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# Senn Delaney: An Entrepreneurial Exit In the Consulting Industry

For the last twelve years, the people now gathered at their Huntington Beach headquarters' brightly lighted conference room table had worked together to maximize Senn Delaney's value to its clients. They had built a premier culture-shaping consulting firm, and in doing so had significantly increased the value of their own firm. After Jim Hart became CEO in 1999, he focused his efforts and energy to help Senn Delaney recover from a failed acquisition by the investment firm Provant, and in 2003, he led the legacy partners to invest their own financial resources to take the firm private. Hart had remained relentless in rebuilding their firm ever since.

Now, as Hart took the final empty seat at the conference room table, he glanced over at founder Larry Senn, sharing a smile. They'd traveled a long and winding road together. And they both sincerely hoped this evening's meeting would set the course for the next decade of Senn Delaney's journey. The conference table was covered with meeting notes, printed presentations, and three-ring binders full of financial and historical statements. The gathered partnership team consisted of Senn Delaney's seven partners (the legacy partners). The partners had all become close personal friends while working many years to build Senn Delaney and its capabilities. But tonight, on a warm December evening in Southern California, it was about transforming their own firm.

For Hart and Senn Delaney, history had a way of repeating itself. Finding himself in almost the same place he started, Hart's primary goal for this evening's meeting was to gain an important consensus from his colleagues, whose loyalty and dedication had helped achieve enormous success. Over the three years leading to this night, they agreed that to sustain the organization they had all worked so hard to build, they needed to start thinking about what would happen to Senn Delaney after their departures. Although at most consulting firms "people" are the primary asset, this firm had built a particularly strong brand, as well as a product offering that embedded much of its intellectual property. This had allowed Senn Delaney to grow significant revenues independent of the daily efforts of its legacy partners. And, the team hoped, their brand building and intellectual property development efforts would allow Senn Delaney to continue its growth and success without them. Tonight, would Senn Delany's legacy partners find the right formula to execute their own exit?

## *Senn Delaney, The Early History*

Senn Delaney Management Consultants (SDMC) was founded in 1968 by Larry Senn and Jim Delaney. It was one of the first consulting firms to explore issues related to organizational culture and personality, including the impact a firm's culture may have on success and productivity.

Both Senn and Delaney were UCLA-educated engineers. However, they traveled across boundaries of both institution and expertise when they connected with two organizational behavior professors at the University of Southern California while doing background research for a project. Senn became intrigued with the possibility of a deeper understanding of organizational theory and decided to matriculate to a Ph.D. program at USC to pursue his own research. In 1970, he developed what the company states was the first systematic field study ever conducted on the concept of organizational personality.[1] In significant part due to the efforts of Larry Senn and Jim Delaney, the concept of "organizational personality" continued to evolve, developing into a broader and more nuanced understanding of "organizational culture."

Larry Senn's dissertation had paved the way for founding a second consulting company, and in 1978 Senn Delaney Leadership Consulting Group (SDL) was formed. Jim Delaney remained at SDMC while Larry Senn ran SDL. SDMC itself had been hugely successful at helping companies (focusing first on large retailers including Sears, Walmart and J.C. Penney) to improve their efficiency, bolster their use of technology, and improve customer service. The innovative nature of SDMC's consulting services, as well as the success of its client engagements, resulted in it becoming a takeover target. SDMC was sold to Arthur Anderson for $10 million in 1978, and Delaney transferred to Arthur Anderson to run their SDMC division. Larry Senn stayed with SDL (hereafter 'Senn Delaney'). Over the next four decades, Senn Delaney became the world's leading "culture-shaping" consulting firm, giving its clients new insights and capabilities through execution on its mission to "positively impact the world by inspiring leaders to create thriving organizational cultures."[2]

Senn Delaney's culture-shaping consulting was based on four guiding principles: purposeful leadership; personal change; broad engagement with momentum and critical mass; and focused sustainability. Through these principles, Senn Delaney paved the way for clients to redevelop their organizational cultures to support focused work environments with more dedicated, motivated, and inspired employees.

While Senn Delaney grew substantially, in terms of both revenue and reputation, by the mid-1990s Larry Senn was starting to realize the firm faced significant limitations to its ability to deliver culture shaping change to a broader market. "We realized we had a great product and clients who sang our praises, but we didn't really have the financial or personnel resources to continue growing our practice," said Senn.

The ability for Senn Delaney, as with any consulting firm, to engage clients was highly dependent on its dedicated pool of consultants. And scaling the employment base of a consulting firm is both

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time and money intensive, while showing few economies of scale: there is no productivity gain associated with adding an additional consultant. Equally, beyond a practical limit on the number of consultants, it was becoming clear to Senn that client engagements could be significantly more impactful if knowledge was transferred more deeply into client firms, moving it beyond the C-suite. As Senn stated:

> *We realized we could push culture from the top of a client organization, but ultimately that has to permeate throughout the firm, down to their customer-facing personnel, otherwise they're not capturing the full benefit. And this meant we would have to find a way to work more hours and more intensively with each client. This meant our personnel limitations were even more severe.*

Further impacting the firm was the increasing age of its partners: Senn was approaching 60, and his advancing age suggested some form of succession and retirement planning was becoming important.

Coincident with the dot-com bubble during the late 1990s, the consulting industry had grown, but also had grown increasingly more fractured. Thousands of small boutique firms started emerging, each specializing in specific practice domains.[3] This splintering of the industry deprived many firms from developing critical mass: firms with valuable insights were constrained by their limited ability to grow a client-base or to provide sufficient depth of engagement.

Some other industry insiders started to recognize this issue as well, and with the backing of some finance professionals, devised an interesting solution. Provant, Inc. was founded through an initial public offering on April 28, 1998, supporting the immediate merger of seven consulting practices. The CEO and Chairman, Paul M. Verrochi, and President John (Jack) Zenger had founded the Boston-based Provant with the explicit intent to consolidate the consulting industry. Zenger, who was also a founder of executive development consulting firm Zenger-Miller, had earned a Doctor of Business (DBA) at USC in 1967, and was a friend of Senn's.

