

5 Myths That Can Ruin Your Business Transition

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Did you know that about 50 percent of all business transitions either fail to get off the ground completely, or if they do, cause significant emotional or financial distress? There are even cases where severe seller's remorse has led to post-transition lawsuits. Imagine how that impacts clients.

We've been involved in many business transitions and have found, through our work as transition coaches and consultants to both business buyers and sellers, that there are some common beliefs—which we see as dangerous myths—that can cause problems for both the buyer and seller.

Here is our top-five list of business transition myths:

1. I don't need to think about it now.

Selling a company isn't a big deal and my accountant and lawyer are all I really need to make it happen. It's all about the numbers, isn't it?

2. Don't worry about what comes next.

Getting out of running my company will give me time to play all the golf I want, or maybe take that RV trip across the country. Who needs work?

3. My clients will be OK. My clients have been with me for years and they love me. When I tell them I'm leaving, they'll understand.

4. The business will run fine without me. I'm not worried about risk in the promissory note or earn-outs that will pay me three quarters of what's coming to me from the sale, because this is a great business and it will always run just fine. After all, I built it to be successful.

5. I won't need any help. I'll worry about all this stuff when I decide to sell. My

business doesn't need any big improvements or fine-tuning to earn a top-dollar price tag.

Here's our take on why these make the top-five list and have the potential to turn your business transition into a disaster at worst, or at best, a less-than-optimal experience.

I Don't Need to Think About It Now

The financial services business is filled with left-brained people. That's why we're good with numbers, complex financial analysis and integrating multifactor financial and estate planning circumstances into future projections for our clients. But for most financial planning small business owners, selling the business happens only once, and there is no instruction manual. So owners make up the rules as they go, and the results can be disastrous. A business transition can too often be a trip into the "Twilight Zone" of right-brained human dynamics.



The business may be the most valuable asset they own, and yet owners generally are in the dark about what metrics affect open market valuations, and more critically, what they can do to change those metrics and perhaps increase the sales price by as much as 100 percent before they sell. Time is required to effect these changes and procrastination is your enemy.

Perhaps even more importantly, owners often ignore the powerful human dynamics that get generated, such as their loss of identity and life purpose, or what to do when basic emotions such as greed and fear kick in, and how to deal with the grieving and loss of professional relationships and community. Too many financial planners automatically say, “No, that airy-fairy ‘la-la’ stuff doesn’t apply to me.” Wrong—as a human being, it does.

Don’t Worry About What Comes Next

How do you turn off your “entrepreneur” switch? Starting and building a small business takes creativity, boldness and drive. It’s what has made you successful, and in many ways, it defines who you are. How do you replace that with a par 4 or another Big Mac on the road?

As transition coaches, we know that having something meaningful in your new life, calling you forward, works much better than hanging onto the past and showing up at your old office to read trade magazines and chat with the staff all day.

Find out who you will be after the transition and honor the magnificence of your future; don’t just hang onto the past because you don’t know what else to do with your life.

My Clients Will Be OK

Are you willing to gamble three-quarters of your buyout money that your clients will be OK with the transition? That’s roughly the degree that your business value is tied to

CONTINUED ON PAGE 12

Wait! That’s Not What I Wanted to Happen With My Business!

Here’s an example of one ownership transition that went terribly wrong.

Five years ago, Carol joined with her long-time friend, Katie, as an equal owner in New Vista Financial Services, a financial planning business Katie started 10 years ago. Carol had a nice client following and a strong reputation, both locally and as part of the national leadership of her industry. However, the relationship started to sour in the past few years as tensions appeared, some caused by business pressure, but most brought on by a lack of clear understanding as to what roles each expected the other to play.

Carol hated client maintenance, trading activities, office management and back-office work. Katie knew this and starting off, saw Carol as the rainmaker. Unfortunately, it hadn’t been raining much for Carol for the past few years as personal problems consumed her time and energy.

Carol and Katie didn’t have an operating agreement that spelled out what would happen if either owner died, became disabled, retired or wanted to leave. Neither did it spell out how they would deal with relationship problems. It soon became apparent to Carol that Katie’s personality and communication style rubbed her the wrong way. The business suffered, tempers rose, resentments simmered and anger grew between the former friends.

What Happened?

Katie called Carol into her office one day, and out of the blue, handed her a buy-out offer that her lawyer had prepared. Katie said that getting an independent valuation of business was unnecessary, cost too much and her offer was based on the industry standard of two times last year’s revenue. Carol was stunned, but she was going through some serious personal issues and didn’t have the will to fight Katie. Rather than react, she just signed the offer and took the down payment check. Later that week, Carol started to wonder, “What have I done? This feels like a lousy deal and I hate being used.” So she hired a lawyer and sued Katie. Unfortunately, the firm’s clients caught wind of the fight between the owners and started leaving. The business shrunk and the staff grew unhappy and worried.

