PRACTICE MANAGEMENT: Prep Clients For Sale Of Their Business

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--Clients face financial and lifestyle changes after the sale of a business

--They may need to learn the basics of investing, budgeting

--Helping clients realize their lives will change can help ease the transition

By Veronica Dagher
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NEW YORK (Dow Jones)--Your client's been logging 80-hour work weeks for many years, drawing a relatively modest salary while building up a business. Now they're preparing to cash in, to the tune of tens of millions of dollars, and looking forward to lots of free time with the family.

A financial adviser's role in the process can involve much more than money.

Sean Sebold recently worked with a client who built a very successful engineering firm over the course of 15 years. When the client was approached with a large buyout offer from a publicly traded company, the Naperville, Ill.-based certified financial planner congratulated him but urged him to think beyond his bank account.

Sebold asked the client if he was ready to give up his business and "everything it meant to him." Once the deal went through, he cautioned, the big business decisions would be made by someone else, and the client's new role would be that of an employee, subject to those decisions.

And after a transition year with the firm, the client would be unemployed. The 15 people who used to report to him on a weekly basis "wouldn't really care what his thoughts were anymore," says Sebold.

"Nonfinancial issues have an enormous impact on the decision to eventually sell a company," he says.

Sebold's intent wasn't to talk the client out of doing the deal, which did go through. It was to give him a realistic view of his future so he could better prepare for it.

Preparing the whole family well in advance of a business sale is crucial, says Gary Vawter, a Columbus, Ohio-based certified financial planner.

A business sale is likely to mean a change in income and possibly in expenses, and Vawter works with the client and family on a new budget. If necessary, he'll give guidance on managing cash flow and debts. Sometimes it's necessary to include instruction on the basics of investing since business owners often put most of their savings back into their companies and are too busy to learn about the financial markets.

Sebold often helps clients create a "family legacy agreement" that spells out how a family sees the role of money in their lives. It may include guidelines on how money will be used, or not used, and who will manage it. For example, the agreement could create a "family bank" that could provide loans for members to start their own businesses. The agreement can also spell out philanthropic goals for money that exceeds the family's needs.

Mitchell Reiner, an Atlanta-based certified financial planner, encourages clients who are looking forward to a big business sale to get involved in charitable giving well beforehand, often through a donor-advised fund.

This way, they not only become familiar with the basics of philanthropy, but may also have a chance to develop a new personal and financial purpose in life before they give up the role of business owner.

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