Provant believed it could add value to the consulting industry by rolling-up best-of-class boutique firms, allowing each to remain specialized while simultaneously gaining advantages through the larger service offering provided across the various other subsidiary firms. When Senn Delany was offered a deal with Provant, they eagerly chose to pursue it, believing a transaction represented an opportunity to overcome their own shortcomings. In mid-December 1999, Senn Delaney became a part of Provant Inc. As a part of that transaction, Jim Hart was promoted to the position of Senn Delany's CEO.

## Jim Hart

Jim Hart's tenure at Senn Delaney began two years before his appointment as CEO. A two-time graduate of the University of Southern California (BS, MBA), Hart had established a track record of helping large companies grow to become recognized leaders in their industry well before arriving at Senn Delaney. Hart's career path began with his own entrepreneurial venture, a software publishing and distribution company called Star Software Systems, which he founded in the early 1980s. After successfully selling his firm, Hart changed industries, going on to lead Western National Group. Western National was, at the time, California's largest multi-family real estate development and property management firm. Hart helped lead it to even larger success, growing Western National from the 65th largest to the 28th largest residential property development firm in the country.

But by 1996, Hart was approaching some difficult personal and professional life-decisions. Hart noted, "My wife and I were divorcing, which was taking a toll. Perhaps in part because of this, I was starting to refocus on my professional life." But he was quickly coming to the realization that even with all his hard work and effort, the professional growth opportunities he wanted ultimately were not going to be found at Western National. As Hart put it:

> *I had a lot of social capital, and a lot of experience. But while I'd been building a family and a company, not everything was well aligned. In part, my goals were not being given the attention required. And that became more urgent with the divorce. I started to sense the misalignment more urgently.*

At the same time, Hart's entrepreneurial drive and successful leadership experience were starting to be noticed by the Senn Delaney senior management team. Senn Delany's then CEO and general partner, John Childress, was Hart's neighbor. Childress brokered an interview between Jim Hart and Larry Senn. The fit in personality, personal and professional goals, and motivation were an obvious and immediate match. Senn noted:

> *Within five minutes of meeting Jim, I knew I wanted to hire him. He had clear drive and understood the significance of leadership, motivation, and workplace culture. Even without the specific vocabulary and tools, he had already been able to demonstrate success in molding an established business to his beliefs, and changing the culture of that firm. I asked Jim, in that first meeting, to come over to Senn Delaney, to learn about and consider joining us.*

Each person hired at Senn Delany went through a pre-hire training program, and Hart was brought into that program – getting to learn more about the organization and its business. As Hart noted about that training:

> *It was eye-opening. Senn Delaney had put into a routinized process much of what I had intuitively understood as a CEO. Organizational culture was critical to achieving high-level performance. And it [culture] could be taught, shaped, and propagated through a firm if the CEO was committed. I had done this, but not only was it hard, it was hit-or-miss. I realized that if I could help give other CEOs these capabilities, that would be very empowering to me. And at the same time, there was potential for me to grow at Senn Delaney, where I could bring my organizational expertise to bear.*

Upon finishing Senn Delaney's training program in 1997, Hart was offered a position. While initially working as a consultant, Hart was driven to management. Having demonstrated his ability to lead as well as work as a practicing consultant, after only a short time Hart took over the sales division. And at the end of 1999, he was promoted to CEO of the newly acquired Provant division of Senn Delaney.

## The Provant Years

Provant acquired Senn Delaney on December 14, 1999 for $58.5 million in an all-stock transaction. Senn Delany and its culture-shaping consulting practice were added to Provant's existing portfolio of nine boutique management consulting firms.[4] Senn Delaney, as with all other portfolio companies, was to remain an independent subsidiary, not merged into any of the other businesses. Synergy was to occur through cross-selling of specialized services.

In accounting year ended June 30, 1999, Senn Delaney had annual revenues of $27 million. The stock transaction represented a significant payout for the partners (founder Larry Senn and former CEO John Childress). But the stock-market bubble that provided Provant the resources to make this and other acquisitions, and that saw Senn and Childress handsomely paid in stock, was soon to burst. By March 22, 2000, Provant was announcing the layoff of 135 and replacing its CEO.[5] The shares

Senn and Childress received had a six-month lock-up, and during that period fell in value from approximately $26 per share to $.50, dramatically reducing the payout received for the sale of their company.

It was not just Provant's stock price that plummeted. Provant's founders' expertise faltered when it came to uniting multiple management consulting firms. Cross-selling among the portfolio firms never took-off, denying an important benefit of the roll-up strategy. Many of the portfolio firms started losing their founders, clients, and revenue. Because Provant had been using its own stock as capital for acquisitions, as well as borrowings against previously acquired companies, Provant was significantly undercapitalized. This undercapitalization dramatically depleted Provant's resources, and prevented any reinvestment into their portfolio companies. Within two years, Senn Delaney was the only division with positive cash-flow. "It had become painfully clear Provant's roll-up strategy had failed. We were the only viable company in the portfolio, and it was our cash-flow that was paying all Provant's debts," relayed Senn Delaney CFO Diana Ott. With Provant failing it was also becoming clear the future of Senn Delaney was in doubt. As Senn noted:

> *It was an ill-fated deal for a lot of reasons. It cost me almost $26 million as the stock price fell dramatically immediately after the deal closed. We knew we had to buy the company back and Jim was perfect for that. He loved to do deals and was great at them.*

According to Hart:

> *At the end of the day, the one positive with the Provant roll-up was that each acquired firm had been kept as independent subsidiaries. Especially upon realizing the income from the Senn Delaney division was the only thing keeping Provant afloat, this independence allowed our partners space to develop a collective strategy.*

But it wasn't just a cash-flow issue. Hart realized:

> *The real value in Senn Delaney was its people, and we all thought the business could still be viable outside the Provant umbrella. Our people had been together for years; I was the newest member. We knew each other, our goals, our strengths, and our passions. Fortunately, the original founder (Larry Senn) and the other long-tenured members agreed.*

Hart led the negotiation to buy-back the firm, dealing with Provant and the banks whose interests were secured by the division.

