EXIT IS NOT A FOUR LETTER WORD

HOW TO TRANSITION YOUR PRACTICE PROFITABLY AND PROUDLY

By the Author of National Best Seller *Risk is a Four-Letter Word*

GEORGE HARTMAN

FOREWORD BY TOM DEANS, Ph.D. – AUTHOR, *EVERY FAMILY'S BUSINESS*

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How to Transition Your Advisory Practice — Proudly and Profitably

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At a personal level, my most heartfelt thanks go to my wife, Julie. Without her steadfast encouragement and extraordinary effort, this book would still be an ambition. I am truly blessed to have such a beautiful, loving cheerleader and best friend!

Finally, to my son, Jack, thank you so much for inspiring me with your soaring spirit, unconditional love, and never-ending curiosity. You have brought an unbelievable joy to my life. This book is dedicated to you.

Foreword

The impending succession crisis in the financial services industry is not without its own peculiar irony. How is it that the vast majority of aging advisors, who are skillfully guiding the financial fortunes of millions of aging clients, are themselves without succession plans?

A reasonable explanation is that experts have always struggled with seeking help, especially in their own area of expertise. In the same way that doctors often make terrible patients, advisors continue to have a hard time exiting their businesses and monetizing one of their largest assets to secure their own retirements. But every profession gives rise to the internal sector expert — the doctor's doctor, the lawyer's lawyer. This important book cements George Hartman's reputation as the advisor's advisor.

Coaching advisors on their succession plans is complex. Few do it well. This aspect of practice management is fraught with emotion, fear, anxiety and equivocation. It has always required one part finance and one part Freud. The perception remains that exit planning is a bit painful. The stories of wildly successful advisors who have achieved great financial success exiting their practices often go unreported because of the confidentiality clauses in their sales agreements. Failed exits, on the other hand, are reported frequently and discussed broadly in an industry whose chattering leads most to believe exit planning is, and always has been, a waste of time.

EXIT is NOT a Four-Letter Word will change that narrative. This book has the potential to change the financial fortunes of advisors who implement a refreshing new exit process, delivered here in an entertaining and informative style. The broader financial services industry will benefit from advisors who put an end to the chaos caused by practitioners who only know how to "grow", but not how to "go."

The exit planning process described in this book isn't just about unlocking more value at the end of a long, distinguished career; it's about building more valuable and intrinsically more rewarding practices today. Advisors who can articulate to their clients — especially business owner clients — their own struggles with succession planning present themselves as authentic and accessible. They possess a hard-earned wisdom that is almost always rewarded by clients who hand over their own sale proceeds to be invested.

This book is not a remix of old familiar ideas on a subject as old as business itself. This is a book of firsts. In much the same way that The E-Myth redefined what it means to be an entrepreneur and *Good to Great* changed our understanding of leadership, *EXIT is NOT a Four-Letter Word* will change the meaning of "exit." "Hope" is a four-letter word, as is "help." This extraordinary book offers both.

If you are an advisor who wants to exit in the next ten years, start now by purchasing a copy of this book. It will be one of the smartest financial decisions you make to protect your life's work.

If you are a supplier to financial advisors, buy this book by the truckload and support advisors where they need help the most. When succession planning goes well for an advisor — when they find their exit before the end finds them — it is you who will be rewarded for your wisdom and foresight. The alternative is to keep giving away golf balls and watching an industry help everyone but itself.

Tom Deans, Ph.D.
Author of *Every Family's Business* and *Willing Wisdom*

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"The Chinese use two brush strokes to write the word 'crisis.'
One brush stroke stands for danger; the other for opportunity.
In a crisis, be aware of the danger—but recognize the opportunity.
John F. Kennedy

Introduction

This book is the modest attempt by a concerned observer to alert the financial services industry to a looming crisis and to motivate the only people who can do anything about it to act. The crisis is the aging of financial advisors. The people with the solution are those same advisors. The action is succession planning.

