

*National Center for the
Middle Market Case Study*

How a middle market business services company navigated its divestiture journey

COMPANY: **CIS GROUP**
HEADQUARTERS: **SOUTHLAKE, TX**

TOPIC: **SUCCESSION PLANNING**
INDUSTRY: **BUSINESS SERVICES**

OVERVIEW:

In the middle market, major transitions—such as a change in CEO, acquisition of another business or sale of the company—are extremely common. The Center's *Preparing for Major Business Transition report* shows that more than half of U.S. middle market companies can expect to face two major transitions in the span of a decade.

But just because such events are frequent doesn't mean they are easy to navigate. Indeed, since many middle market companies are privately owned by founders who play a major hands-on role in the business, such transitions are often extremely personal. According to the Center's *When Business Gets Personal report*, personal factors, such as ensuring family legacy or maintaining the culture of the organization, often bear more weight in a sale than purely business or economic factors do. Most owners report facing some difficulties letting go of the business, and seven out of 10 leaders report that the emotional roller coaster ride experienced during a sale is at least somewhat difficult to manage.

This case study shares the journey of one middle market founder and owner as he navigated both the business and personal challenges involved in selling 80% of the company he and his wife built from scratch and operated for 30 years.



CIS GROUP
OF COMPANIES

Founded by a husband-and-wife team in 1994, the CIS Group of Companies opened its doors with a single property and casualty client on the books, working to provide outsourced underwriting and claims management services in a six-county area and offering support whenever the client's own people were maxed out or unavailable. The concept worked so well that the client soon asked the CIS Group to expand to cover the entire state. CIS Group continued to grow, and by 2008, it had a presence in all 50 states with all major property and casualty companies as clients. A series of strategic acquisitions followed, and by 2020, CIS Group was running four separate divisions and employing more than 1,000 people, all while remaining 100% privately held. It was time for the next chapter in the company's growth story.

*The opportunity:***POSITION THE COMPANY AND ITS STAKEHOLDERS FOR THE NEXT PHASE OF GROWTH.**

After nearly three decades of aggressive growth, the founders of CIS Group found themselves and their company at a crossroads. The next phase of expansion would be intense and would require significant resources. “We had grown to a place that our next serious market move was going to put us directly in competition with some of our big customers,” explains founder Michael Stanley.

As the Stanleys began giving serious thought to all this would require—the resource expenditure, platform build out, new talent, human resource exposure and so much more—several events occurred that exacerbated the need for Stanley to formalize his plans for the company’s future, and his own.

First, one of CIS Group’s major customers surfaced concerns about the company’s succession plans. Given this customer’s high level of exposure to the CIS Group, it wanted the assurance of a formalized plan, and it offered its own considerable resources to guide the company through an in-depth succession planning process. Around the same time, the Stanleys’ two sons made clear their intentions to explore careers outside of the family business. The default plan of action—to pass the business on to the next generation—suddenly became a non-option.

Faced with an increasingly urgent need to define the future of his company, Stanley realized he personally did not have the appetite for the next chapter of growth, but his employees did. “I wasn’t just risk averse; I’d gotten to risk avoid,” he says. He found himself saying no to opportunities his employees and even customers wanted to pursue, and he recognized the toll that was taking on his people and the business. When the senior staff called a meeting in December 2023 to discuss their concerns, “That was the catalyst when we first looked at each other and said maybe it’s time to sell.”

*The approach:***FIND THE RIGHT BUYER TO LEAD THE NEXT CHAPTER.**

As a founder and owner deeply committed to his employees and his customers, Stanley realized he either needed to fully invest in the growth of CIS Group or divest and let others take the reins to keep the expansion going.

1 MAKING THE DECISION TO SELL. Looking back on the experience, Stanley says that making the decision to let the company go was by far the hardest part of the entire process. His focus was the people who had built the company alongside him for nearly three decades. After so many years together, he felt a deep responsibility for their transition, their security and the continuity of the culture and brand they had shaped.

He wasn’t unsettled about his own next chapter—he was well prepared for that—but the immediate impact of such a major change to what had been the centerpiece of the Stanleys’ lives for 30 years carried its own natural tension. Still, the increasingly urgent need to create a succession plan in everyone’s best interests was undeniable.

“I knew I wasn’t the one to take the company into a whole new market segment. And I also recognized that if I held on too tightly, I might be standing in the way of some of our younger leaders who were ready to grow. That made the decision feel right. We were fortunate to meet the right group at the right time, and we were deliberate in choosing them. Once those two things came together, the transition wasn’t as difficult as you might expect.”

MICHAEL STANLEY,
CIS GROUP, FOUNDER





The company's proprietary technology, CaptureQ, helps insurers underwrite risks for their policyholders remotely.

"We had known this group for a long time—sometimes working alongside them, sometimes competing with them—and their reputation was strong. They understood our business in detail, and they met every standard we had set. Just as important, they could create opportunities for our junior and mid-level managers that we simply couldn't provide on our own. No matter how successful a company becomes, the leadership funnel at the top inevitably narrows, and this partnership opened new doors for our people."