On April 14, 2003, agreements were finalized and Senn Delaney emerged from Provant as a renewed stand-alone consulting firm.[6,7] Leaving Provant cost $3.2 million,[8] funded through a combination of personal loan from Senn, as well as a bank loan personally guaranteed by both Senn and Hart.

But extricating Senn Delaney from Provant would be more easily said than done. While Senn Delaney had been left largely intact as a division of Provant, the buyout had meant a new ownership structure and new relationships between the firm and its staff. Therefore, in addition to negotiating with Provant and its bankers, Hart had to establish new internal relationships to ensure the newly independent Senn Delaney could be successful. Part of that meant ensuring the new firm would be interesting and inviting to its critical employees.

The firm's new organizational structure resulted in Senn and Hart becoming majority partners, controlling 80% of the firm, with the remaining 20% distributed across five others (see **Exhibit 1** for profile of the legacy partners). This represented a much broader ownership structure than had ever existed at the firm. As Hart noted:

> *I insisted on providing a significant share of ownership to our senior partners because it was clear we would need these people on board and committed for a decade in order to rebuild our firm and to ensure our success. I had to convince Larry, who previously had owned virtually the entire firm by himself, but Larry saw the wisdom and agreed.*

As Senn stated:

> *This wasn't just about being more fair; it was about recognizing we needed to align all our interests and incentives to be able to keep all the legacy partners working at their best level for the next decade. These key people were long-time consultants at Senn Delaney, pre-dating the Provant fiasco and well versed in the issues of culture-shaping and consulting.*

While the new partnership structure meant the seven "legacy partners"[9] could participate fully in strategic policy formulation, decision making, and profit distribution, it also meant they would be fully participating in any new debts incurred by the firm as well as all future investments and any required capital calls. This commitment was consequential as the firm needed to reinvest significant resources to recapitalize itself, stabilize its business, and to start to grow its portfolio for the future.

In April 2003, Hart stood as President and CEO of what he believed to be a promising consulting firm – a new firm that had a rich history and strong brand recognition. He stood with the legacy partners by his side. While the buy-back from Provant allowed the partners to reclaim the name, history and legacy of Senn Delaney, and to lay claim to the future of the firm, all the original problems they faced in the late 1990s would soon reemerge. The Provant problem was remedied but all the issues the original Provant purchase had been meant to solve were back in play.

## Re-engineering Senn Delaney

In one of their first decisions, the partners agreed that both buy-back loans (the bank loan and the note from Larry Senn) should be repaid quickly from cash flow. This was accomplished over a two-year period. Having experienced the significant problems induced by high debt levels at Provant, the partners also agreed that all required future investments should be funded through cash flow. This was a significant decision for the partners: cash used for investments would not flow to the partners as earnings. "We were all hopeful the investments we were making through retained earnings would eventually generate future returns, but there was no guarantee. So each of the partners was very much bought-in," relayed Ott. Hart wondered how long the legacy partners would be willing to relinquish their own wealth and financial growth for the greater good of the company, and this created some urgency. Hart and his partners knew they needed to prioritize their key investments.

The partners immediately set out to list their challenges:

1) **Market Credibility**: Senn Delaney needed to reintroduce itself to the market. While the name Senn Delaney was synonymous with culture-shaping consulting, the firm's name and reputation arguably had been tarnished by the Provant episode, and the overall economy was still weak after the "dot com" bubble burst, meaning sales of consulting services were challenged.

2) **Growth**: The firm needed to grow. But a consulting practice usually grows through expansion of the consulting team, and ultimately that imposes value limitations on the firm. Further, Senn Delaney realized any growth would need to increase their free cash-flow in order to fund further investment.

3) **Business Model Innovation**: The firm needed to find a way to increase the perceived value of its consulting services. While their clients were consistently happy with the service level provided, Senn Delaney recognized that to be truly transformative for their clients they would need to find a way to take culture-shaping capabilities deeper into their clients' businesses.

4) **Firm Valuation Growth**: The firm needed to build itself in a manner that would ultimately allow its market value to grow. Only by growing the market value of the firm could legacy partners hope to achieve any form of retirement exit. This issue would require concerted effort, as consulting firms were generally valued at low multiples because the revenue generating assets were people, assets that literally walked out the door at the end of every day.

The firm needed to find a way to grow and scale the business if it was going to increase profitability. Now more than ever they needed to find innovative ways to improve their service offerings and to re-engineer their business model. Solutions were needed for how to extend the capabilities of Senn Delaney beyond its human capital, and solutions were needed to find a way to allow the aging partners to exit the firm. With the firm's structure and Hart's leadership position stabilized, the partners decided to tackle the range of these issues through a deliberate and phased set of activities.

## *Reestablishing Credibility in the Marketplace*

The $3.2 million buyback cost made it very important to quickly figure out how to earn sufficient revenue. But rather than simply engage in new marketing activities, the partners were driven by their own belief in the efficacy of their culture-shaping consulting activity. They believed there was an opportunity to both show the market how committed they were, and to also benefit from their own insights. So Senn Delaney began to reinvest significant funds into internal personnel development. Per Diana Ott:

> *These internal development programs were an effort to get clear about our purpose in the organization, in our lives, and with our clients. Engaging in these activities would give us greater credibility, while also better aligning ourselves to our mission, and with all those whom we were helping get clear in their own purpose.*

To deal with the need to reassert its credibility, the firm started running retreats for its legacy partners, and subsequently for all its consultants, and then later expanded these to include all employees. The retreats would focus on the culture and mission of Senn Delaney, and the ways in which each person's life mission contributed to their own effectiveness. As EVP Bill Parsons noted:

> *This meant some difficult work, with each person having to identify their own life's mission before being able to reconnect with how they contributed to the mission of the firm. By becoming more authentic as individual consultants, and as a firm "eating its own dog food" as they say in the consulting world, clients could more easily place their trust in the recommendations provided by us. And simultaneously, being clear in our mission allowed us to approach clients with a renewed sense of purpose and belief in the significance of our service offerings.*

## *Growing the Practice*

Hart declared:

> *Over the years, Larry Senn had proven himself to be incredibly valuable at business development. This freed me, and the other legacy partners, from having to look for new clients. Rather, the rest of the partners could concentrate on building deeper relationships, and I could concentrate on organizational issues. And Larry was freed to concentrate on finding new clients.*

But the more successful Senn was at bringing in new business, the greater the need was to grow the number of consultants. While it was always possible to find and hire qualified new consultants, the overhead associated with hiring, training, and retaining consultants would cap profit margins for the business. "And so, we started searching for other ways to grow the practice while still maintaining a laser focus on the firm's primary target audience. Simply hiring consultants to serve an ever-growing list of clients was a fool's errand," declared Ott.

