussions on the ownership side about, what do we want to be and what are our goals? And it was around growth and diversification because our industry started to get risky and you could see that happening.

Esther Choy:
The fourth and last major shift is also something that's quite out of any one individual's control. Because there were already…

Todd Schurz:
…some fairly seismic changes in terms of significant M&A activity, and parties in the industry whom you saw traditionally as partners and it became far more confrontational, and the need to gain scale to gain leverage in negotiations was driving a significant portion of the activity. Part of that was the public companies, probably that was the private equity, but it was all of the above.

Esther Choy:
So, four major shifts: One, changing profile of family owners working versus not working for the company. Two, Schurz Communications' board evolving to have outside independent board members. Three, the Great Recession. Four, aggressive industry consolidation.

With these four shifts in mind, then how did they manage this major transformation process?

Todd Schurz:
We decided to exit broadcasting first because we really missed the window for publishing. We missed the peak of the market, but we're very committed to that and we were never going to sell at that point anyway. But we looked at broadcasting where evaluations were and where we thought they were going to go. We basically began the discussion at the board level and then

really had a dialogue between the board and the owners to make certain that everybody understood what we were talking about and the options.

We would do a conference call with all the owners and say, "this is what we're going to talk about, here are the issues, here's some information." Then we have a third party come in and do individual calls with the owners, get their comments, get their questions, and so they have a chance to know that they have a full voice. And then we came together as a larger group that was incorporated into a presentation, so everybody could see that they had been heard and they had been considered.

Jennifer Pendergast:
At the end of the day, the biggest challenge you're going to have if someone wants to totally redeploy is explain to me as a shareholder, if you're going to sell off all these assets, why I shouldn't just take my money myself personally and go do something with it

Esther Choy:
That's Jennifer again.

Jennifer Pendergast:
And if you see the big industrialists, the Vanderbilts and the Rockefellers and the JP Morgans and the Whitneys, what they did was they had a big liquidity event. They took their business public, they sold it to someone, and then the family had a whole bunch of money and usually they created a family office and then they started investing in other stuff. But they didn't take the money from a business and turn around and say, we're going to keep most of this money and go find another business to buy with it. So, what you have to fight against is the family's desire to say, you know what, it would be a whole lot easier not to be tethered to these 20 or 50 or a hundred or more people in a new business enterprise. I prefer to go my own way because as much as I love you, Esther, even if you're my family member, you may want to go off and invest in healthcare and I may want to go off and invest in IT services.

Esther Choy:
Well Jennifer, I'd love you too if you were my family member. But yes, the temptation to just take my share and move on could be high. But there's something unique about Todd Schurz's family. And that has to do with what family IN business means to his tribe.

Todd Schurz:
Family business refers to a business that's owned, it's privately held, it could be multi-generational by nature. A family in business, I think is actually the transition our family went through a few years ago, and it really had to do with a question, "are there any sacred cows?" One of our independent directors said, "I need to know the answer to that question." We went to the ownership crew. I have a cousin who I thought gave a wonderful answer and he says, "there are no individual assets that are sacred cows, but the sacred cow is that we do something together."

Esther Choy:
The ownership group wasn't attached to any particular asset as they were to each other. That is certainly a critical, if not heart-warming, revelation. But that doesn't solve the problem. In fact, the next set of questions has now begun.

Todd Schurz:
When we started talking about growth and diversification, the ownership group said, "we're willing to look outside of media." And let's say that was eight years ago. The problem is when you say, "I'm now willing to look outside of my traditional industry," literally opens up the rest of the universe. So, one has to then stop and think about, what does that mean. And we were fortunate enough to be in industries where we knew other multi-generational families. So, I went to Cox Enterprises, I went to Hearst, I went to Scripps, I went to the Washington Post, who had all begun similarly, clearly much larger than our company. And I could see where they were at that time.

