I'M BUYING...YOU SELLING?

Donna Skeels Cygan didn't know she wanted to sell her advisory practice until she got an offer.

By David J. Drucker

Donna Skeels Cygan, once a corporate marketing type in Chicago, launched her financial planning firm—Essential Financial Planning Inc.—in late 1998.

She started the firm and originally worked by herself in her Albuquerque, N.M., home, but later on found office space and by 2007 had grown from a one-person shop to a concern with four full-time staffers—including a junior planner.

If this sounds like a success story, it is, but not one without its pains. "My typical workweek was 60 hours," says Cygan. "I often went into the office at 5:30 a.m. and I worked every weekend. My husband, who also worked full time, was the major parent for our two daughters."

As much as she valued her clients and her company, Cygan increasingly felt she was neglecting her family. "I desperately wanted to make my family my highest priority. Yet when I looked at how I was spending my time, I had clearly given my clients and my company a higher priority than my family. To say I felt out of balance was an understatement."

New employees helped, but also added an element of uncertainty that sometimes forced her to work longer hours. "Although I seemed to be making progress at adding depth to my staff, whenever an employee quit, I would end up doing their job and working even more overtime," she recalls. "I often felt that I was taking two steps forward and three steps back." Building her employee base meant she had to add payroll expenses and computer equipment for each staffer, and that meant constantly adding more clients to pay for it all.

Perhaps this is a normal growth experience, but to Cygan it felt more like a treadmill. In late March 2007, she was approached by a consolidator interested in buying her practice, a company looking to buy independent advisory firms throughout the West and Southwest.

"I had received such overtures before, and I had always ignored them," she relates. "However, the buyer was the same firm that had recently purchased a friend's practice in Washington state; I recognized their name from my friend's comments during a conversation a few months earlier."

During the first phone call, Cygan told the consolidator her firm wasn't for sale. "I was only 49 years old, and although I was definitely heading toward burnout, I had not contemplated selling my firm at that time. I told them I considered it a compliment that they called and that I might be interested in selling in about eight years. They responded that they would like us to keep talking and that I could stop talking at any time because I was in charge. I realized I had all of the leverage, and I started seriously considering the terms that might convince me to sell my firm."

Over the next few weeks, Cygan spoke to the consolidator several more times about various issues. Even if she sold out, she wanted to work at least another five years. "They explained that they felt it was best to make a clean transition to a new advisor and that clients would be confused if the 'old' advisor continued to be involved. They wouldn't agree to five years, but they agreed to allow me to work one year during the transition. I realized later that one year would turn out to be one of the wisest terms of the entire sale."

Cygan had a junior advisor whom she'd mentored, and he was the obvious choice as her replacement. The consolidator wouldn't need to hire a lead advisor, and Cygan's clients would be less traumatized if she left behind someone they already knew and trusted. "I emphasized to the consolidator that this was an attractive feature, as was my firm's profitability, which I demonstrated in a one-page summary of my firm from year 2000 through 2006 with projections through 2011."

Throughout the process, Cygan felt she had nothing to lose because she could have walked away from the negotiations at any time. The terms being offered were attractive. The consolidator offered payment in just two increments (based on the future revenue projections in late 2007 and 2008).

Cygan negotiated a multiple of revenues in excess of industry standards, and the buyer was willing to keep her on the payroll as a consultant through 2008. The terms included a two-year non-compete clause covering 2008 and 2009, but because she would be working through 2008 as a consultant to the acquirer, her non-compete period actually only applied to 2009.

With a stipulation that she work only 30 hours a week for the buyer throughout 2008, Cygan believed she could both keep her hand in the business and engage in such outside projects as speaking engagements and a book she wanted to write.

In May of 2007, Cygan engaged a high-profile attorney to help her with the sale. "At that point, I still had not decided if I wanted to sell my firm, but I felt the need for expert advice as I negotiated with the consolidator." Hiring an attorney turned out to be a valuable decision, says Cygan, because he had enough expertise to negotiate changes to the legal agreements and add clauses to protect her interests.