## *Innovations on the Traditional Business Model*

The traditional business model for professional service firms was getting in the way of Senn Delaney's desire for growth. The largest share of a traditional consulting firms' revenue derives from fee for consulting: hours billed. More hours billed means more revenue. More hours billed also means having to hire more consultants who can bill their hours, and therefore higher labor costs. This is true for law firms, medical offices, architectural design firms, and all other professional service firms: revenue is tied directly to hours of service provided by professionals. Over generations, there had only been slight innovation to this traditional business model: a well-established sub-practice in developing "leave-behind" products. These types of products would be snippets of the firm's intellectual property, and clients could be billed for them. Senn Delaney had been using this type of revenue stream for years, but it never amounted to more than 15% of their total revenue. As Hart noted the challenges:

> *Ultimately, the only way to grow and scale the firm was to do something different. Senn Delaney was going to need to innovate the traditional business model to support more growth. And the innovation had to result in either more efficient use of consultant time, or supplement consultants' time. And either of these ideas was going to have to result in clients being willing to pay additional moneys to us.*

Careful consideration was needed on this issue because it could have a dramatic result. Any successful innovation had the potential to allow for firm revenue growth, while also potentially materially increasing Senn Delaney's value to its existing and future clients. A solution also had the potential to impact the financial value of Senn Delaney. The last time Senn Delaney faced these growth constraints, they had tried to overcome them with the sale to Provant, but it was now clear that merging with additional consulting firms did not represent a viable solution; another solution would be needed.

### Finding Ways to Grow

Hart and the partnership team began sharing ideas for how they might achieve a level of scalability within their current organization. This meant finding addition revenue sources within existing clients, as well as growing the number of clients they were serving. Suggestions for global expansion entered the conversation, but opening new offices around the world required more time, more people, and more money, and did not inherently translate into more productivity or greater margin.

Also entering the conversation was the option of executive coaching, a practice implemented by some competitors in the marketplace. Executive Vice President Mike Marino led this exploration, and advocated its value to the rest of the partners. He noted:

> *Many "megafirms" were starting to offer the option of C-suite coaching, working directly with individual leaders of an organization on a one-to-one basis. We were thinking that perhaps, with coaching, we could help our clients be more effective at overcoming obstacles to their own success at the same time we were helping them change their organization's culture. This would allow us deeper engagement with members of our client firms, drawing in more revenue.*

Although such an offering could expand the depth of client engagement, it did not deal with the fundamental challenges Senn Delaney sought to address through an expansion strategy: efficiency of human capital and margin expansion. First, executive coaching would require more human resources because of the time-intensive activity necessitated by this form of one-on-one work. Second, this service deviated from their business ideology of shifting culture within entire organizations. Rather, it isolated the implementation of cultural shift to a single person, which did not address the challenges client organizations faced across leadership teams and throughout their entire structure. Marino noted, "At the end of the day, I'm glad we didn't go down this path. I don't think it would have worked so well. Interestingly, most of the competitors that tried this ended up dropping the service over time."

Coincident with the recognized need to innovate the traditional business model, Senn Delaney was also recognizing the limits of its ability to effectuate deep and durable change within its client firms. Senn Delaney had always been focused on bringing culture shaping capability to its clients' C-suites. The firm historically believed culture flowed from senior management teams and that changes to an organization's culture had to be modeled and supported by senior management. Hart:

> *We started coming to the realization that because culture permeates throughout an organization, only by reaching all a client's employees could transformative cultural change be assured, especially at the point of impact with clients' customers. Increasing the depth of our culture shaping engagement within client organizations, like the other growth strategies being explored, would however compound our human capital constraints.*

Although there were many potential ideas to explore, the focus needed to address the most critical challenge: how to do more with less. In 2004, the partnership team realized evolving technology might allow development of a unified solutions to address issues of growth and limited human capital. "The business model innovation started to become clear to us. The innovation we had to develop would blend a set of solutions to move culture-shaping deeper into the client organizations," shared Ott.

## SD Connect

The answer the partnership team settled on became known as SD Connect, a technology platform designed to provide client training, deliver clients "homework assignments" for both before and after consultants' on-site visits, and afford interactive tools to support the culture-shaping issues important to individual clients.

Hart and the partnership team decided to invest in the creation of SD Connect, and to fund the project through cash flow. "Our desire to avoid debt was in part emotional, related to the Provant experience. Provant had funded its expansion, including the purchase of Senn Delaney, through debt. Ultimately, that debt burden proved to be Provant's downfall as the debt service became unmanageable," relayed Ott. As Hart noted, "The Senn Delaney partners wanted to avoid a repeat of that lesson, even though funding this platform development from cash flow meant the money was not available for distribution to the partners." In other words, the partners were willing to give up current compensation to fund development of a platform that would allow Senn Delaney to grow and to become more effective (and more profitable) in providing services to its clients. The partners reasoned that if SD Connect was successful, the additional revenue streams generated through the revised business model would later compensate them handsomely.

SD Connect addressed both the issue of "doing more with less," and expansion and growth. In its first iteration, the platform was built to be licensed to clients who otherwise were buying only hourly consulting contracts: SD Connect represented an additional resource client companies could turn to outside of traditional on-site consulting sessions. This meant that for simple tasks, clients could utilize SD Connect, freeing the consultants to work on more valuable activities while Senn Delaney still collected revenue from the SD Connect service. Subsequently, SD Connect was upgraded to offer additional opportunities for computer-based trainings that client companies could use to deepen culture-shaping lessons throughout their organization. The final iteration of SD Connect was designed to empower clients' employees designated as "leaders" to engage more deeply with the technology and content, allowing these leaders to instill culture shaping activities continuously into the internal operations of their own organizations.

