Anatomy of an Ownership Transition

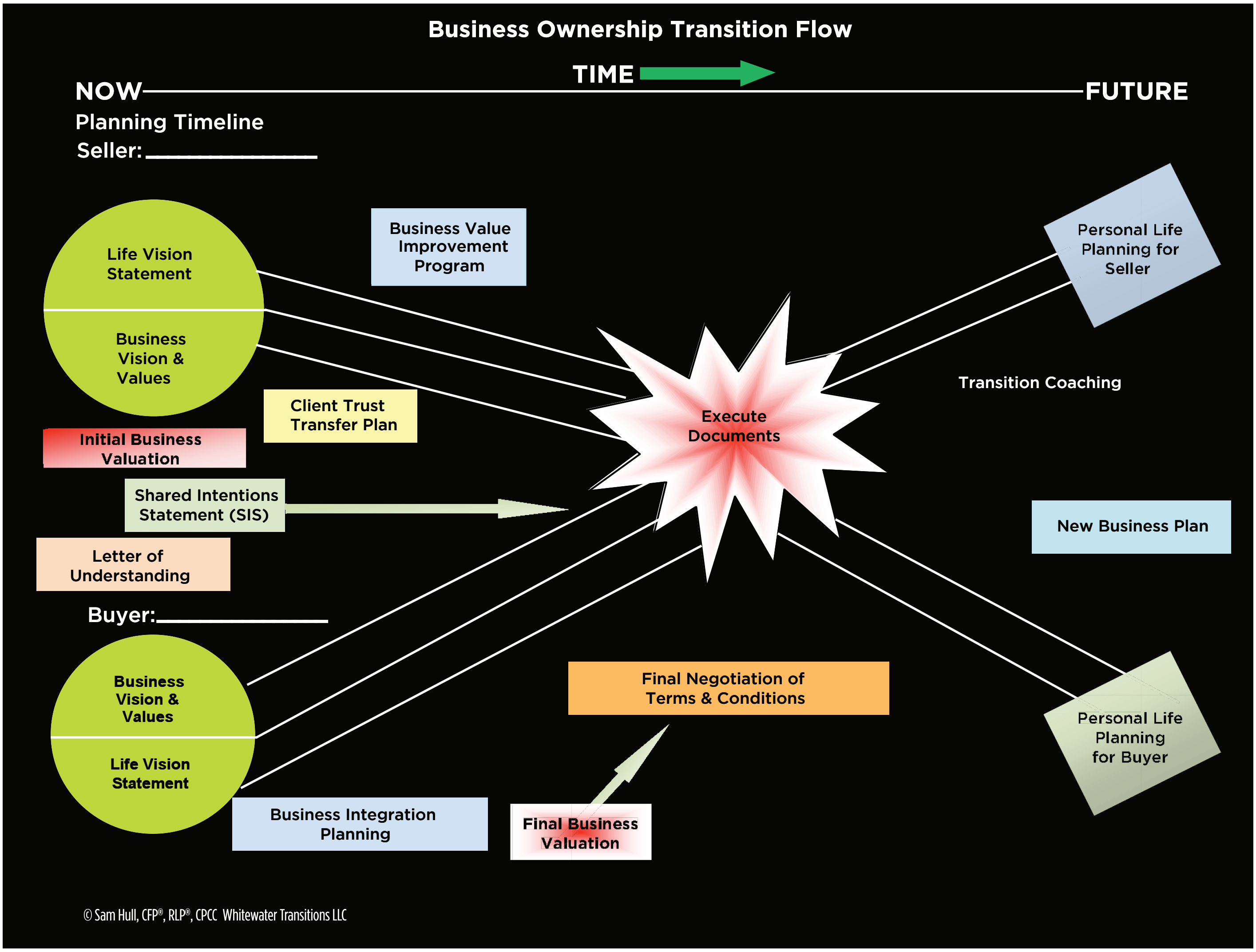
By Sam Hull, CFP®, RLP®, CPCC

Most financial advisers only sell or buy a business once in their lifetime, and to many the process seems shrouded in mystery. It did to me a few years ago when I got ready to sell my ownership of Northstar Financial Planning, and many other planners I meet now in my new career as a transition life coach and consultant ask me, "How do I get started and what should I do to make it work?"

The purpose of this article is to describe the critical steps you should take, starting from when you first think seriously about selling all or part of your ownership up to the day several years later when you sign the documents. This process is applicable to both the seller and buyer of a financial advisory business.

