Succession Planning Exit Strategies

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This is the third in the series of aricles to assist practitioners in establishing their exit strategy. The previous two articles addressed the establishing of timelines and goals, evaluation of your practice, grooming of a potential successor and transferring of trust. This article discusses the transition and the protection of your firm's client base during the execution of your exit strategy.

Succession Planning Exit Strategies
Succession planning exit strategies are as unique as the goals and motivations of the firm and the successor. The choice of strategy is related to the size of practice and the personal goals of the seller and purchaser. Simply stated, there are four strategies that practitioners choose:

1. Referring clients and walking away
2. Merging the practice and developing a partnership
3. Selling the practice
4. Promoting an employee
   to partner or successor

In previous articles, we addressed the transference of trust from you to your successor. Each of the exit strategies addresses the issue. It is interesting to note that in each strategy, except for referring clients and closing down the practice, the issue of trust does not cease when you leave the practice. You must also trust your successor long after your retirement date and during the payout period. No one would like to get the call as they sit in their retirement home on the beach, "Sorry Charlie, cash flow is a little tough this month and your cheque won't be in the mail. We really hope that things will be better next month." To mitigate the issue, some practitioners continue with the firm on a consultative basis to preserve client retention.

1. Referring Clients
This strategy simply results in the referral of clients to another professional and closing their doors. Often they have a small client base and state, "My client's are almost family I just could not dream of selling them." Although this minimizes the issues with respect to transferring of trust, the practitioner does not receive any value for the sale of the client base.

2. Merger eventual sale Merger and eventual sale of a practice may result in significant challenges. In the merger of two practices and the development of a partnership prior to sale, the purchaser must wear two hats: partner and inevitable successor. The partnership agreement may be for a finite period of time and blend into the purchase/sale agreement. It is also beneficial as it provides a smoother transition on staff and clients as they begin building a relationship and trust with your successor prior to your retirement.

3. Selling the practice Some practitioners, especially sole proprietors prefer this option to a partnership and subsequent sale because it gives them ultimate control over the practice until the sale. Such an arrangement may result in client retention issues if the transference of trust issue is not properly addressed. Such issues could be mitigated if the practitioner and successor have a reasonable transition period of 18 to 24 months.

4. Promoting an employee It is also important to discuss the transfer of trust when we hire, promote and ultimately enter into a partnership agreement and/or a purchase and sale agreement with employees. This requires the ultimate transfer of trust and has been proven to maximize client retention and value of the client base.

As you begin the process of giving your potential successor additional responsibility and an appropriate level of authority, it is critical to protect your client base. Many challenges and potential conflicts may arise. To mitigate such challenges, many firms address this issue with contractual agreements.