Development of SD Connect took three years, and ultimately cost $8 Million. And the investment was well worth the effort, in the opinion of the partners. As Mike Marino stated, "SD Connect was a commercial success and a huge hit with clients." By 2008, revenue generated specifically through SD Connect reached 40% of Net Income. The SD Connect platform not only accomplished the goal of adding an additional revenue stream, but completely shifted the Senn Delaney business model. The firm was no longer reliant solely on human capital, and so they could effectively and efficiently expand their reach and grow the business. According to Marino: "Clients old and new began to see the value in this blended solution, and Senn Delaney began to reap the rewards."

## *Finding a Path toward Exit*

As Hart stated,

> *Completing and deploying SD Connect was a huge strategic step for Senn Delaney. The blended solution, the use of both technology-based and consultant-based interactions with each client firm, created a significant new revenue stream no longer directly reliant on consultant time, and it showed in the financial results.... But we still had significant challenges.* (See **Exhibit 2** for financial statements)

In 2008, with the buyback loans paid off and SD Connect complete,[10] Hart started thinking about where the firm should head next. It had been a decade since he joined the company with a personal goal to help make Senn Delaney a world recognized brand and the leader in culture-shaping consulting. While he had seen many successes along this journey, he also recognized the need for additional effort, and foremost among those efforts would be some form of exit planning.

One of the issues the 1999 Provant buyout had been designed to resolve was allowing for senior members of the firm to retire. But with the failure of Provant, retirements became problematic, and by 2003 the partners found it more difficult to exit than during the 1990s.[11] While the 2003 buyback had allowed Senn Delaney to reassert itself into the marketplace, the growth strategy of reinvesting revenues back into the company represented shackles of ongoing commitment for the individual partners. Some additional changes would be needed at Senn Delaney to allow for the (now aging) legacy partners' future retirements. Related Diana Ott:

> *By exit planning, we didn't mean succession planning as such, but rather how to allow all the legacy partners to exit the firm for value. Everyone had been investing into the business [through retained earnings], and everyone wanted to be able to, at some time, reap the financial rewards from their hard work and investments.*

As Executive Vice President Nick Neuhausel stated:

> *Don't get me wrong, we loved what we were doing. We had invented the culture-shaping consulting space, arguably the most important consulting work that takes place. We improved the lives of our client's managers, employees, and customers while also helping our clients be more efficient stewards of their investors' assets. And over the years we had all become close personal friends. We were all personally vested in the work we were doing. But, we also all recognized the work was hard, the hours long, and each of us would at some time need to retire.*

To understand what exit options might realistically exist for the partners, the firm needed to gather some information. Specifically, Senn Delaney needed to understand what kind of valuation it might be able to command, as most exit options would have to utilize some form of outside money. To support finding the information, Senn Delaney interviewed a handful of investment bankers. Quickly, the partners decided they would be best served by a boutique advisor instead of a national firm. Even though Senn Delaney had gained a national reputation and had grown its revenues to more than $20 million per year, the firm was still small in the overall marketplace of businesses.

When Hart was pursuing his MBA at USC, he became friendly with Lloyd Greif. They were both members of the first cohort in Marshall's entrepreneurship program in 1971. They had kept in contact over the years, keeping up to date on each other's activities while both becoming very actively involved in supporting the growing Marshall School of Business and its entrepreneurship center. Because of this long-running relationship between Hart and Greif, and the highly confidential and detailed nature of the immediate information needs as well as any subsequent searches, Senn Delaney's partners agreed Lloyd Greif should serve as their investment banker.

Early research on the issue brought welcome news: the market would be willing to value Senn Delaney more in line with a software-as-service firm than as a traditional consulting practice. The investment in SD Connect was being recognized among potential acquirers as transformative. As such, it appeared Senn Delaney would have a market value of something approximately 9X EBITA, where consulting firms typically struggled to set a market value at 3X.

With this knowledge, the partners tasked Hart and Ott with creating a list of strategic options supporting exit. The other partners would remain focused externally – on finding new clients and serving existing clients. Hart said:

> *In this process, which was clearly going to be rather all-encompassing and time consuming, we made the decision from the partner team that the bulk of the partners would stay focused on the business, growing revenue, and keeping the company going where it needs to go. If we started to see a drop-off in performance, it would hurt the very story that was so attractive to the market, and start to restrict our exit options.*

Before any specific solutions could be discussed, the partners would need to consider the types of exits that would be most workable. As such, Hart and Ott returned to the partners with the following four options for deliberation, rooted in the information that Greif & Co had uncovered regarding the firm's likely valuation: junior partner buyout; sale to a strategic buyer; cash-out sale; or seek a cash infusion and use that to lead an industry consolidation

## Junior Partner Buyout

The first option involved allowing junior partners to buy-out the legacy partners. This option represented the traditional retirement strategy in professional service firms: junior partners selected for senior partner promotions either buy-in or leave. The buy-in would replace the capital contribution from a senior partner who is bought-out (cashing out and retiring). As Parsons noted,

> *In this sense, becoming a senior partner is personally very expensive, but in some ways, this is also an ideal solution: Each partner gets to vote on who is allowed to join into the ownership structure. It keeps a professional service firm's culture intact, and it helps to maintain brand stability.*

However, this option could not address the concurrent and bigger challenge of finding a scalable solution to grow the company. And this option would not free-up any of the higher market valuation Senn Delaney had earned for itself, instead relying on capital levels tied to the legacy partners' investments, and therefore, Senn Delaney would still be limited by the level of its current resources.

## Sale to Strategic Partner

A second option was to seek a strategic buyer. A strategic buyer would be one that could itself benefit from adding Senn Delaney to its product offerings while simultaneously benefiting Senn Delaney by growing its footprint, perhaps internationally, while also allowing for retirements.