As she got closer to finalizing a deal, Cygan continued to be plagued by many questions. "I obsessed over questions like, 'Was this the right decision, was I going to regret selling my company at age 49 and was I out of my mind?' Further, how would my clients react? Would they hate me? Would they stay in year 2008 or would

Cygan's Recommendations for Sellers

• *Keep your company "saleable" at all times. Get your accounting records in good order. Keep up to date on compliance requirements. Know your profitability ratios and work to constantly become more profitable. Focus on providing excellent client service so your client turnover is very low.*
• *Put everything in writing in the legal agreement. Do not assume that verbal conversations will be honored.*

• *Be aware of when you have leverage and when you do not. You have tremendous leverage before you agree to sell and virtually none after the fact. Think through the terms that are important to you on the front end. Understand that the new owner will take over at some point, and you will no longer have any control.*

• *Recognize that you may feel disoriented after leaving your firm. Cygan says that she felt like a fish out of water during 2009. She missed her clients, but stayed tuned into the industry by keeping her professional association memberships active and attending conferences. Still, she says her routine had changed and this was much more difficult than she'd anticipated.*

• *Expect to have some doubts along the way. "As soon as I sold my company I realized how much I would miss my clients," she says. Recognize that the firm you created will feel like your baby. You will feel very emotional as the new owner takes over.*

• *Protect the amount of your payouts by being directly involved until you receive the last one. Unless you negotiate a fixed amount, this is extremely important. There might be unexpected challenges, such as a downturn in the stock market like the one that occurred in late 2008.*

• *Use an expert attorney. Before Cygan's sale, she says, the buyer purchased a California investment advisory firm. The seller of that firm hired an expensive consultant and also got an investment bank involved in the transaction. There are many people who would like to be in the middle of these deals. "This seems like an enormous waste of money to me," she says. "I would cut out all of the middlemen possible, but a qualified attorney is essential."*

they flee? And would the buyer take good care of them and provide great service?" Cygan knew that if a large number of clients left in 2008, her second-year payout could decline significantly.

And, of course, employees were an issue, too. What would they think of all of this? "I had negotiated that the buyer would keep most of my employees, so I didn't feel that I was deserting them," says Cygan.

She signed preliminary legal documents in late September 2007 and final sale documents in December 2007. She received her first payout in December 2007 and her final one in December 2008.

The sale process by that point had gone as smoothly as it could have. Yet there were inevitable surprises along the way.

First, Cygan discovered that once the sale documents were signed in December 2007, she had absolutely no leverage with the buyer. "I learned this very quickly in early 2008, and all of 2008 turned out to be very adversarial." To make matters worse, Cygan's junior advisor—her replacement in the eyes of the clients—resigned in February of that year, forcing the buyer to look for a new lead advisor.

Without a replacement, Cygan says she was again working horrendous overtime, and the tension in the office mounted. "There were several months where we didn't have a lead advisor, so I was working more hours per week than I'd worked during the recent years leading up to the sale. My focus was on client service. Not surprisingly, clients were very concerned that I was leaving at the end of 2008 and my replacement had just resigned."

This went on for several months while the consolidator was negotiating back and forth with the advisor it ultimately hired. In the meantime, Cygan finally asked for overtime pay and received it, somewhat lessening her burden.

At the same time her buyer-seller relationship was souring, the stock market nose-dived in late 2008, as did the assets and projected revenue that would determine her second payout. "Fortunately, I had been working hard at bringing on new clients throughout 2008, so the revenue of the new clients helped to cancel the negative impact of the market, leaving me with an attractive second-year payout." For this reason, Cygan advises others like her to remain in place for some period of time after the sale to help the newly sold company get off to a smooth start and preserve the seller's benefits from the sale.

Even though the company was not originally for sale, she concludes that "after contemplating the offer I'd received, I realized a sale was a way—albeit a drastic way—to get off of the proverbial treadmill. I was tired of neglecting my family, tired of managing employees and tired of working excessive overtime hours."

She doesn't regret selling the company, in spite of the incredible stress of negotiating the deal and putting in her time thereafter. "The sale provided me with a year off, while honoring my non-compete clause, to get my priorities in order, to make progress on my book and to recharge my batteries."

Ironically, there's now more financial planning in Cygan's future, as she has made the decision to launch a new "lifestyle/boutique" firm named Sage Future Financial with just 30 clients.

"Now I have an opportunity to return to financial planning and do what I love on a much smaller scale," she says. "After completing my non-compete clause in late 2009, I invited back a select group of my favorite clients. I have no desire to have employees or grow the firm, just to serve my 30 clients the best I can while also spending more time with my family, traveling and writing."

David J. Drucker, MBA, CFP®, is a frequent speaker at industry events. To learn more about his availability for your next event, contact him through www.DavidDrucker.com.