

# Planning and Surviving a Business Transition

By Sam Hull, CFP®, RLP®



**A**fter 14 years of owning my own practice, I sold my company. It was a planned transition, and it was what I and the buyer wanted, but it was not without a lot of emotion and strife. I loved being a financial planner, but I became convinced I needed to let go of my business to be open to whatever my future held. Here's how I planned and survived the transition.

I earned my CFP license in 1995 and opened Northstar Financial Planning Inc. with an office in my home. I was a fee-only financial planner and my mother was my first client. I remained a sole practitioner for about eight years, but as

my client base expanded and I managed more investments, I needed to clone myself or add people.

One day in 2003 a letter arrived. It was from Robin Young, an experienced CFP professional with a fee-only firm in Boston. She was looking for an equity ownership position with an established firm in my area of New Hampshire. For the next five months we went through an intensive getting-to-know you phase, creating a vision of a newly revitalized

Northstar. In January 2004, we opened our new office with about 25 clients and \$22 million in assets under management (AUM).

## The Decision to Sell

In mid-2004, things changed. I was becoming open to a transition into whatever was next for me, and I told Robin that I would like to sell her my ownership share in Northstar in about four years. We rewrote our operating agreement and included the transition date of mid-2008.

In spring 2006 I experienced the emotional mine fields surrounding our scheduled business transition. I heard Robin

make the innocent remark, "My company will be ..." and I unexpectedly went flush with anger and left the room.

"Her company? It's my company," I thought. "I created Northstar, I built it, I brought her in as my partner!"

The next morning I told her about my meltdown and urged that we talk to a business coach. We agreed we would work with Courtney Pullen.

## Objectives and Accountabilities

Later that summer we had our first coaching session with Courtney, and we set up objectives and accountabilities in three major areas: practice management, life values and shared intentions.

Our practice management objectives were dedicated to building the value of our business, and over the next six months we made these major changes to the business:

- Revised our fee schedule to make our focus on life planning profitable
- Defined our ideal client and revised our marketing to reflect this profile
- Established practice procedures for client relations, investment management and office administration
- Became proficient in making our client relationship management (CRM) software the core of the business
- Streamlined our workflow by outsourcing everything that wasn't financial life planning
- Interviewed candidates for a new CFP position
- Developed a one-page business plan

that integrated our life values with our business vision

- Focused on building a strong referral network with key centers of influence

For the second area, life values, Robin and I each spent hours building a Life Purpose Statement (LPS) that encapsulated our individual life values. My LPS says I am:

- A respectful and loving husband
- A guide and model for my three sons and my grandchildren
- A teacher, guide and mentor
- An explorer of life's opportunities
- A student of history, people and places
- At peace with myself and what my presence on this earth has meant to those whose lives I have touched

For the third area, we developed a Shared Intentions Statement (SIS) to guide us during the transition. It states: "Sam and Robin have agreed that this Shared Intention Statement will be the foundation for their discussion and actions during the ownership transition period and in the years following the transition."

Seven short rules in our SIS saved our transition from crashing on many occasions. The golden rule in our SIS was very simple: "No discussion or action during, or outcome from, the ownership transition shall threaten the preservation of the friendship and respect for each other that Sam and Robin hold dear as the essential foundation of their relationship."

### Business Valuation and Emotions

To get an idea of the value of our company, we asked FP Transitions, our business valuation and transition consultant, to prepare a valuation report. At the time, Northstar was a 100 percent fee-only financial life planning and wealth management firm with about \$52 million in AUM and 45 very loyal clients.

FP Transitions prepared a report stating that, depending on the deal payout schedule and structure, our company had an open market value of about \$900,000.

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Some months later, I reviewed my personal financial plan and plugged in my buyout payouts. I started to think that it didn't seem like enough money for 14 years of hard work! Greedy feelings started to sneak into my mind.

The next morning I marched into Robin's office and started a speech all about what I wanted. I wanted a higher valuation multiplier, more payout money, more recognition in the payout calculations that I had brought in 15 percent more revenues than she had during the past four years, a faster payout, more down payment, etc.

Faced with my attack, Robin rightly reacted defensively. Voices rose, but just before we really got into trouble, Robin's phone rang and our conversation ended. As I walked out of her office, I thought, "That didn't work very well, did it?"

That evening I realized my thinking was not grounded in our Shared Intentions Statement. I asked myself, "Which is more important? The continuation of your relationship of mutual respect with Robin and what that will mean to our clients, or trying to squeeze out a few more bucks if I 'win'?"

It was time to dust off our SIS and look at the golden rule.