The strategic buyer scenario seemed strong, but finding the right partner could prove challenging. There would be only a few companies that would be big enough to provide Senn Delaney what it needed for growth, that would also be willing to let Senn Delaney exist as a quasi-independent entity. While the right partnership could potentially unlock greater strategic value for Senn Delaney than any other option, because the buyer-pool would be more limited it might result in a lower buy-out valuation. And with any strategic buyer, the cultural fit issues would be more important to negotiate. As Hart relayed:

> *This option was the most complex of the four. The potential was there for a great solution, but the world is littered with failed strategic partnerships. The odds of success with this option were perhaps the lowest. The negotiation would also be slower and more complex than with any of the other options because it would be almost definite the buyer would want the partners to remain for two or three years after the close.*

## Cash-out Sale to Public Company

The third potential solution was quickly orchestrating an absolute sale to an outside publicly traded global firm, allowing the legacy partners to trade out of the shares they received for a buyout. This represented the quickest and cleanest break. Hart noted to the partners:

> *Most buyouts take place because of differentiated valuations buyers and sellers place on particular assets. We had a great asset in SD Connect; a software firm or educational firm might be able to gain advantage based on this software that went well beyond what we could. And such a firm might give us a greater valuation. A private equity firm might also believe the breakup value of Senn Delaney assets was high. So, unlike a strategic buyer looking for synergies, a pure buyout was a possibility and the buyer-pool might be larger.*

The partners would each receive value for their percentage ownership and would be free to leave the company at will. The drawback, however, would be exactly that: leaving the company they had built in the hands of others who may or may not want to maximize the non-cash value of the culture-shaping consulting practice. Therefore this option had the potential to literally destroy the very business the legacy partners had given so much effort to build.

### Outside Cash Infusion Allowing Industry Consolidation

The final option was to pursue rapid growth through acquisitions, with an eye toward growing revenues large enough to enable retirement exits. Although they had a terrible experience with Provant, the partners kept a roll-up strategy on the table, with the partners noting they would only consider a structure that resulted in Senn Delaney being at the center.

Hart noted to the other partners that it appeared this strategy could be successfully implemented with a capital infusion from either a public offering or partnering with a private equity firm. But with such a strategy, there were great risks to consider. For example, to gain a global footprint required buying an international company and integrating its existing culture. Another risk centered around the objectives of outsiders: what would an investor (or the public) be seeking, and would it align sufficiently with the needs and desires of Senn Delaney over the long term? As Ott reported:

> *We were clearly sitting on some untapped wealth, and the question was how to access it. This option would allow us to remain Senn Delaney, grow by acquiring the other firms we might want, and still have the capital to allow for retirements for those legacy partners who wanted or needed to leave.*

## Requirements for an Exit

At the same time the partners were being presented with this list of exit options, Greif & Co was busy putting together 'The Book": a set of PowerPoint materials and supporting documents explaining Senn Delaney's history, tools, and goals, as well as their financial performance data. This material would be used to "shop" Senn Delaney as the firm's partners worked to select the path they preferred.

In the discussion about type of exit, however, it because clear the choice was not going to be simple. The partners recognized they needed to create a process to accomplish the exit, including finding, interviewing, and qualifying buyers/investors. This process was likely to take at least a year, possibly several. And simultaneously the firm also needed to remain focused on growing its revenues and its client base, and continue developing new aspects of SD Connect to support ongoing organic growth. Failure along these other dimensions would make any exit more difficult and less financially rewarding. To keep the company running effectively, a decision needed to be made immediately: should the legacy partners inform the whole firm, or keep the information and process limited to themselves? In some significant respect, this issue demanded immediate attention, and pushed off any other decision about what exit path may be most interesting.

"If employees learned of the effort, they might start looking for new jobs," relayed Ott. Therefore, the partners decided their discussions would be kept completely secret from anyone outside the partner team. "We demanded totally secrecy inside the firm," Hart declared. "All meetings on the subject would take place on Saturdays or after-hours, and absolutely no information could be leaked."

With that decision made, a series of meetings were scheduled to discuss the exit options. At the first of these, the partners expressed a variety of almost irreconcilable sentiments. Some were concerned with the total financial value to be received, while others wanted to ensure continuation of the Senn Delaney brand, and others wanted the culture-shaping consulting practices to be expanded around the world. As Hart reported later:

> *We're all good friends, and we've all worked together a long time. We, by nature and training, understand our personal mission in life and to the firm, as well as the mission of Senn Delaney. So we usually reach consensus pretty quickly. But this discussion proved more challenging and demanded a lot of careful attention to everybody's concerns.*

Senn seconded this:

> *There were a lot of emotional issues raised in this process. Before, we'd worked at trying to save our business, grow our business, transform our business to work better for us and our clients. A lot of that was, while not crisis management, really directed toward organizational survival. But now we were talking about leaving this firm we built together, and entrusting it with strangers. Were we willing to do so? Under what conditions?*

In a standard financial acquisition, buyers would typically examine a set of objective financial metrics to determine how the transaction would contribute to their bottom line: The attractiveness of a company would be based on financial health, profit margins, rate of growth, and business overlap/complementarity. And on these metrics, Senn Delaney was very attractive. However, Senn Delaney's partners' priorities extended beyond financial and focused heavily on finding ways to continue growing and expanding their thought leadership and brand. Maintaining the strength of their reputation and the integrity of their practice was top of mind for several of the partners.

As a result, the partners, led by Hart and Ott, determined that simultaneous to selecting the type of exit the firm should pursue, they would also need to develop a working list of issues critical to the various legacy partners. Some of these issues might be "required" in any transaction, other points would be considered of vital importance only under some exit scenarios.

One item raised was three years guaranteed employment for all Senn Delaney non-partner employees. Several partners felt very strongly about this issue, but Senn and Hart both believed the demand unreasonable, with Hart stating, "Any firm must be able to make personnel decisions without interference and Senn Delaney itself would never agree to buy a firm under such conditions." Ultimately, the issue was resolved by coming to an understanding that so long as an acquiring firm or investor promised not to engage in mass-layoffs, then employees working on Senn Delaney business would be allowed to prove their worth while any new owners were learning about Senn Delaney's full capabilities. Ultimately, the partners agreed with this solution and not to include this issue in any conditions list.