We have all heard the warnings — the average age of advisors is mid-to-late fifties; half of the advisor population will reach retirement age within the next ten years; only one in ten advisors has a written succession plan; there are an insufficient number of new advisors to replace those who will die, become disabled, or retire.

Yet it is only in the past ten years that we have really even begun to acknowledge the issues. Up until then, financial advisory practices either faded away with their founders or had their clients scattered among other advisors who may or may not have wanted to accept them. That was not so great for an industry that staked its value proposition on helping people plan for and manage their future well-being.

Today, large, well-run, high-profile practices trade hands among like-minded advisors for millions of dollars. I am not worried about them. My concern is with the hundreds of thousands of advisors who have the majority of their personal wealth tied up in their small-to-medium sized practices. Moreover, they are counting on those businesses to fund their own retirement lifestyle.

Many will be tragically disappointed because they waited too long, planned too little, and assumed too much. But it doesn't have to be that way. The process of transitioning a financial advisory practice from one advisor to another is relatively straightforward and follows the same path advisors use to counsel clients — create a vision for the future, conduct a reality check on the situation today, and draw a map to take you from where you are to where you want to go.

So if the warnings about the need to act are there and the process is familiar, why do 90% of advisors not have a plan?

In Chapter 1, I talk about the "terrible toos" — I'm *too* young, it's *too* soon, it's *too* much work, I'm *too* important to my business. I hear these excuses all the time; however, I think the real reason for procrastination is that many advisors have come to believe that succession planning somehow signals the end of their career. In fact, it should be the beginning of the last and greatest phase of their business and the birth of their legacy.

I have been coaching financial advisors for more than 25 years, and they have taught me a lot. In addition to all the practice management insights, one of the most valuable lessons I have learned is that, given sound reasoning and a logical methodology, serious financial advisors will make a focused effort to change their habits and their businesses for the better.

So that is what this book attempts to do — provide the rationale and the routine to motivate you to prepare for the eventual transition of your business to the most qualified successor. The result will be continued service to clients who trust you, greater value to you for your life's work, and greater certainty about the industry's future.

Succession planning is not an event — it is a journey. To help us along the way, I have re-introduced Henry, the central character from my book *Blunder, Wonder, Thunder — Powering Your Practice to New Heights*. We first worked with Henry a number of years ago when his practice had reached a plateau. Having broken through that ceiling and built his business to an enviable position, we will now follow Henry through various coaching conversations with me as he writes and directs the final act in the story of his life's work.

Henry is not a real-life advisor; he is an amalgam of many with whom I have worked. However, all the conversations played out in this book have actually happened in coaching sessions with hundreds of advisors.

I will also readily admit that not all of the ideas expressed are original. I have been a "student of the business" for four decades and have assimilated many of the best ideas I have heard or read into my writings and presentations so often that I have come to think of them as my own. I offer my thanks, therefore, to the great minds who created this wisdom and apologize if I have borrowed it inappropriately or misinterpreted what was intended.

The truth of the matter is that you will leave your business someday. The question is, will you be in control of your exit, or will you allow fate and circumstance to dictate what happens to the business you have spent so much of your life building?

Come join Henry and me. I think you will enjoy the journey!

Wisdom begins in wonder."
Socrates

Chapter 1

Why plan?

"Well, Henry," I said, "that's it for another year — unless, of course, you are planning one of your Florida golf trips this winter."

Henry, a well-established and successful financial advisor, and I were sitting on the patio at the golf club where we were both members. It was the final day before the course shut down for the season, and the cold wind that buffeted the flagstick on the nearby 18^{th} green was testing our resolve to have one last outdoor post-round beer.

"Actually," Henry said, "I have a week scheduled in January to visit my older brother near Phoenix. He and his wife retired there about five years ago. They have a nice house right on a golf course, and the last time I was there, we played at least nine holes every day. It was great!"

