

*Preparation is the key to successful succession planning for financial advice businesses, and the best time to start is now,* reports **JESSICA GADD.**

**L**ike any good story, this one starts at the beginning, because that's exactly what the experts say you should do with succession planning. In an ideal world, they say, the day you start your business, you start thinking about your exit strategy – whether you think it's likely to be five years down the track or 50.

Of course, it's not an ideal world, and in 2011 and 2012 as the baby boomers born in 1947 deliver a surge in 65 year olds in the population, many potential retirees are discovering options for selling their business are fewer and farther between than they may have liked.

Add to that a shortage of younger financial planners coming up through the ranks, let alone financial planners who can afford – or want – to take on a business in uncertain economic times, in an industry that's undergoing unprecedented levels of change, and you've got a potentially challenging situation for people looking for successors.

FPA chief executive Mark Rantall says a good succession plan can take up to 10 years to execute and says five would be the minimum time he'd allow to prepare a business for a transition of ownership. Rantall says you never know what outside

forces may be at play when the time comes to sell your business, so the sooner you start planning, the more opportunity you have to waterproof your plan against industry storms.

"I've never seen the extent of both external – global – influences and internal influences, like government reform, like we have now. We've got FOFA (Future of Financial Advice), Cooper, new education and ethical standards ... there are also many forces putting downward pressure on business value," he says.

"As you can see, the GFC (global financial crisis) is not a point-in-time event. The next two years will be one big hump, as opposed to a single speed hump. Some financial planners may think it will be worth waiting to improve the value of their business; others, like older planners



**EXIT THIS WAY**

## PLANNING FOR SUCCESSFUL SUCCESSION

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### **Your time starts now**

Craig West and Linda Sirol, principals of independent advisory firm Succession Plus, believe that in two years market conditions will be better for selling a business, and urge principals who are looking at retirement to start planning now.

“A lot of people who come to us have left it too late. For example, two clients who attended one of our seminars and requested a proposal from us two years ago have recently finally got around to coming back to us to follow up. One of them was prompted by the sudden death of his next-door neighbour, who was of a similar age. The other has had a serious health scare and needs to leave quickly, but hasn’t done any preparation and can’t get out,” West says.

Financial advisers are used to talking to their clients about the importance of life and business insurance, but, like the proverbial plumber with the leaky tap, ironically they often fail to shine a light on their own long-term security. The prevailing view from industry experts is that regardless of whether principals have any intention of moving on in the near future, accidents can happen at any time and this alone justifies the existence of a succession plan right from the start.

“Death or disability can happen at any time,” Rod Bertino, a principal at independent advisory firm Business Health, says.

“You have an obligation as a business owner to provide security for your clients and staff. I’m a small business owner, and if I went to see a reputable financial planner, they wouldn’t let me leave their office without a good plan to cover unexpected eventualities. And rightly so.”

Bertino says many people underestimate the level of complexity involved in succession planning or the length of time that creating and executing a good plan takes. To begin with, principals need to define how they’d like to exit the business, which can in turn determine how – and who – to sell it to. For example, a principal who wants to mentor the successor will have a different plan to somebody who wants to switch off the lights and hit the golf course, or a person who wants to leave a bronze bust

in the lobby and be chairman of the board.

“They may not get what they want but at least they’ll have a clear picture of what they’d like to try and work towards,” Bertino says.

“They should also ask themselves: what are the must-haves, and what are the nice-to-haves? For example, is it a must-have that the buyer retains the staff, or if push comes to shove, would they let that criteria go?”

Association of Financial Advisers chief executive Richard Klipin agrees, saying principals considering a succession plan – and their successors – need to be very clear about their objectives. “Once you know your objectives, look at what’s available or what options you have. You need to assess how to engage with each other to define your strategy or plan of attack. Do you want to sell equity in stages until eventually it’s a final sale? Or will it be an outright sale? Either way, there’s no magic elixir. It’s a lot of hard work.”

The other major consideration in the earlier stages of succession planning is determining the best way to migrate clients from the existing principal to the new one. If this process is done well, it can take years. Many people don’t like change, and the last thing the buyer wants is to buy into a business only to watch the clients leave when the former principal does. But while in some ways sooner is better when it comes to introducing a new principal or telling clients about the impending change, on the other hand you don’t want to tell them before the ink is dry on the contract and the plan is locked in.

### **What’s it worth to you?**

Klipin says that for many advisers, their business is often their main commercial investment. “Succession planning shouldn’t be taken lightly. In this case, it’s critical that they find a successful outcome. And there’s a significant amount of regulation going on, which means regulation risk. Current circumstances can make it difficult and this has to be factored into the sale price,” he says.

“A succession plan can add tremendous value for the business and for the client. Most businesses start with the principal being the heart and soul of the business, but you need good succession planning to help devolve the process so that it can be replicated. It’s healthy for the business



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FPA

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To begin with, Rantall suggests advisers considering succession should look at their business plans and ask themselves a few questions, such as: is the business FOFA ready? Are there any compliance issues? What advice standards are in place? What is the quality of the client database? Where’s the value for clients?

“If it’s a commission-driven business, it may be worth less. If you’re looking at an external sale, you need a robust corporate plan to pass due diligence. All of this needs to be in place, along with good financial plans. It will all be evaluated as part of the sale,” he says.

Value is in the eye of the buyer, Bertino says, not the seller. He suggests a good maxim is “show don’t tell” – for example, don’t tell the buyer your clients are happy; show them an independently-conducted survey that proves your clients are satisfied. He cautions against leaving it too late because desperate sales attract less than premium prices.

“Your business is worth what someone will pay you when you’re ready to sell it,” he says.