Other issues had been raised and needed to be debated. Each of these issues could potentially influence the value of Senn Delaney to an acquirer or investor, and so while all of these issues seemed important, parsimony could be critical.

- Senn Delaney was historically a firm that consulted primarily at the CEO and board level. Should SD want any acquirer/investor to also be focused at this level?
- Was there a way to find acquirers/investors who would be committed to partnering to expand Senn Delaney's culture-shaping practice across the globe?
- Would there be a way to seek partners/investors that would be willing to engage Senn Delaney's leadership in the culture-shaping of their own internal processes?
- There was expressed a strong desire to retain the Senn Delaney brand because it had become synonymous with culture-shaping consulting.

- What size of acquirer/investor would be most appropriate: a firm should be big enough to support SD's growth, but not a megafirm where SD could be lost and not able to contribute strategically?
- Because of the bad experience with Provant, there was a strong desire to get an immediately vested cash payment for at least a large fraction of any transaction.
- In addition to a large upfront payout, there was also a strong desire that Senn Delaney's partners be able to earn a "bonus" based on group performance over the first few years after any transaction.

These issues had significant emotional overlays, especially for Larry Senn. Senn had founded the original firm in 1978, based in large part on his Ph.D. disserta'tion work. He had almost given his company away for nothing to Provant, and then reinvested millions of his own money to help Senn Delaney extricate itself from that near-death experience. Senn didn't want to risk losing the company again, and wanted to get the full value for his ideas and efforts while also ensuring the brand and the practice would continue to live. As Senn relayed:

> *As these intensive conversations began, the personal impacts on each of us became more apparent. Some of the requirements the partners laid out required a bit of a leap of faith. If an exit doesn't work out, you could be limiting your future, as well as that of the firm. So, we talked about that as a group and laid out the pros and cons. We discussed potential ways to negotiate flexibilities. Jim and Diana were great and created a safe space to have an open dialogue and discuss our concerns. And for me this was even more emotional as everything about Senn Delaney was built, with my ongoing help, from the foundation of my own dissertation.*

## The Decision Point

Hart was seated at the head of the conference room table, next to him Larry Senn, the firm's founder and namesake. Hart locked eyes with each of the partners, who had become much more than just colleagues. Although he had stood before this group many times as CEO, this evening was different. His primary goal tonight was to gain consensus about a decision that would very directly affect them all individually, and would determine the future of their firm.

Hart thought about how hard they had all worked to establish a solid brand and a dominant market position. Since the Provant days, Senn Delaney had reestablished itself as the pre-eminent culture-shaping consulting organization. Their unique and innovative blended solution was sought out by top companies. SD Connect was its own success story, and was the catalyst to successfully changing the traditional consulting business mode, as well as dramatically changing the culture, and hence work environments, of many well-known clients. Senn Delaney was truly a leader in its field. But could the culture-shaping consulting practice remain viable without its legacy partners?

## Exhibit 1: Senn Delaney Legacy Partners

### *Larry E. Senn, Chairman*

- Bachelor's in Engineering & Masters of Business Administration from *University of California, Los Angeles*. Doctorate in Management & Organizational Behavior from *University of Southern California*
- Prior to *Senn Delaney*, Dr. Senn ran his own retail business in college, after becoming a senior engineer in the aerospace industry, and eventually a faculty member at both the *University of Southern California* and *University of California, Los Angeles*
- "Father of Corporate Culture," according to *The CEO Forum* magazine
- Co-Founded *Senn Delaney* in 1978 to assist CEOs and senior executives in creating high-performance teams and winning cultures

### *Jim Hart, President & CEO*

- Bachelor's in Psychology & Masters of Business Administration from the University of Southern California
- Prior to Senn Delaney, founded Star Software Systems in 1980, a software publishing company which was recognized for 2 years on Inc. Magazine's list of fastest growing U.S. companies. Led California's largest multi-family real estate development and management firm, Western National Group, from the 65th to 28th largest firm in the country
- Helped establish Senn Delaney as the leading global firm in the burgeoning field of culture shaping. Headed engagements in a variety of industries including telecommunications, aerospace, energy, retailing, financial services, manufacturing and pharmaceuticals

### *Diana Ott, Partner, CFO & COO*

- Bachelor's in Finance from Cal State University, Long Beach
- Joined Senn Delaney in 1990 as a staff accountant and within 2 years was promoted to Controller. Promoted to Vice President of Operations in 2001 and to CFO and COO in 2005
- Currently responsible for overseeing day-to-day operations of Senn Delaney

### *Nitsa Lallas, Partner & Executive Vice President*

- Bachelor of Arts and Masters of Business Administration from Stanford University
- Prior to Senn Delaney, Ms. Lallas held executive-level positions at Dole Packaged Foods and Crown Zellerbach/ James River Corporation. Joined Senn Delaney in 1996 and currently guides the Company's healthcare practice while also continuing her work with a broad range of clients
- Past and current clients include: Bath & Body Works, Children's Hospital Los Angeles, Express, Hitachi Data Systems, Kellogg's, Limited Brands, Methodist Le Bonheur Healthcare, Miami Children's Hospital, Nationwide Children's Hospital, Staples, T-Mobile, UnitedHealth Group, Yum! Brands and Victoria's Secret Stores

## Exhibit 1: Senn Delaney Legacy Partners, continued

### *Mike Marino, Partner & Executive Vice President*

- Bachelor's in History from New York University and Masters of Counseling Education from the University of Virginia
- 10 years as a human resources executive at Chase Manhattan Bank for the Asia-Pacific Region, helped establish the Chase-AMP Bank of Australia, served as country manager of consumer banking for Chase Thailand, and developed strategic plans for Chase Consumer Banking in Japan, Thailand and Malaysia. Former Vice President of Administration for Sunkyong America in 1990, a $1-billion unit of SK, the Korean conglomerate
- Joined Senn Delaney in 1992 and became a partner in 1994, helping to establish Senn Delaney's financial services and healthcare industry practices