"Sounds idyllic — do they enjoy living in Arizona?" I asked.

"Yes and no," he replied thoughtfully. "They certainly don't miss the northern winters, but are they enjoying retirement as much as they'd hoped? I don't think so. My brother built and ran a very successful plumbing supply business, which he sold to a couple of his employees when he retired. Because I manage his portfolio, I know how much he got from the sale. He doesn't have to worry financially; however, I'm not sure that he is as well-off emotionally. It's not that he is unhappy — but the spark that he used to have when he was working seems to be missing. Does that make sense?"

"It sure does," I responded. "It is not at all uncommon for entrepreneurs who sell their businesses to feel they have lost a big chunk of their lives. Whether it's losing contact with staff and customers, feeling unimportant because no one is looking to them for guidance or decision-making, or just plain missing "the action," leaving behind their life's work can take a heavy toll on some people. Sure, having money helps, but unless it is being spent on a lifestyle that provides as much satisfaction as the work did, there is often going to be a hole in one's psyche."

"Spoken like a true coach!" Henry mocked.

"Can't help that," I laughed. "I *am* a coach and I must be a pretty good one to have helped someone as ornery as you get your business to where it is today! My, my, how attitudes change! When you and I first started working together — what is it now, six years ago? — you were so respectful and polite. Now your practice is three times as large, you make five times as much money, and you are ten times as cocky! I'm not so sure I like what I've created!"

We both laughed. Just then, a huge gust of wind blew some of the same leaves that had hidden my ball in the fairway on #18 onto the patio and around our legs.

"It's time to go inside," I suggested. "Perhaps another beer?"

"I think we should have something to eat instead," Henry proposed. "Losing your ball on the last hole cost you the match, so I'll take my winnings in the form of dinner, if you don't mind?"

"No, I don't mind at all," I countered, "because I'm pretty sure I'm still well ahead overall this season! Besides, it will also give us a chance to have a bit of a serious discussion about the next phase in your career."

"And just what's that?" Henry demanded, suddenly turning a bit crusty.

"*Your* retirement," I replied with emphasis.

"Augh," Henry reacted snappishly, "there's nothing to talk about there. I have no plan to retire."

"That's exactly what we need to talk about then — your *lack* of a plan," I said as we headed for the door to the dining room.

The dining room was quiet with only a few other late-season stalwarts seated well away from us. The waiter rattled off the daily special and then left us with menus.

"I think you may have spoiled my appetite," Henry began sternly, "with talk about my retirement. I'm too young to even be thinking that way."

"Actually, Henry, I wasn't suggesting that you were ready to retire," I said, defending myself. "I said we needed to talk about you not having a plan for the day when you ultimately *do* decide to transition out of your business. How many of your clients around your age would you let get away with not having a retirement plan in place, even if they don't intend to actually quit work for years?"

"That's different," Henry replied. "That's my job — people come to me to help them take control of their finances and create a plan that will give them the best chance of meeting their objectives, regardless of their stage in life. If they happen to be at the age where retirement planning should be part of it, that's what we do."

"And at approximately what age do you encourage your clients to get serious about their retirement plan?" I probed.

"It's more about their intended retirement date than their age," he answered, "and the lifestyle they want in retirement. Some plans take longer to achieve clients' objectives than others. Ten, fifteen, even twenty years wouldn't be uncommon."

"And what do you think *I* do, Henry?" I asked.

"You help advisors gain control of their businesses so they can achieve…" Henry's voice trailed off as he quickly recognized the parallel.

"OK, OK," Henry reluctantly admitted, "I get what you're saying. However, my situation *is* different. I am not sure I will ever retire. I love what I do; I enjoy my clients; I can pretty much decide how hard I work; and I make a darn good living. Why would I want to retire?"

"Well, the truth is that you *will* leave your business one day," I countered. "The question is, will *you* be in control of how you exit? Or will fate and circumstance dictate what happens to the business that you have spent your life building?"

