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NEWS RELEASE

TIPS WHEN SELLING TO A JUNIOR PARTNER

June 6, 2010

Originally Published By Mark Elzweig, Investment News

Many financial advisers assume that selling their practices to trusted junior advisers inevitably results in a smooth and easy transaction. Think again.

Like any complex transaction, selling your life's work — even to someone you know well — is tricky. Emotions can run high, and the parties can clash disastrously if they fail to articulate their visions.

Over the years, I have found that when passing the baton to juniors, advisers tend make the same mistakes. Here are five suggestions to improve the process:

Start the transition early. Ideally, a successful transition requires three to five years. It takes time to adjust to the idea of selling your practice and to determine whether the junior partner/buyer is, in fact, the right person. That rare individual must be a combination of rainmaker, visionary and entrepreneur, according to **Daniel B. Seivert**, who heads **Echelon Partners LLC**, an investment bank focused on the wealth and investment management business. Handing the reins over to a lieutenant who is basically a client service person usually won't cut it and can lead to a firm's demise. The junior person must also share the seller's values and continue the culture that the seller has established.

Don't worry about price too soon. Surprisingly, price isn't the most important factor in selling a practice, at least at the beginning. Owners typically overvalue their business, concentrating on the sweat equity and emotional energy that they have invested. Buyers concentrate on all the work that lies ahead. Before a final price is reached, time is needed for frank and difficult conversations.

Elmer Rich III, a principal in adviser consulting firm Rich & Co., said that the seller should articulate the kind of post-sale relationship he or she expects. Will there be a clean break? Will there be a multiyear consulting relationship? If so, will that be reflected in the price or as a continuing fee? Does the seller want an extended role in administration, operations or client relations? Mr. Rich recalls a sale where after much discussion, it became clear that the senior partner didn't really want to retire, and only agreed to the deal after he was given a part-time consulting role.

Most critically, fixating on price too early becomes an unintentional anchor to the disadvantage of both parties, creating a winner/loser environment in which seller and buyer become unhappy if the price shifts from the original number. Take time to uncover everyone's deeper motivations and to work out details.

Create a continuity agreement. Draft one that makes clear your intention of letting your junior partner take over the business. Specify that he or she will have the first right of refusal. Also put in place a non-compete agreement, a valuation document and an operating agreement. Think of these documents as part of your efforts to be as clear as possible about your intentions, while protecting your interests.

Know when to go. Once you have struck a deal, it is important to know when it is time to step away, said Matthew McGinness, principal of Best Practice Research and consultant on the Moss Adams LLP/InvestmentNews studies. Some owners want to continue running the show after they leave, causing friction with the new buyer and damaging firm morale. Buyer and seller must determine the changeover choreography and timetable well in advance, Mr. McGinness warned, because if the new buyer has to tell the seller to get out of the way, it is too late. Along those lines, he suggests that the seller shouldn't allow the buyer to stretch out payments for longer than three to five years.

Expect high emotions. Because selling a business can be emotionally taxing, hiring an impartial third party to provide a neutral valuation can be helpful in dealing with the non-financial issues around setting a price. When each side hires an outside valuation expert, the seller typically will go with the cheaper solution. Mr. Seivert recommends that buyers and sellers agree to hire one objective third party to formulate a valuation for the firm, and structure the transaction. This minimizes the adversarial nature of the relationship because the person hired will be committed to the interests of both parties.

Although internal succession arrangements have their challenges, they often result in good deals for both buyer and seller. Buyers tend to purchase the business at a good price, because founders typically prefer to give a leg up to someone they have groomed. And sellers tend to walk away with better post-departure arrangements and confidence that their clients will be in good hands.

ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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