My article in the July/August 2009 issue of *Practice Management Solutions* discussed five myths that can ruin your business transition. To recap, these myths are: I don't need to think about it now; Don't worry about what comes next; My clients will be OK; The business will run fine without me; I won't need any help.

All of these myths will come sharply



into focus when you decide to move ahead with your ownership transition. As financial planners and wealth managers, we are used to living in a left-brained environment of numbers, logic, rules, forecasting and analysis. That's where most of us thrive and what our clients pay us to do for them. While the sale of your business involves a lot of analytical thinking, the process also has some twists and turns that you might not be expecting.

For instance, we can discount the value of the future cash flows to be generated by the sale of your primary asset—your clients—and arrive at an open market price. But how can we reduce the risk associated with the essential element that gives a high level of assurance to that forecasted cash stream—your clients' trust in you as their primary relationship manager and adviser? These days, when market-shocked clients often find it hard to trust anyone, this is important.

Other aspects of the transition flow are also hard to quantify and seem to be "outside the box" of how we usually think as financial advisers.

Transition Elements

Here's a bird's-eye view of what generally happens during a financial adviser business ownership transition. The key elements you should incorporate into planning for your business transition include:

Initial Business Valuation. Every business should have an independent valuation every three to five years. It is the starting point for measuring how your business plan is working and for improving the value of what is, for many advisers, their largest single financial asset.

Life Vision Statement. Your life vision is not so much the statement of a destination as it is a declaration of personal values. It is who and what you want to be in the world. It serves as a beacon calling you toward your best self, and it serves as a filter by which you know what to say "yes" and "no" to.

Business Vision and Values Statement. This is what you want your business to become within a planning time frame; what kind of clients it will serve, what services it will provide, what it will be known for doing especially well, what market niches it will service and how stakeholder values—owners, staff and clients—will be honored.

Letter of Understanding. Once you have identified a qualified buyer or seller, it is time to execute a letter of understanding, which temporarily removes the business from the marketplace and gives each party time and permission to conduct due diligence. It signifies an intention by both parties to conclude the deal within a specific time period, given satisfaction of certain terms and conditions. It is not binding, but there may be penalties for termination.

Shared Intentions Statement. The Shared Intentions Statement (SIS) is the foundation that will support the transition process. It functions in the same manner as an Investment Policy Statement in the asset management process. It sets ground rules and boundaries for how the parties will react when things change. It provides "bumper rails" when the process threatens to veer off course and perhaps crash the whole deal.

Business Value Improvement Program. Once you know from the initial valuation how the metrics of your business impact its valuation in the open market, take steps to improve the character and quality of your cash flow stream. Client demographics, account distribution, client concentration, business expense ratios, staff weakness and other business dynamics can be improved. Making the business stronger is of value to both the seller and buyer.

Client Trust Transfer Plan. It can take several years of carefully planned "touches," meetings and electronic interaction with your clients to make sure the trust they have in you will be effectively transferred to your successor. Since a percentage of your payout from the sale is dependent on high client retention, this is critical. Having a client trust transfer plan in place can also improve your final business valuation.

Business Integration Planning. This is the nuts-and-bolts work that has to be accomplished before the transfer of ownership, including CRM systems and history, account transfer papering, compliance and regulatory documentation, accounting and billing systems, bank accounts, etc.

Final Business Valuation. Do a final valuation of the business just before negotiating the deal components. This is where all the hard work done in the client trust transfer plan and business value improvement program will pay off for both parties.

Final Negotiation of Terms and Conditions. Both parties must consider their own position and conduct a risk/reward analysis of how changes in the overall market, business vitality and client population—downside and upside—will affect them. The final deal price and various legal and tax issues must be negotiated and then documented. This is where your SIS can pay off.

Execute Documents. The signing day should be a time for celebration, not remorse and doubts.

Transition Coaching. We have found that both parties can improve the likelihood of moving from that 50 percent industry fail rate bracket into a high certainty of success by hiring a coach to guide them through the minefield of the transition process.

New Business Plan. The buyer will need to significantly redefine the vision, mission, objectives, strategies and plans of the emerging company. Marketing, staffing, back-office support, influence relationships, technology and procedures—all will need to be revisited quickly.

Personal Life Planning. The lives of both the seller and buyer will be forever changed by the transition. This is the opportunity you have been waiting for—a chance to fully realize who and what you want to be in the world.

Sam Hull, CFP®, RLP®, CPCC, is a co-founder of Whitewater Transitions LLC, helping financial advisers navigate ownership transition issues. Contact him at sam@whitewatertransitions.com.