### *Nick Neuhausel, Partner & Executive Vice President*

- Bachelor's in Mechanical/Industrial Engineering, Juris Doctorate from the University of Toledo and Masters in Management from Massachusetts Institute of Technology
- Prior to Senn Delaney, worked at Sun Oil Company as an engineer and became Vice President of Human Resources. Worked as Senior Vice President of Human Resources and Administration at Transco Energy Company. Former client of Senn Delaney, joining the Company 17 years ago
- Past and current clients include: Abbott Diabetes Care, Manulife Financial, Atmos Energy, Bank One, CIGNA Corporation, Comerica, DTE Energy, Edison International, International Truck and Engine, Kellogg's, McDonald's, and Novartis Vaccines

### *Bill Parsons, Partner & Executive Vice President*

- Bachelor's in Mechanical Engineering from Clarkson University and a Master's of Business Administration from the University of California, Los Angeles
- Prior to Senn Delaney, Mr. Parsons began his career as a mechanical engineer with McDonnell Douglas
- Joined Senn Delaney Management Consultants in 1972, specializing in business process re-engineering and operational performance improvement as President & CEO until the firm was acquired by Arthur Andersen in 1992, at which point he remained to lead the global accounting firm's retail consulting practice under the Senn Delaney brand
- Rejoined Senn Delaney Leadership Consulting Group after Arthur Andersen disbanded in 2002
- Past and current clients include: Boeing, Sears, Lowe's, AutoZone, Corinthian Colleges, Staples, Crowley Maritime, ARCADIS, Hertz, Sony Pictures Entertainment and Wellpoint

Source: Senn Delaney company documents

## Exhibit 2: Senn Delaney Income Statement

| | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| Consulting Rev. | 14,065,280 | 15,346,669 | 16,131,287 | 17,057,206 |
| Training Fee Rev. | 2,635,116 | 4,011,262 | 4,503,275 | 4,546,050 |
| *Operating Revenue* | 16,700,396 | 19,357,931 | 20,634,562 | 21,603,256 |
| SD Connect Rev. | 625,000 | 759,900 | 2,584,600 | 3,877,000 |
| ***Total Revenue*** | **17,325,396** | **20,117,831** | **23,219,162** | **25,480,256** |
| Consultant Costs | 7,540,013 | 7,804,430 | 8,594,718 | 9,152,869 |
| Training Costs | 473,681 | 698,695 | 902,704 | 735,981 |
| *Total Costs of Rev.* | 8,013,694 | 8,503,125 | 9,497,422 | 9,888,850 |
| Total G&A | 5,441,098 | 5,117,154 | 5,642,105 | 6,244,004 |
| ***Total Expenses*** | **13,454,792** | **13,620,279** | **15,139,527** | **16,132,854** |
| ***Net Income**** | **3,870,604** | **6,497,552** | **8,079,635** | **9,347,402** |
| Consulting Gross Margin | 6,525,267 | 7,542,239 | 7,536,569 | 7,904,337 |
| SD Connect and PF Gross Margin | 2,786,435 | 4,072,467 | 6,185,171 | 7,687,069 |
| *Total Gross Margin* | 9,311,702 | 11,614,706 | 13,721,740 | 15,591,406 |

| | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Consulting Rev. | 16,171,772 | 13,438,000 | 15,860,000 | 17,518,000 |
| Training Fee Rev. | 3,690,045 | 2,051,000 | 2,100,000 | 2,550,000 |
| *Operating Revenue* | 19,861,817 | 15,489,000 | 17,960,000 | 20,068,000 |
| SD Connect Rev. | 2,187,500 | 2,740,000 | 2,368,000 | 5,386,000 |
| ***Total Revenue*** | **22,049,317** | **18,229,000** | **20,328,000** | **25,454,000** |
| Consultant Costs | 8,628,037 | 7,371,000 | 8,104,000 | 8,727,000 |
| Training Costs | 642,097 | 425,000 | 348,000 | 617,000 |
| *Total Costs of Rev.* | 9,270,134 | 7,796,000 | 8,452,000 | 9,344,000 |
| Total G&A | 7,413,973 | 7,494,000 | 8,041,000 | 8,696,000 |
| ***Total Expenses*** | **16,684,107** | **15,290,000** | **16,493,000** | **18,040,000** |
| ***Net Income**** | **5,365,210** | **2,939,000** | **3,835,000** | **7,414,000** |
| Consulting Gross Margin | 7,543,735 | 6,067,000 | 7,756,000 | 8,791,000 |
| SD Connect and PF Gross Margin | 5,235,448 | 4,366,000 | 4,120,000 | 7,319,000 |
| *Total Gross Margin* | 12,779,183 | 10,433,000 | 11,876,000 | 16,110,000 |

* Before investments

Source: Senn Delaney financial documents

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1 http://www.senndelaney.com/senndelaneyhistory.html

2 http://knowledge.senndelaney.com/docs//senn%20delaney%20brochures/SennDelaneybrochure.pdf, page 2

3 https://www.sec.gov/Archives/edgar/data/1054853/0000950135-98-000809.txt

4 https://www.sec.gov/Archives/edgar/data/1054853/000095013599005741/ 0000950135-99-005741.txt. The various management consulting companies were focused on HR, executive training, or leadership development.

5 https://www.bizjournals.com/boston/stories/2000/03/20/daily9.html

6 https://www.bizjournals.com/boston/stories/2003/04/14/daily19.html

7 https://www.sec.gov/Archives/edgar/data/1054853/000092701603002184/ d8k.htm. Provant subsequently filed with the SEC to delist its shares on May 14, 2003.

8 http://www.businesswire.com/news/home/20030414005874/en/Provant-Completes-Sale-Senn-Delaney-Leadership-Consulting-Division

9 Legacy partner Nitsa Lallas would leave soon after the buy-back and her ownership was redistributed evenly to the other four minority partners.

10 While SD Connect was complete, ongoing investments have been made in SD Connect, expanding its capabilities each year through the inclusion of new Resource Centers, tools, and support for additional categories of client-user.

11 Only John Childress, Senn Delaney's former CEO, exited during the Provant era. Childress exited immediately upon closing of the sale.

12 The Lion with a Heart logo, shown on page 1 of this case, is a registered trademark of Senn Delaney.