Lessons Learned

- **Friendship isn’t enough.** Carol and Katie didn’t do the hard work beforehand of deciding who would do what in running their business. They didn’t find out each other’s communication styles and carefully work out likes and dislikes. They never assigned responsibilities or defined expectations, and they didn’t have a playbook worked out to talk about little issues before they got big.
- **Plan for your exit. Nothing lasts forever.** Life and people change. Carol and Katie learned the hard way that they should have set up and agreed on clearly defined rules and procedures for the divorce before they booked the honeymoon hotel. They should have designed how they would tackle partnership and staff relationship issues, agreed on exit trigger points and plans and under what circumstances they would get an independent business valuation.
- **Don’t wait to call for help until you’re in trouble.** A good business will plan for success; a great business will also plan for transitions and exits. Transition and disaster equity management planning is often seen as important but not urgent. But like buying life insurance or doing your estate plan, it is essential in protecting the value of your investment in the business. Put other people’s expertise to work for you and engage a transitions coach and consultant to help you always have your business ready to sell at top dollar.

CONTINUED FROM PAGE 11

retention of the client relationships you're selling—those good folks with whom you have worked so long and hard over the years to build a trusting relationship.

Put yourself in the client's skin and try to see how fragile that relationship really is if you leave or die; how much it's about a deep trust in you. How can you transfer that trust successfully?

It takes time and careful communications planning plus shifting and broadening client touch points in the company. It takes a multi-year client trust transfer plan to gradually shift your client's reliance and trust away from you and onto the company or your chosen successor. This means developing a phased client communications program, introducing new contact points and creating new bonds.

The Business Will Run Fine Without Me

Entrepreneurship is a rare and precious gift but not everyone has it. You do, and look at what you've built—a successful financial services business. However, if your payout is stretched out four, five or six years (perhaps even longer in a family transition) and the business generating the free cash flow to support your paycheck depends on continued vitality and vision, how do you replace *you*?

Will the buyer or successor have the necessary drive, vision and entrepreneurial spirit to keep the company vital after you leave?

Perhaps your response to this is to stay on in an advisory role until your payout is completed, just working a couple of days a week. This is generally not a great idea. Business history is replete with stories of how this situation usually creates confusion and disaster.

Trouble when the business creator turns management over to a successor is the stuff or lawsuits and legend. A gradual transition can work in a slowly transitioning family situation where ownership is being shifted from one generation to the next over a 10-, 15- or even 20-year

FPA RESOURCES

Access archives of recent Virtual Learning Center webinars (www.ShopFPA.org) on business ownership transition, including:

Building More Value: Internal Business Transitions

Presented by Andrea White, Sam Hull and David Grau Jr. Learn how selling to a partner or one or more employees is often perceived as the path of least resistance.

FPA members: \$35; nonmembers: \$45

Building More Value: Transitioning to a Family Member

Presented by Andrea White, Sam Hull and David Grau Sr.

Learn the key steps in the process to selling a business to a family member to help ensure a successful outcome.

FPA members: \$35; nonmembers: \$45

5 Things You Need to Know to Sell Your Practice Today

Presented by Andrea White, Sam Hull and David Grau Sr.

Learn clear action steps you can use in preparing for the sale of your business ownership.

FPA members: \$35; nonmembers: \$45

period. But in an internal or third-party transition with short payout periods, it can create resentment in your successor, confusion for staff and doubt with clients. Who's really in charge?

I Won't Need Any Help

In a financial services transition, you have a five-year window of opportunity before the transition date to bring your business valuation to a peak—to upgrade and polish the people, systems and factors that make your business more valuable in the marketplace.

Take advantage of this window and plan your exit plan as carefully as you do your growth plans. This is a use-it-or-lose-it situation. Working five times as hard in the last few months won't cut it.

You also need to bring yourself into the picture. This is a once-in-a-lifetime event for most business owners. You will be leaving something you love. How will that impact you, and how will you deal with those impacts?

We've found that the reason most business transitions get into trouble or fail has nothing to do with the dollars, tax structures or legal documents. It has to do with how an owner plans for and handles the

human dynamics that the transaction will generate. Just as you need a guide to successfully run the Class V rapids of the Colorado River or the West Branch of the Kennebec, it makes good sense to have your own guide for this experience as well.

In this article we have identified some common myths that surround a business transition, especially applicable in the numbers-oriented financial services industry. These are dangerous myths and should be recognized and planned for to avoid disaster. Luckily, recognizing them as myths and not as hard, immutable facts can give you the power to plan for and control your transition and reap the full measure of reward from all the inspiration and perspiration you've poured into your business. 🌐

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