And I basically sat with their senior executives and said, "I have one question. I know where you began and I know where you are today. How did you get there? And what was your process?" And that usually led to an hour to two-hour conversation. We did that with Evening Post in Charleston, South Carolina; we did it with two or three others on the phone. And so that was a beginning of, "what is the process and how might we think of this?" When we exited the broadcasting industry, we engaged a boutique investment banking firm and went through an RFP process and when we engaged somebody, we ended up working with them for three years.

And the first nine months, we ended up writing a two-page document that was, "here are the characteristics of the industry we want to enter and the business we want to buy." And in the middle of that too, we started looking at industries next door, some not next door, but looking at different characteristics. And generally, that was the senior management team of the business, and we narrowed, I'd say a field of 12 down to six. And then we did something that was fairly simple but was very helpful because the issue we had is we had all these ideas and everybody said, "oh, that's interesting." And then another idea, "oh, that's interesting." Whenever an idea is interesting, there's a group of us that has to go take a look at the idea.

Esther Choy:
What were some of the industries that made it to their short list?

Todd Schurz:
Well, cloud communications, where we went into, is clearly part of it. Number two that we ended up liking a lot was human capital management. We were looking at some area within diversified industrials. Those are the three that emerged through the process. There were others. But what we ended up doing is we did a poll of our acquisition committee, of our senior management, of our board and of the 20 somethings and our next generation. And we said, "here are the six that we think might be of interest, you need to vote and you need to do a first place vote, a second place vote and a third place vote." Because we needed to start getting our hands around this thing.

And it turned out, cloud communications won the vote of every single one of those different groups. And so, I was like, "okay, let's clearly start looking here first." We had someone advise us. They said, "it'll take you 18 months to two years to do a deal in a new industry, and they were absolutely right. So that was how we got to where we are now. And I think the other key choice we made is, cloud communications is not far away from broadband, and because we had done some distributions to owners outside the company, so they could diversify outside the business, we felt that it was okay to be next door and adjacent within the business.

Esther Choy:
Based on his experience in leading this major transformation, what factors has Todd realized to be most important when evaluating new industries or acquisitions?

Well, they knew after about nine months, they'd start to look at deals in the cloud. In the first deal or two they looked at data center assets. And they quickly realized that part of the business, or the industry, the ownership is primarily real estate investment trusts. One thing that the family knew was that they didn't want to be part of an industry where the legal structure put the entity in a competitive disadvantage.

Currently there are already giants in this space. AWS and Azure. Google Cloud. And then you have the REITs in this part. They were asset heavy people. So, the Schurz Communications Group started looking at the other part of the cloud industry, which is people heavy, lighter on the assets, and that fit them.

Todd's insight for those contemplating going into a new industry is that you have to find management teams. For the company you're buying, either they want to stay or you want them to stay. You have to have a team. Because if it's new to you, you may not know what you're doing. At that point you can get into a lot of trouble.

Todd Schurz:
Our company today is, we have five broadband companies. And then we're also in the managed cloud services business. We entered that industry a little over two years ago. So that is who we are today. We are primarily a monthly recurring revenue model, high speed data services and residential. Commercial is our number one revenue source and storage and the sophisticated services around that, security, compliance, things of that nature, is our second largest revenue source. That's who we are today.

Esther Choy:
Even though they wanted to stay together and go into business as a family, there is still the complication of risk. Everyone's risk tolerance can be different. So how did Schurz Communications handle that question?

Here's Jennifer's take on it.

Jennifer Pendergast:
And so, it was both, yes, the visionary and aspirational piece, but also the very practical. How do I look at this from the viewpoint of what it feels like to be a shareholder in this situation and make sure that I'm doing something that is fair.

Todd Schurz:
And I would also say for us, we like to think of it as that the business has certainly been a blessing to the family and we want the family business to be a blessing to the employees and the customers. We also talk about, "okay, how were we as owners, a blessing to the business and the stakeholders?"