Just then, the waiter returned. We quickly looked at the menus, and he took our dinner orders.

Henry was quiet for a few minutes until he finally said, only half-jokingly, "You know I really don't like you as much when you state the obvious and it makes me look foolish."

"I'm not too concerned about that," I retorted with a chuckle. "Remember how you balked at some of the things I suggested the last time we did serious work together? We don't have to agree on everything. In fact, it's healthy if we thoughtfully challenge each other's thinking from time to time. The good news for you is that, at the end of the day, it's your life and you get to make choices about how you are going to live it.

"Nonetheless, as your long-time and, I assume, still-in-good-standing coach, my role is to help you analyze your business from time to time and bring important issues to your attention, along with ideas on how others in similar situations have dealt with them. In this instance, knowing what I know about you and your practice, it's time for us to create a written plan that puts you in control of your transition or exit from the business regardless of how or when that happens. I can't be any more straightforward. Does that make sense to you?"

Henry was still unenthusiastic. "I know a lot of advisors my age, and I don't hear many of them talking about their succession plans," he said.

"That doesn't surprise me at all," I responded. "Research shows that only about 10% of advisors actually have a written exit plan. I can also tell you that two out of every three of my coaching assignments these days involve some element of succession planning. It's one of the hottest topics in the industry."

"Why the sudden interest," Henry asked. "Coaches run out of things to talk about?"

I ignored his sarcasm. "It's a matter of simple demographics. Like the rest of us, many financial advisors are aging baby boomers who are finally starting to realize they are not immortal or that they want to have a life beyond their career."

"Humph!" Henry snorted again.

"Let me ask you, Henry, do you have a relatively recent will — a document that describes what will happen to your assets when you die?"

"Of course," he answered. "I wouldn't be much of an advisor if I didn't follow the same advice I give my clients about having an up-to-date will, would I?"

"I think you might be surprised to know how many advisors do *not* follow their own advice in this area," I suggested, "but let's not get into that. I assume, however, that you also have a 'living will' or Powers of Attorney that dictate how your personal assets and your life will be managed in the event you are not able to make decisions on your own?"

"Certainly!" said Henry, reacting as if I should not have even asked the question.

"Well," I continued, "a succession plan is like a will or power of attorney for your business, with one major difference. It also describes what will happen when *you* decide you want to make some major changes in your life.

"You've had your practice for a long time, right?" I asked.

"Just celebrated 25 years about six months ago," Henry replied, justifiably proud.

"That's wonderful," I congratulated him. "So you've spend a good part of your life building your business."

"It's hard to believe it's been 25 years," Henry said, "but it hasn't really felt like work. Sure there were tough times, but I've really enjoyed the ride."

"Good on you for seeing the big picture," I offered. "Now, you and I both know that practices such as yours are commanding big bucks today from people looking to buy solid books of business. You do not have to give me details of your personal financial position, but I am guessing that your practice is a significant part of your personal wealth. And that is possibly going to be important — either to augment your eventual retirement income or as a value to be passed on to your family."

"I haven't really thought much about it," Henry responded, not very convincingly.

"Of course you have!" I challenged him. "You've seen other advisors your age leave the business, and you have some idea of how much they got for their books. I am willing to bet you have also received offers yourself that, while you may have dismissed them at the time, got you thinking about the value you had built in your practice. Right?"

"I actually can't believe the numbers that are being thrown around," Henry admitted. "Knowing the quality of the books of business that were sold, if the dollars I am hearing about are even close to accurate, my practice has to be worth a lot more than I ever imagined it would be. Wasn't that one of the objectives of the work we did together anyway?"

"Nice of you to remember!" I joked. "But I also know from that experience that money isn't your primary motivator — you also care deeply about your clients."

"Without them, I don't have a business," Henry said. "Besides which, I like to think many of them are more than just clients — they're friends."

