ALIGNING OWNERSHIP PRIORITIES FOR SUCCESS

In our over ten years’ experience helping businesses design and implement internal succession plans, we’ve seen that each generation—G1, G2, and G3—can, naturally, have their own distinct points of view and priorities. These differences are common and normal. By acknowledging these differences and communicating with each other, teams can adjust their expectations, align their priorities, and see their transition plans work out to the satisfaction of everybody.

But how do you align different priorities within your own ownership team? Below are three examples of how to facilitate this alignment. These examples are not of particular clients, but are taken from a conglomeration of advisor situations over the years.

1. Negotiation

Negotiations can uncover priorities that have been in alignment the whole time.

Six years into a succession plan, a G1 founder decided she wanted to leave a few years earlier than she had initially planned. This founder wanted a lump sum; she did not want to carry a 7-to-10-year seller-financed note. The G2 minority owners attended all client meetings and had already taken over many of the founder’s day-to-day responsibilities. They were ready and glad to step up and purchase her remaining shares in the business. They went to a bank to inquire about a loan, and after the due diligence process, they learned that the bank wouldn’t fund the entire amount.

The G1 could have decided to sell the business on the open market to get a large cash lump sum. However, everyone preferred that the company continue independently so they could be the ones making decisions about how to run the business and how to take care of the clients.

After several conversations between themselves, and then with the bank, the G1 and G2s came to a compromise: the bank would lend 70% of the purchase price and the founder agreed to finance the remaining 30% on a seller-financed note.

Though the compromise in this negotiation meant the G1 had less money in hand, she wanted to sustain the firm she had built and she appreciated the strengths and new ideas that the G2s brought to the table. The negotiation helped bring to light that the ultimate priority of all the parties was to continue the legacy. They were all in alignment.

2. Communication

Aligning priorities is accomplished through communication, and understanding other points of view.

In another example, two 50/50 business partners in their late forties set up an internal equity transition plan. They offered equity to three G2s, two of whom accepted and used seller-financed notes. Given their different levels of experience in the industry, the ownership percentages of the G2s were 12% and 6%, bringing the founders’ ownership to 41% each.

The original partners verbally set up parameters to guide the younger owners on how and when they would be offered more ownership. But after one year, the 6% G2 owner wanted to increase ownership to 12% like his other, more experienced colleague. The 6% G2 owner worked hard and was committed to a future at the company, but he had only recently received his CFP® designation and hadn’t yet started revenue-generating, client-facing work. The G1s were not prepared for the G2’s request for an ownership increase and weren’t sure how to handle it.

The founders did a deep dive into their goals and time frame, and decided it was really too early to offer more ownership. They weren’t ready to increase the G2s’ combined 18% share to 24% (almost a quarter of the company). They also realized they should have put the G2s’ ownership tracks in writing.

The G1s met with the G2s to convey this information, and because of the G1s’ long time-horizon, they decided to wait and review another equity offer in two years. They also confirmed that the 6% G2 wanted to develop into a producer role, and together they created a written
career path with clear goals and metrics, including joining—and eventually leading—client meetings, creating financial plans, and bringing in new business. The G1s then built out career tracks for all staff, including advisors and operations team members.

The advice here is to assume positive intent. This is important. We often make assumptions about the intentions of people in a different generation than ours. Without understanding where they are coming from, we can wind up frustrated and resentful. For instance, what looks like an attitude of entitlement can actually be an attitude of enthusiasm. In this example, having a conversation about their business issues and priorities, everyone was able to get on the same page and feel confident about their plans for the coming years.

3. Flexibility

Flexibility is an important element of reaching alignment.

A recent G1 client started an internal succession plan when she was in her late 60s. She brought in two G2s to take over the practice when she was ready to retire. Unfortunately, one of the G2s left in the first year and the company struggled to find a qualified, experienced advisor to take his place. The business needed a successor team as the remaining G2 wasn’t yet prepared to take over 100% of the responsibility for running the firm and managing the 250 clients. With her next birthday on the horizon, the G1 realized she couldn’t continue to wait for an experienced, qualified successor to come along and needed to explore other options for the future of the firm.

The G1 decided to do a Sell and Stay® transaction with another RIA in the area. The G1 had known the firm for years and respected their business model as well as their presence in the community. Using a Sell and Stay® structure, the G1 received a lump-sum down payment and entered into a 4-year employment agreement. It wasn’t an easy decision; the sale meant the G1 had to give up her business name and take the name of the acquiring firm, and eventually give up the office building she’d worked in for years.

The remaining G2 was also disappointed that the original plan didn’t work out. However, after conversations with the new RIA firm about his desired role and career path, he felt comfortable joining the new team. The G2 received an equity stake in the new business and had the potential for further equity ownership within several years.

In this case, flexibility was key. Though the initial plan was to continue the legacy of the business, with the revised plan, the G2 had the opportunity to grow in the new firm. The G1 focused on client-facing meetings, some local business development, and enjoyed mentoring their former partner as well as the G2s at the new firm. All parties remained flexible and adjusted their expectations to maintain an alignment that was true to their vision for the business.

Not every firm is going to have these exact issues, but know that if you face an uncomfortable situation or a misalignment, you are not alone. Other people are going through that, too, and there is a way forward.

Different individuals may have different priorities, but ultimately, the real aim is to work toward what is best for the company. What will best serve the clients? What will provide for growth? What will facilitate adding in the next generation of talent? What will bring in money to invest in new technologies? What will allow the firm to keep people employed in a great, independent environment? Answering these questions as an ownership team and keeping the lines of communication open will help keep everyone aligned and working together toward common and clear goals.

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