“There will always be someone willing to take your business off your hands, but it may well be a fire sale. It may well cost you your lifestyle. For example, if you want to work three days a week with your successor, and they don’t want that, you’re in no position to negotiate. Or what if the buyer wants you to stay on for 12 months as part of the client transfer, but you wanted to leave straightaway?”

Sirol and West agree, warning that you can’t sell a business in the same way you sell a car.

“Having a succession plan in place doesn’t mean you have to do it straightaway,” Sirol says.

“It just means you’re transition-ready. Some of our clients, in particular younger ones, come to us with a view to setting up a specific exit strategy. They want to build up equity in order to sell the business – they’ve already got the next business idea. When we go in to help them, we largely apply the same methods as we do to an older principal who’s looking at retiring.”

### **You can’t stop timetick tick boom**

Of course, establishing the value of your business is all very well, but at the

end of the day it's no help if there is no-one to buy it. Sirol and West point out that while in the next 12 months a wave of baby boomers will turn 65 and retire, the situation is compounded by the amount of people who put off their retirement in 2008 because of the GFC and are trying to sell now. "Many of them can't hold off any longer ... if they were 65 then, they're 68 now," they say.

Rantall says the rise in the number of financial planners in the baby boomer generation hitting retirement will create a demand issue for financial advisers.

"But it's not just financial planners we're short on. It's financial planners who are prepared to purchase a business. Many firms are getting so large that it's hard for them to find someone who can afford to purchase them or would be willing to take on those debt levels. Not only that, funding mechanisms have been tightened, so not only do you need a succession plan, you need to secure funding to execute it," he says.

He suggests that ultimately many larger firms and aggregation-style models will purchase medium-sized businesses, but says there will still be a need for financial planners to work in them, and he anticipates there will be a shortage of those for about the next 10 years.

One way for younger employees to afford to buy into businesses is through equity schemes, though this can take around a decade. It also requires legal documentation to provide security for all parties.

"Quite often the people you are most likely to choose can't afford to buy the business. This approach allows that person to pay a part of their earnings into the business through a profit share plan within the business. Eventually they buy equity in the business. The added bonus of this is it is a great strategy for retaining staff. It's a strategy that works well when your options for sale are younger people who can't afford to buy the business," West says.

Selling a business to a family member adds an additional layer of complexity. Bertino warns that one of the biggest issues in families is assumption – children might assume parents will leave them the business, parents might assume children want the business and want to work in it for the long-term, for that matter.



DEBORAH KENT

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Integra Financial  
Services

"I would advise anyone looking at succession planning to seek the assistance of an external adviser. Sometimes personal relationships can get in the way and it can be hard to communicate clearly. When it comes to family, a skilled adviser can help more so than ever. Importantly, it has to be somebody both sides trust and respect," he says.

Sirol points out that, in the case of family succession, family members can sometimes have blinkers on when it comes to recognising some of their staff members may indeed be good successors to the business, but have been isolated from this possibility because of tight family circles and assumptions.

#### *Tell it like it is*

Deborah Kent has experienced succession planning from both perspectives. She had already established her own firm, Integra Financial Services, in 1996. In 2002, a risk adviser who was nearing retirement and looking for a successor to his business approached her. She agreed for him to move into her business and buy him out over a number of years.

"While he was indeed a lovely man, the cultural fit of his business, being commission and transaction only, with ours, being fee for service with ongoing relationships, did not match," Kent says.

"While we thought initially that we could integrate his clients into our business model, it proved difficult, and subsequently we sold back some of these clients to other advisers in our dealer group. It was a classic case of needing to get the homework done before the merger, so you don't get it wrong."

Happily, her own succession planning has been more fortunate. In 2008, two of her long-term staff members (they had both been a part of the business since 1999) bought shares in the business.

"It's been a very successful transition. Obviously when you've got good people you want to find a way to keep them. This way there is value in us all building the business and they have the ability to buy more shares over time," Kent says.

"The other thing is we've got a responsibility to look after our clients and you want them to know your successors well. Both of mine are known to the client base; Anthony Pears as a financial planner and Andrew Brooks as the practice manager. It's easy to assume that a financial planner should own a financial planning business,

but I think that the practice manager's role of running the business is equally as important."

Brooks agrees, pointing out that practice managers are worth considering as part of a succession plan mix. "I might not bring in an income, but I help our profitability through client retention and business efficiencies," he says.

#### *Before you go*

Sirol and West point out that having only one identity known to the clients only makes succession planning more difficult. If the firm is in one person's name, every client who calls or walks through the door wants to speak to that person.

"We call it key-man risk when the whole identity of the business is tied up around one main player," Sirol says.

In cases like this, sometimes changing the name of the firm needs to be part of the succession plan – yet another reason to allow plenty of time.

Bertino says he can't emphasise the importance of starting early enough. "Once you do start planning, so many options you may not have considered open up. Starting early will allow for any detours along the way, and also it gives you time to walk away if you've started setting something up that's just not working out. If you find you have to work really hard to make something happen, chances are it's just not right. And seek specialist advice. The cost of getting it wrong is just enormous," he says.

Klipin also suggests principals seek advice in preparing their succession plans – from licensees, practice management brokers, consultancies, lawyers, accountants, colleagues and peers. He says the more conversations you have, the better.

"Principals have got to be clear about who they'd be comfortable with as a business partner or filling their role as partner," he says.

"Once it's all signed and sealed it can be a whole new ball game. To use the analogy of a marriage, you might have had a wonderful courting process, love is in the air, and then once you're married, it can be a whole different dynamic. So finding the right person can be as much about cultural fit as skill set.

"You don't want to have to undo your good work, so the better the planning, the better the advice you get, the better the execution of the plan, the better the outcome for everyone." «