"I'm sure they feel the same way, Henry," I suggested. "So let me summarize, if I may. You have spent a lifetime building your business to the point where it is one of your most valuable financial assets, if not *the* most valuable. You expect it to help fund your retirement or your estate. On top of that, because of the deep personal relationships you have with your clients, you feel an obligation to ensure they always receive the best advice and service possible. Is that a fair summation?"

"Yes, it is," Henry reluctantly agreed, seeming to sense there was more to come.

"Then, Henry," I said more seriously, "I can't imagine why you wouldn't want to be in control of what happens to you and your business when you ultimately exit from it — voluntarily or otherwise. Why you would not want to decide who carries on your work with your clients. And, very important, what you want your legacy to be.

"When I was young in my career, working in a large financial institution, I was very fortunate to have a great personal mentor. Among the many nuggets of great advice he gave me is one that has always stood out for me. He said, "The true value of your work here won't really be known until two years after you're gone." Despite your many years in the industry, it is the state in which you leave things when you are no longer around that will ultimately determine how you are remembered.

"How do you want to be remembered, Henry?"

At that point, the waiter arrived with our meals, and our conversation fell to less serious matters as we ate.

By the time coffee and dessert came, I could tell by the distant look and increasingly long periods of silence that Henry was thinking about our discussion, so I took the opportunity to bring us back to the topic of his succession plan.

"You know, Henry," I began, "you're not the only advisor with whom I have had this type of conversation — about the need for them to think seriously about their exit strategy. Recall that nine out of ten advisors do not have a written plan in place. There are lots of reasons for that."

"Oh yeah," he replied, "What are their excuses? Maybe I can borrow one."

"Well, I believe one reason is that many advisors feel that having a succession plan somehow marks the beginning of the end of their careers. It's almost like the fear some people have of discussing life insurance or their wills — as if just thinking about it will hasten their death.

"The truth, however, is that succession isn't an event — it's a process. Very few advisors circle a date on the calendar and, at 5:00 PM on that day, hand in their keys to the office and are gone. Most succession plans anticipate a gradual *transition* rather than an abrupt *exit*. The unfortunate thing is that, for lots of people, succession has become synonymous with 'selling your business,' and the thought of that frightens most entrepreneurs, including financial advisors. Exit, in fact, has become a four-letter word for many."

"I don't think I'd use profanity to describe it," Henry protested. "I just haven't gotten around to planning for it. I'm too busy and, besides, as I said earlier, I'm too young to worry about retirement."

"Ah, the 'terrible toos,'" I jumped in. "I'm *too* busy; I'm *too* important; it's *too* soon; I'm *too* attached; it's *too* complicated; and the most common one I hear, to do what? I've heard all of these from advisors who have no idea how they'd spend their time without their business to go to every day.

"I know some advisors also fear their clients and support staff will react negatively if they learn the advisor they are counting on either for advice or employment is contemplating his or her own retirement. The truth on that one, however, is that they are likely already worried because they don't know what's going on inside the advisor's head. Both clients and staff would feel a lot less vulnerable if they knew there was a plan in place to ensure their ongoing financial security.

"Then there are those advisors who are considering one of their children as successor. They will postpone their planning out of concern about sibling rivalry — if one child is brought into the business and others are not.

"Wanting to avoid these types of conflicts can drive an advisor to put off their plan until it gets to crunch time for a decision and circumstances force their hand. Not a great way to deal with such an important issue, in my view."

"Ok, I'll concede that some advisors need to get to work on their transition plan, as you call it, sooner than others," Henry relented. "However, as you pointed out yourself, I've received a number of offers to buy my business — some of them quite attractive. I *do* appreciate that the work we did together put my practice on solid footing, made it easier to manage and grow, and definitely increased its value. But if I have other advisors knocking on my door all the time to buy my business, how much planning do I really have to do?"