The next Monday morning I apologized

to Robin for forgetting our golden rule. She graciously agreed to hit the rewind button, and we erased the nasty little episode from the week before.

### Structuring the Deal

Late in 2007, our consultant at FP Transitions walked us through the deal structure process, explaining the impact of the various deal factors and how they impacted the valuation algorithm. He walked through the calculation of the three payout components: down payment, promissory note and workout, and explained how the elements of risk in the deal could be modified by adjusting the terms of the last two.

We discussed tax treatment of cash flow streams. To balance out the tax impact, I planned to set up a defined benefit plan to defer taxation on ordinary income. This squared nicely with Robin's desire to have as much of my payout as possible treated as a deductible Northstar expense.

We decided on a stock transfer target date of April 1, 2008 and settled on a three-year payout, a 7 percent interest rate for the secured promissory note and a one-year workout for my consulting services relating to client retention.

In February 2008, we finalized on one-third down payment; one-third promissory note (with some shared risk for market risk) and a one-third workout payment over 12 months that shared some client retention risk and reward.

I found it really rewarding that Robin and I had started our partnership five years earlier with a handshake, built a great business based on mutual trust and respect, and had lots of fun doing life-changing work for our clients. It was even more satisfying that upon finalizing the potentially messy details of the ownership transition, we were still great friends and our clients were pleased.

In March 2008, we went over the deal terms and documentation with our accountant and formalized the wording of the stock purchase agreement, promissory note and consulting agreement. We had balanced the risk of market failures with Robin's ability to pay the promissory note as well as allowing me some of the potential upside reward of revenue from my former clients varying significantly from the benchmark number as of April 1, 2008.

### Signing the Paperwork

I had still been feeling split emotions as the final day approached. On April 1st, 2008, as we sat down in front of the pile of legal documents, saboteur questions oozed into my mind:

- Did I really want to do this? I loved financial life planning and took continued joy from working with Robin and our great team.
- Northstar was going to continue to grow and thus my ownership value would grow with it—was I really willing to give up the upside? Robin had said she had similar doubts:
- Could she overcome staffing problems and other problems we knew were lurking ahead?
- Could she really replace my contributions to our success?
- Was this a good investment for her?
- Could she take on the additional busi-

ness responsibilities and still be true to her personal life values?

As we started to go over the share purchase document, we both hesitated, and with pens poised above the papers, Robin said, "Should I do this?"

I found myself in the interesting position of being a coach to my opposite party in a significant business transaction. Taking a deep breath, I looked her in the eyes and said, "Yes, Robin. It's the right thing for both of us." We signed the first document and moved through the stack in about 30 minutes.

### Grieving and Loss

In the weeks afterward, I was feeling drained of energy. I developed aches, and my jaw was tight. I was going through the classic symptoms of grieving and loss.

I went to the Northstar office three to four days a week, just to be there. My heart couldn't seem to let go, yet my mind was telling me to focus on the future, on my new life coaching career, on the upcoming family move to a new home in Maine, on my new world. Signs of stress were becoming more evident.

What was wrong with me?

I finally realized I was not giving space to the ending of something that had been really big in my life. I needed to honor the grieving process and let the past go. I had to hit the pause button. With that recognition, I said "no" to many things. I stopped "doing" and started just "being," with no idea where that would lead me. Finally, peace with my transition came to me.

### Moving On

A year after the transition, I continue to be involved in strategic planning for Northstar and work with Robin as her coach and mentor. My new career is growing and I know that life coaching is what I am meant to do. I smile, pleased at how my exit has gone so smoothly for my former clients at Northstar, and know they are in good hands.

I recently came across a line from a poem by Antonio Machado. It speaks to me now, as I think about my business transition and where I am going next on my life's journey: "Wayfarer, there is no road; the road is made by walking. Your footsteps are the road and nothing more." 🌍

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## Lessons Learned

Here are the important lessons I learned that may be useful if you are planning for, or are already in, a business transition.

1. It is much more than the numbers, valuations, forms and tax calculations. Most of the big problems arise out of the human dynamics involved.
2. Emotions can jump up and bite you when you least expect it. Selling (or buying) a financial planning business is a big deal! It messes around with what you do, who you think you are and what you believe you give to the world.
3. It's almost impossible to do this by yourself. Robin and I believe hiring our life coach was the best investment we made in our transition.
4. Find out who you really are. Listen to how others perceive you and see your gifts. Work on a Personal Values Statement; it is essential in testing potential transition partners for a good fit.
5. Once you have settled on your transitional partner, build a Statement of Shared Intentions. It will save you frustration, anguish and pain.
6. Pick a date and create a timeline. This makes the transition "real."