MICHAEL STANLEY,
CIS GROUP, FOUNDER

Once the major decision to sell was made, it was time to figure out the details. The Stanleys considered selling to the employees, but the company was simply too big for an outright sale, and an ESOP felt like too much risk. Private equity never felt like the right fit. The company had been approached by potential strategic buyers, including customers, on many occasions over the years, so the Stanleys knew there were interested potential purchasers in the market.

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SELECTING THE RIGHT BUYER. After spending a month carefully vetting the idea of divestiture with the senior team, a group of trusted advisors and a few major clients, the company held a workshop in June of 2024, with the executive team and its legal advisors to develop a sale strategy. The team ultimately decided to notify a select group of potential strategic buyers about the intention to sell, and three different buyers received invitations for conversations and interviews. The goal was to find the best cultural fit for acquiring all four operating divisions of the CIS Group.

"Everybody tells you their people are the most important things. We're a service company. Literally people "buy" our people. So, the biggest concern all of us had is how is this going to impact everybody else?" explains Stanley. From the company's own experience acquiring other firms, Stanley was well aware that cuts get made post deal, especially at the top.

Valuation was also a concern. But by focusing on large market, sophisticated buyers, that became less of an issue. "We all had pretty common ideas about what we thought the company was worth, and all the potential buyers were relatively generous in their valuations. Clearly, the fit and culture were more important. That was comforting," Stanley explains.

After 90 days of intense conversations and evaluations, the Stanleys, together with the senior management team, chose a buyer that felt like the "right group" and that, importantly, was big enough to absorb all the existing staff, senior leaders included. "Of course, making that kind of decision is always emotional. You ask yourself: Will they respect our team? Will they bring the right people into the fold? Can they truly support the employees who built this company? Those questions weighed heavily on me. But as we worked through them, it became clear that this was the right choice."

3 NAVIGATING THE LETTER OF INTENT PROCESS AND ITS SURPRISES.

Once the acquirer signed a letter of intent, a methodical and rigorous 90-day acquisition process began, ushering in many unanticipated highs and lows. Despite having completed many of its own successful acquisitions in the past and being a Sarbanes Oxley-compliant firm with buttoned-up financials and operations, the Stanleys and CIS Group teams were not fully prepared for the experience.

“We weren’t inexperienced. We counted ourselves as fairly sophisticated for a middle market company. Boy, did we have some lessons to learn,” Stanley says.

Specifically, the company wasn’t expecting the level of scrutiny the acquiring team brought to bear, and Stanley underestimated the detail he and his team would need to provide. The process took a toll on the team, which still needed to complete their full-time job responsibilities while making themselves available and responsive to the acquisition group.

Stanley and his team appreciated the level of professionalism and the acquisition team’s ability to fully support the company’s needs during the process, including handling the many emotions involved. Yet in hindsight, Stanley says his company should have leaned more heavily on outside experts to help his team prepare for and navigate the process.

4 COMMUNICATING THE DECISION.

For the Stanleys and their team, beyond making the actual decision to sell, the next most challenging aspect of the deal was communicating it. “You’ve done it for the right reasons. But I don’t know that you can do it without feeling a little bit selfish. It’s a very emotional time,” Stanley says.

When telling both employees and customers, the delivery matters. This is an area where Stanley feels he missed the mark, underestimating the impact of the news on various stakeholders, some of whom found out via an impersonal announcement or letter.

Starting earlier and planning for meaningful touchpoints throughout the process and at all levels of the organization to explain the decision, why it was made and the opportunities it created could have dramatically improved how stakeholders received and processed the message.

“We didn’t do as good a job with that as we could have, and it caused some heartburn along the way,” Stanley says. “I don’t think we lost any customers or employees because of it, but we lost a little street cred, no doubt.”

The company’s management team circa 2007.



“Every company will eventually face this transition, and there are professionals with real expertise who can help you prepare for it. If I could do it over again, I would have brought in a succession planning expert much earlier. There are people who do this every day, and they bring a level of perspective and preparation that you just can’t develop on your own. Looking back, we tried to figure it out as we went. We were probably a little too confident—maybe even hard-headed—in thinking we could manage it ourselves. While we eventually got there, the process would have been much smoother with the right guidance, and it would have made the entire journey easier for everyone involved.”

MICHAEL STANLEY,
CIS GROUP, FOUNDER

The results:

NEW OPPORTUNITIES— FOR THE BUSINESS, ITS PEOPLE AND ITS FOUNDER.

The Stanleys divested three of the four divisions of CIS Group, and plans are in place to sell the remaining division after completing the build-out, restructuring and transformation of its ERP platform which is currently in process. While Stanley continues to own this division for now, he is fully retired from his operational role and already onto his next chapter—teaching full-time at Texas Christian University. For Stanley, the journey was an experience like no other. The outcome of de-risking his personal involvement and investment in the business was a major yet somewhat bittersweet benefit. In the end, he's confident he made the right decision to sell to a buyer "that's willing and able to move the company into the next segment of the market and take the entire team along for the journey."

"Anybody that gets in this position, they're going to be wondering if they miss it, and I think probably yes. There's a transition that you go through. I don't miss the headache, but I miss the hustle. I miss the day-to-day interaction with the team, but we stay in close contact."

MICHAEL STANLEY,
CIS GROUP, FOUNDER



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