"Well, thanks for acknowledging that we did some good!" I chuckled. "And you are absolutely correct — it's a seller's market these days, and there are lots of people around who'd buy a great practice like yours in a heartbeat. However, the big question is, would you sell your business to *just anybody*?

"I'm not even going to make you answer that because I know you wouldn't. You would want someone who you felt would extend the same level of care and service to your clients as you do. Ideally, they would share a passion for financial planning and use an investment approach similar to your own so clients' portfolios and insurance programs are not all 'undone' and re-jigged. You would want your team to be treated fairly and respected for the work they do. Recall what I said earlier too about your legacy. What would you look for in the person who is going to be the custodian of your legacy? Yes, there are lots of buyers out there — most of them, however, you wouldn't want to sell to."

"Even so," Henry continued stubbornly, "I am at least five years away from retiring — more likely ten. Do I really need to start a formal plan now?"

"In my experience," I answered, "the best transition plans evolve over a five- to ten-year period. There is much to be done. First and foremost, we will want to make the business more *saleable*. That might seem like an odd comment, given what a great practice you have today and the current bull market for books of business. The reality, however, is that your business is set up to work for you. You have systems and processes that you designed, technology that you put in place, and customized approaches that fit your philosophies and way of doing business. In other words, you have tailor-made your practice to work for you. But will your way work for everyone? Perhaps for many, but to the extent you can make your business adaptable to the needs of a potential buyer, the more attractive it will be. It can easily take a couple of years to put things in place to make your business more saleable and, hence, more valuable.

"Similarly, you'll want to make the business *scalable*. You have exceeded the size of business you aspired to when we undertook our last assignment. At that time, you didn't feel the need to build a practice to the sky, so to speak, because you wanted time for other things, like golf and travel. By my observation, you have more than accomplished what you set out to do."

"I do have it pretty good right now," Henry admitted.

"Yes, you do," I agreed. "However, you'll want to be able to demonstrate that, with the right management, your business can grow even bigger than what you've created. That means having marketing, sales, and service systems in place that can be leveraged for growth.

"I think I can handle all of that," Henry proclaimed, "and I don't think it will take years!"

"Perhaps not," I replied, "if that were all you had to do. However, you still have a business to run, and now, on top of the daily demands of that and these other tasks I have just described, you also have to find, negotiate with, and integrate the right successor.

"What do they look like? What skills and experience do they need? Where do you find them? How do you approach them? What kind of a deal do you want? Once identified, how do you integrate them? How do you introduce them to your clients so they are reassured and stick with the new advisor? What if, after a period of time, it turns out that your first choice in successor is just not a 'good fit' and you have to start over?

"Frankly, Henry, trying to do all this well in a couple of years can be daunting and seldom gets the best results. The process will begin to control you, rather than the other way around. Is that the kind of pressure you want when you have been so successful in reducing the stress of managing a vibrant business?"

Henry sat quietly thinking for a full minute until he said, "So what's involved?"

"Similar to last time, Henry. You know my mantra — *standardized process; customized solution*. I have a disciplined process that we will walk through to make sure we touch all the bases and consider all aspects of a successful transition. By the end of it, we will have a plan that describes the why, when, how, and who of your transition and puts you in control.

"The plan won't be chiselled in stone — you can change things as experience or new insights dictate. The important thing is that you will have a frame of reference for making decisions and a guide for you and others who will be part of the process to follow. Does that make sense to you?"

It took another minute or so until Henry finally said, "OK, I'm in. I assume your normal fee applies?"

"Actually, my fees have gone up since our last engagement — supply and demand, you know!" I laughed. "But don't worry; you get our 'preferred client pricing' because I like you so much! I will call you tomorrow when we both have our calendars in front of us, and we can plan our first formal session. In the meantime, it is both my personal and professional pleasure to buy you dinner!"

Another Illustrative Case in Point

The Long Goodbye

Bob had built a great business over a 20-year period. In fact, many industry insiders looked upon him as a ‘poster boy’ for how a practice should be run.