What do we want to be and what are our goals?

Esther Choy:
These questions remind me of our very first guest, Robert Pasin, and his family enterprise's story during a pivotal moment of change.

Robert Pasin:
When I came into the business 25 plus years ago, the company was really at a crossroads. Consumer preferences had changed, and steel wagons were on the decline, and plastic wagons came out from our competitors. We didn't know how to make plastic wagons. It was kind of an existentialist threat to our company, and we had to ask a lot of questions, like "What is Radio Flyer? Are we a manufacturer, or are we a product-development company, or are we a brand? And what can we be the best in the world at?"

Esther Choy:
What can we be best in the world at? What are our goals? What do we want to be? These questions seem to be ones that families and owners ask themselves a lot, especially during times of transformation. Which is why having a clear sense of purpose is all that more important. We saw it in Radio Flyer's story. We're seeing it in Schurz Communications' story. We've seen it in countless family enterprises.

Here, Jennifer shares another example.

Jennifer Pendergast:
A friend of the Kellogg Center for Family Enterprises and a great Kellogg alum was sharing a story with us of her family selling off the vast majority of their assets, very similar to Todd. We asked the question of her in front of a large audience, was that decision hard, to tell the family to keep their money together? And she said, no, that was the easy decision. We see ourselves as operators of businesses, that's who we are. That's what we like to do, that's what holds us together. When my grandfather started this business, he saw operating companies as a way to give back because it provided jobs for people. So, there was no question that if we were going to sell this off, that we were still going to do something together. We've heard this from other people as well. We're good employers. I think the other element that's so important if

someone's going to make a big pivot, is that they have to have a really clear sense of their purpose.

People will often say about families that are successful when they sell their business, they spend a whole lot more time thinking upfront about what it's going to be like after that sale than they do about the sale itself.

Esther Choy:
As if the sale of the enterprise itself isn’t complex, challenging and time-consuming enough, it’s actually AFTER the sale of the enterprise that requires just as much, if not more, upfront thinking. And this upfront thinking will need a really clear sense of purpose in order to guide the process through all the way.

The former CEO and current chairman of Walt Disney Co., Bob Iger, has this to say about facing disruption in his MasterClass. He said, “I think the best way to embrace disruption is to admit that it IS happening.”

Todd Schurz actually offers very a similar advice to other family enterprises facing major similar situations.

Todd Schurz:
I think the first thing you need to do is to be honest about the situation. It's important to face facts, what's going on in the industry and what's going on in the business. An industry can be doing great and the business is struggling, that's one set of challenges. But if the business is struggling in the industry is going through a cataclysmic change, then I think it's important to step back and say, "what is that we're trying to do here?" Craig Aaron, from the Family Business Consulting Group, did a lot of work with our family and he talked about a family he did consulting with, where they would do the meetings of the family at the cemetery up on a hill, where a number of the ancestors were buried.

And so when they would have discussions affecting the business and the family, they would talk about the voices on the hill, and they'd talk about the ancestors, and Craig used that story and said, "let me ask you, as you make decisions, who do you think about most, the voices on the hill or the next generation?" And so we went around as a group discussion and I went last because I was CEO of the company and I said, "I love my father's generation and my grandfather and everything that everyone did, but if you're asking me to make a decision that if I think in whose interests I'll do it," I said, "I will do it for my children and their children's generations, every single time."

My two uncles who still are both alive turned to me and said, "If you'd answered any other way, we would have been ashamed of you." And so, I think it's the facing the facts under where you are, and are you still the best owner of those assets? And then if you decide you're not, how do you do it in a way that's congruent with your values and actually brings people together in terms of the ownership group instead of tearing them apart?

Esther Choy:
Thank you for tuning into Family IN Business, a podcast sponsored by the Kellogg Center for Family Enterprises. Thank you again, Todd Schurz, president and CEO of Schurz Communications.

