ASCENDIVE® **WHITE PAPER**

EXIT STRATEGIES

FOR YOUR PROFESSIONAL SERVICE ORGANIZATION

ASCENDIVE

Why the rules have changed

What you can do about it

Increase your Net Worth

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After the Second World War America saw a wave of veterans start companies. Many focused on agriculture, manufacturing and distribution. Fuelled by the growing appetite of the American consumer many of these enterprises flourished. As the decades unfolded and the 90's were in full swing this wave of successful entrepreneurs began to face retirement. Rugged individualism was meeting succession planning head on. Numerically most of these enterprises were still private and had amassed significant value, both in terms of physical assets (land, buildings, patents, etc.) and goodwill (brand, customers, supplier relationships, etc.).

The obvious course for succession was family. Offspring brought up on the factory floor had the business "in their blood". The children had grown up not only watching, but participating in their parents' endeavors, often their first and only job working on the farm or in the warehouse. Even in many service orientated vocations like the medical and legal profession, children followed their parents from Columbia Law School to a legal practice, albeit perhaps not the same firm.

Today's owner of a Professional Services Organization (PSO) finds himself in an entirely different landscape. Unlike their entrepreneurial forbearers who built companies with balance sheets dominated by physical assets like plant and equipment funded by financial capital, todays entrepreneurs facing an exit strategy have built value on people with whom they have forged relationships. The most valuable assets for today's PSO are customers and employees, neither of which fit nicely onto a balance sheet.

This has resulted in a dramatic change in not only the succession of the entrepreneurs business but also the valuation and terms and conditions of sale. Historically the forbearers wealth could be passed on by giving the children direct control of the assets (make them the CEO, etc.) or by selling the enterprise outright and passing on the capital.

Learning the parent's craft was easy and more natural when you lived on the farm. Not so for today's wealth creators. The value is intrinsically tied up in people. People who can walk across the street, unlike a factory or farm. Passing a PSO from parent to child is a precarious proposition and is rarely successful.

This limits the PSO's main exit strategy options to basically one, a sale. But what exactly is being sold? There are no buildings, patents or farm equipment. More often than not the owner of the PSO has a very loyal employee base and, while that was a strength for decades in building a company, it now has the potential to become a liability. When you as the owner, with all your charisma and friendship are gone, will the employees remain within the organization when the new management arrive or will they leave? This is a concern for any potential buyer and therefore a concern for you as well. After all, what they are buying are employees and customers, both of whom can exercise free will and move on. Unfortunately there is no getting around this quandary. Sellers are forced to hang around for years, providing personal guarantees and other restrictions to ensure that the buyer's investment does not dissipate any time soon after the deal close date.

The shift from the physical economy to the knowledge economy has resulted in a shift of tangible balance sheet assets to intangible knowledge assets more often than not unprotected by patents. The results can be catastrophic for the owners. We recently witnessed the colossal collapse of a large PSO:

Dewey & LeBoeuf, an international law behemoth that once employed more than 2,500 people around the world, set a sad record when it filed for bankruptcy on Monday night. The short story is that key partners, worried that the firm's woeful finances would cut into their take-home pay, left the company in a mass exodus that precipitated its doom.[1]

So, if a prestigious PSO like Dewey & LeBoeuf failed to prevent their assets from walking out the door, even with no looming sale, what will be going through the minds of your employees when you announce the sale of your PSO? This is a risk that all acquirers of PSO's are all too concerned about. Therefore it only makes business sense to mitigate this liability and put a plan into place that strengthens your PSO's value proposition for a potential buyer. So, how do we go about doing that?

Ideally, wouldn't it be wonderful if we could clone our best talent? Since that is off the table you should focus on the concept of harvesting the intellectual capital in your organization in a way that it can be turned into a tangible asset that appears on your balance sheet. Depositing tangible assets onto your balance sheet that cannot "walk-out-the-door" not only increases the value of your company but also reduces the risk involved with the sale of your company for the buyer, thereby enabling you to command a premium price. So, how can you "harvest" the intellectual capital of your organization?

The probability that your company has a central location where the intellectual capital is stored, indexed, categorized and available is not very high. The existing behaviors over the past years have most likely resulted in a vacuum of content in this regard. Therefore, in order to build that asset some behavioral change will be required, along with some harvesting technology and the implementation of some new processes.

This is what Ascendive does. We productize Professional Services, turning intellectual capital into a tangible asset that can be placed onto your balance sheet and assigned financial value. This increases the value of your company and reduces a buyer's risk in acquiring your organization. We do this by providing enabling technology, defining process tailored for your organization, and rolling out a change management program to ensure that your team is on board and will participate willingly.

Ascendive will increase the value of your company, reduces risk, both for you and a potential buyer, and can significantly increase your net worth.

[1] The Atlantic – May 29 2012

About the Author

Vincent Hancock is a Managing Director at Ascendive, a leading provider of SaaS solutions and consultative offerings assisting Professional Service Organization's productize their services. Vincent has over 20 years of experience in the services and productization industry, working for both software companies and consulting firms. He has delivered enterprise solutions to many Fortune 500 companies across the Americas, Asia, Europe and the African continent. During his career, Vincent has provided direct consulting management expertise to customers such as Amgen, Freeeport-McMoRan, General Electric, Oracle, PepisCo, Procter & Gamble, Standard Pacific Corp, The Clorox Company, W.W. Grainger, Wal-Mart Stores, Weyerhaeuser Company, and Whole Foods Market. You can reach Vincent at vincent.hancock@ascendive.com or (425) 773-1125.