At the age of 55, Bob became very attracted to a new business opportunity in another part of the country. While he certainly enjoyed his work as an advisor and wasn’t looking for a change, he felt his practice pretty much ran on autopilot, and he was no longer motivated by the thought of doing the same thing for the next 20 years. The chance to “build something all over” was exciting and stimulated him.

After long deliberation and consultation with his family, Bob made the decision to sell his business while he was still young enough to pursue his new opportunity with the same energy he had employed in building his financial advisory practice.

He had a formal valuation of the business completed, which indicated that a $1.8 million price tag was not out of line. By Bob’s calculations, a down payment of $1 million with the balance paid over two years would provide the capital to both launch the new business and maintain his lifestyle through two to three years of start-up.

With that valuation in hand, Bob quietly let it be known in the industry that he was open to offers. Not surprisingly, the reaction was swift, with half a dozen suitors immediately expressing interest. After all, this was one of the industry’s most respected practices coming on the market.

However, what followed was typical:

- A number of the first suitors turned out to be “tire-kickers,” more interested in comparing their own businesses with Bob’s than actually buying.
- Most did not have the financial capacity to meet Bob’s price or terms.
- None matched the profile Bob had in his mind for his successor in terms of experience, philosophy, and approach to managing a practice.
- The due-diligence process was extremely frustrating, with multiple non-

disclosure agreements, exchanges of information, 'lock-up' periods and high-level discussions.

After more than nine months of distraction and effort, Bob was no closer to finding a successor. Shortly after, one of the industry's leading 'consolidator' firms contacted Bob. They were on an ambitious acquisition campaign and had heard of his interest in selling. Even though they never said so, they were obviously also aware that he had not been able to find a buyer to his liking. Over a very expensive dinner in a hard-to-get-into restaurant, they offered Bob an all-cash payment of $1.4 million if he would agree to sell within 90 days. Their plan was to merge Bob's office with another they had in the community.

At first, Bob thought the quick sale and upfront cash were attractive, even though the total price was less than he was seeking. Still, he worried about:

- Getting overall fair value for his life's work
- Having a secure income for the next two years
- How clients would be served under a new dealer firm and management
- Whether his staff would be retained and how they'd be treated
- How his "legacy" — the business he'd built — would be run

Bob rejected the offer, confident he could find a more suitable successor.

About six weeks later, while attending a conference, Bob was telling another advisor in his dealer firm about his efforts to find the right buyer for his practice. The other advisor immediately indicated that he had been looking to expand outside his community, which was less than an hour's drive from where Bob's practice was located. Perhaps they should talk more seriously. Bob had great respect for the other advisor, so he jumped at the chance, and a follow-up meeting was scheduled.

Two months later, Bob and his associate had completed their mutual due diligence, and a Letter of Intent was signed. The financial terms were in line with Bob's expectations; however, the agreement also called for Bob to stay on through a 12-month transition period. During that time, in addition to continuing to serve his clients, he was to assess the systems at the other office to determine if the same efficiencies Bob's office enjoyed could be replicated. There would also be a formal plan to announce Bob's retirement to his clients and staff and to transition ownership, management, and client relationships to the new owner.

The transaction was formalized in an Agreement of Purchase and Sale, which took each party's independent legal counsel about a month to put together. Similarly, since the purchaser was partly using borrowed funds to meet the down payment requirements, his lending institution required several weeks to complete their underwriting of his loan.

By the time the Agreement was effective, almost a year and a half had passed since Bob first contemplated selling his business. Add to that the 12-month transition period, and what started out looking like a simple and easy succession took two and a half years to initiate, with another two years to complete the buyout — almost five years in total before Bob was completely clear of his advisory practice.

Coach's Recap

- You have likely spent much of your working life building your business to the point where it is one of your most valuable financial assets, if not *the* most valuable. You expect it to help fund your retirement or your estate. On top of that, because of the deep personal relationships you have with your clients, you feel an obligation to ensure they always receive the best advice and service possible.