By the way, if you enjoy listening to Todd's stories and the take-aways, you won't want to miss out on an amazing range of opportunities to learn from our world class faculty and leading researchers on family owned enterprises. Check out our full suite of executive education programs at FAMILYENTERPRISES.NET

That's FAMILYENTERPRISES.NET

That wraps up our episode this month. Our show is supported and advised by Dr. Jennifer Pendergast, Kane Power is our audio engineer. And, I'm Esther Choy, the executive producer, your host, and author of the book *Let the Story Do the Work.*

Thank you for listening, and let's meet again at the next episode of Family IN Business!

Esther Choy is the President and Chief Story Facilitator at Leadership Story Lab, where she teaches storytelling to institutional and individual clients who are searching for more meaningful ways to connect with their audiences. Leaders, in turn, use their stories to communicate authentically, inspire others and create lasting impact that they previously considered out of reach. Since 2010, Esther has combined the science of persuasion and the art of storytelling to help her clients gain a competitive edge.

Since launching Leadership Story Lab, Esther and her team have served clients such as Allstate, BP, Eli Lilly, Northwestern Memorial Hospital, the Chicago Mercantile Exchange Group, Roosevelt University, Brookfield Investment Management, US Cellular, Kraft, SC Johnson, Roosevelt University and the Robert R. McCormick Foundation.

Esther is the author of the book *Let the Story Do the Work: The Art of Storytelling for Business Success* and her work can be seen regularly on forbes.com, virgin.com, entrepreneur.com and ama.org.

An alumna of Kellogg School of Management at Northwestern University as well as Texas A&M, Esther holds both an MBA and an MS in Higher Education. She is a lecturer with Northwestern Kellogg School of Management and the University of Zurich, and was recently a keynote speaker for United Airlines. She spent nearly half of her life in Hong Kong, the other half in the US, and has relatives on three continents. She lives in Chicago with her husband and two daughters.

Established in 1999, the John L. Ward Center for Family Enterprises (CFE) pioneered much of what is known about the collective challenges family businesses and their leaders and owners face, making CFE synonymous with new ways of thinking about the ownership and leadership of family enterprises. Professor John Ward, along with founder Lloyd Shefsky and numerous faculty and staff aligned with CFE, developed CFE into a world-class teaching and research center that provides cutting-edge thinking and guidance for family business purpose, vision and strategy, governance, leadership, succession, entrepreneurship in family business, family engagement and cohesion and family business culture.

CFE has built a collaborative family business "community" among Kellogg students, faculty, alumni and family business scholars, and has developed a global network of successful business families who can learn from - and connect with - each other to generate innovative solutions to current and emerging challenges faced by family enterprises. CFE also creates unparalleled executive programs and conferences to drive strategic conversations about innovations and best practices in the field of family enterprise.

Renamed the John L. Ward Center for Family Enterprises in 2020, CFE today is in a unique position to transform the decision-making and strategic thinking of future generations of family enterprise leaders. CFE is dedicated to producing rigorous and relevant research into the unique demands, strengths and evolutionary paths of family enterprises. Results of this research are delivered in the classrooms to all ages of family business leaders.

In addition to our focus on the complexities of family enterprise leadership, governance and strategy, we integrate Northwestern University's and the Kellogg School of Management's authoritative expertise into our curriculum to create a world-class, comprehensive, cross-discipline family enterprise resource. Our fusion of this deep academic capability with knowledge gleaned from our global community of high-impact business-owning families helps create CFE's unique theory-driven, evidence-based frameworks.

CFE has a three-pronged approach:

- Providing MBA curriculum and programming for students who are part of a family business, as well as students interested in the fields of private equity and venture capital;
- Offering executive education courses such as "Leading Family Enterprises," "Governing Family Enterprises," and "Family Enterprise Boards: A Program for Current and Prospective Directors";
- Conducting groundbreaking research to better understand the challenges facing business families.