



THE INDEPENDENT CONSULTANT

NEWSLETTER OF THE SMALLER CONSULTING FIRM SECTION

Is There a Pot of Gold at the End of Your Rainbow?

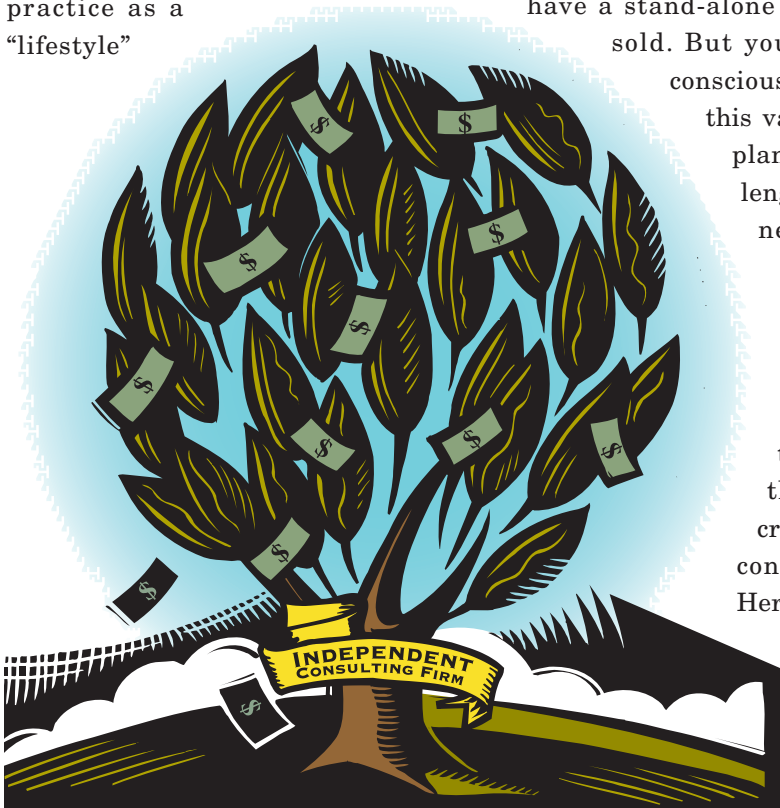
Maximize Your Consulting Value for Maximum Payout When You Leave

by Mary Adams and Michael Oleksak

Most independent consulting firms are built by strong founders who dominate the business and its identity. In fact, such founders are often so strongly identified with the business that when they are ready to retire, they have no choice but to just close it down. This is actually an acceptable outcome for many founders—they probably built their practice as a “lifestyle”

business. They make a good income, have the freedom of running their own operation and don't want to commit to the overhead and management challenges of building a full-blown company. It's likely they saved for retirement over time and did not count on a big payout when they exited the business.

But shutting down your consulting business upon retirement may not be your only alternative. Many practices have a stand-alone value and can be sold. But you need to make a conscious decision to build this value and you must plan ahead. The challenge comes from the need to replace the knowledge, experience, and contacts of the founders. What are some of the steps you can take to overcome this challenge and create value in your consulting business? Here are a few essential ones:



Inside...

- 2 Editors Column
by Ian Duncan
- 3 Avoiding the Obvious in How-to Articles by Carl Friesen
- 6 From Independent Consultant to Smaller Consulting Firm: Dan Cassidy and Argus Consulting Ltd.
by Ian Duncan
- 8 The Independent Actuaries Network—A Small Consulting Firm's Success Story
by David C. Hart, with peer review by Marcus A. Robertson
- 10 Is Web Conferencing Right for You?
by Herbert Ochtman
- 12 When NOT to Take an Assignment
by George McCauslan
- 16 Section Council News
- 18 New Council Members
- 20 Surviving the Great “Benefits Planning Earthquake”
by Dan Cassidy
- 25 Smaller Consulting Firm Section Plans Orlando Annual Meeting Workshop

(continued on page 4)

Start the process now.

A Price Waterhouse study of private businesses showed that transfer of ownership for privately-held businesses took an average of six years to complete and that payout averaged 7.4 years. During the payout period, the input of a founder may be contractually required. Since consulting companies have unique challenges, you will probably need that extra time to prepare.

Commit to creating a new business.

If you expect the business to continue in one form or another it will have to have a new business model-one that can work with little or no input from you. This is the hardest leap you may have to take in the whole process. But ultimately, the psychological and monetary compensation you realize from exiting your business will depend on how well you can prepare the business to go on without you.

Oftentimes, the right successor is not a clone of the founder.



Take a hard look at what makes you successful today.

Before you can change the business model, you have to break down the components of your current success. What is your position in the market? What are your competitive advantages as a company?

What is your role as founder in relations with clients and employees? Additionally, what are the roles, strengths and weaknesses of the rest of your team? Where is your market heading? Is the company positioned for continued success?

Develop and document proprietary methodologies or work product.

Most consulting practices have unique approaches to their work. If this approach is documented, a potential buyer will be much more likely to be comfortable that it can be

successfully repeated. Documenting your processes will probably have the added benefit of making your current team more effective. It will also give you a strong training tool for new hires.



Develop a succession plan.

Succession planning should start by identifying all the places where you as founder play an important role. It then identifies how the organization can duplicate your success. Oftentimes, the right successor is not a clone of the founder. So the right solution involves spreading the founder's strengths and competencies throughout the organization and then creating a new identity for the successor. And, of course, the right solution for the company effectively addresses the financial implications of the succession. This step also represents good contingency planning in case of your sudden departure due to illness or death.

Clean up your management reporting.

Much of the value of a business is based on the buyer's judgment about the management reporting. Being able to demonstrate the details of your success with management reporting and financial statements will go a long way to increasing the value others see in your firm. For example, if you have a lot of repeat business, can you show the year-to-year total revenues from key relationships? If you provide several distinct types of services, can you show that revenue breakdown? Are key costs broken out? Also be prepared to separate out all of your compensation including salary, perks and bonuses. This gives the potential buyer a better idea of what the company's cash flow would look



without you around and also gives the buyer a feel for what they can hope to achieve as well.

Pull it all together.

When you are approaching the time when you would consider selling, prepare a business plan for the company. This plan should cover all the points previously discussed, including your business model, methodologies and financial results. A good business plan is one of the strongest tools you will have for making a compelling, exciting pitch about the future promise and value of your business.

Be proactive.

Sometimes the right buyer appears who makes an offer you cannot refuse. More likely, you will have to go out and find the right fit. You may have a lot more alternative exit strategies than you realize. A potential buyer may be one or more outstanding employees, your strongest local competitor or a national firm looking for market share. There are also many ways to structure a deal, including a staged sale with your

continued involvement, an earn-out for employees or a cash sale to a similar business. If you have thought through the alternatives for a sale of your practice, you probably have a good idea of where to find the right deal. If not, engage an advisor with experience selling businesses like yours.

A final “personal” note:

If you expect to be able to sell your consulting business, don't neglect the implications of a transaction on your personal estate. Good estate planning uses the services of lawyers, investment advisors, insurance agents, tax specialists and accountants to ensure that the transfer of your business occurs smoothly and without undue tax consequences.

If you decide it is worth it to try to build a saleable practice, these steps will help you prepare for the moment when you are ready to walk away and maximize the value you receive for your business. The result will be satisfaction for all concerned. 🌱



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