- The day will inevitably come when you *will* leave your business — voluntarily or otherwise. The question is, will *you* be in control of how you exit? Or will fate and circumstance dictate what happens to the business that you have spent your lifetime building?

- Only about 10% of advisors actually have a written exit plan. Approximately another 40% have *thought* about their exit strategy but have not committed anything to writing. That leaves half of advisors with no plan whatsoever.

- Advisors more often postpone their succession plan for emotional reasons than financial, such as:
  - I'm too young to retire
  - It's too soon to plan
  - I'm too important to the business
  - I'm too attached to my business
  - It's too much work
  - It's too complicated
  - I'm too busy
  - I have no idea what else I would do

- Many financial advisors feel they will be giving up a big part of "who they are" when they sell their businesses. Whether it's loss of contact with staff and clients, feeling unimportant because they are no longer making decisions for the business, or just plain missing "the action." the thought of leaving behind their life's work can weigh heavily on their emotions.

- Some advisors feel that planning their succession somehow marks the beginning of the end of their careers. The truth, however, is that succession is not an event — it is a process. Most succession plans anticipate a gradual *transition* rather than an abrupt *exit*.

- Transitioning from your business takes time — likely more than you expect. You need to:
    - Make your business saleable
    - Make your business scalable
    - Make your business transferable
    - Find, negotiate with, and integrate your successor
    - Reassure clients and staff so they stay after the transition

- The most successful transition plans take five to ten years to develop and unfold.

My Succession Plan

Exercise #1 – Why plan?

Assess your current position with respect to succession planning by answering the following questions:

1. **My transition/succession plan is:** (Check most applicable)
   - ☐ Written down and up-to-date
   - ☐ In my head; requires updating
   - ☐ Written down; requires updating
   - ☐ Something I wish I had
   - ☐ In my head and up-to-date
   - ☐ Something I don't need

2. **I think a transition/succession plan should help me:**
   (Check all that apply)
   - ☐ Take control of my eventual exit from the business
   - ☐ Maximize the value when I exit/transition
   - ☐ Ensure I can fund my own retirement
   - ☐ Give my family, clients and staff confidence and peace of mind
   - ☐ Ensure my legacy is what I want it to be
   - ☐ Actually, I don't need a transition/succession plan

3. **I do not have a written transition/succession plan because I am:**
   (Check all that apply)
   - ☐ Too busy
   - ☐ Too young
   - ☐ Too important to my business
   - ☐ Too attached to my business
   - ☐ Unsure what I would do after
   - ☐ Concerned clients and staff will react negatively
   - ☐ Concerned about conflict among potential successors
   - ☐ Not sure how to develop a plan
   - ☐ Not concerned about selling my business at a good price when I am ready
   - ☐ Actually, I have a written succession plan that gives me confidence

4. Things that might motivate me to consider selling my practice are:
(Check all that apply)

- ☐ Opportunity to cash in at a good price
- ☐ Tired of the business
- ☐ Want to mentor someone else
- ☐ Want different lifestyle e.g. more travel, hobbies, etc.
- ☐ Health concerns
- ☐ Family issues e.g. caregiver, divorce, death of spouse, etc.
- ☐ Other (Specify) ____

5. Would I buy my own practice right now? ☐ Yes ☐ No

Why? ____

____

6. To whom:

a. <u>Could</u> I sell my practice today? (Name) ______________________________

Why? ____

b. <u>Would</u> I sell my practice today? ☐ Yes ☐ No

Why?____

7. My priority interest is:

- ☐ What happens to the business after I am gone
- ☐ What happens to me after the business is gone
- ☐ Finding the right balance
- ☐ Other (Specify) ____

8. My targeted transition/succession timeframe is:

☐ Less than 2 years ☐ 3–5 years ☐ 5–10 years ☐ 10+ years