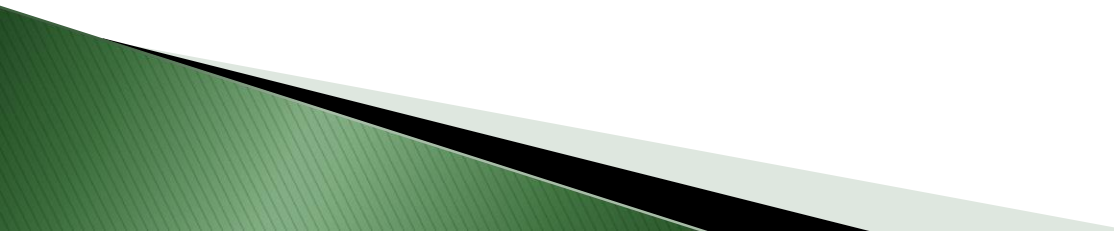




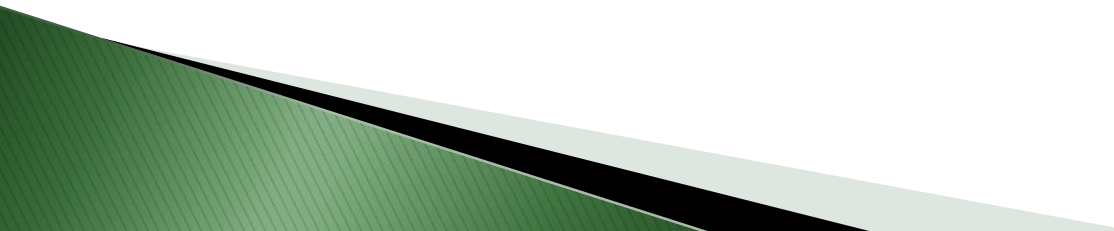
A Step-By-Step Succession Planning »» Process And Procedure

©2023 Emily M. Chiang, MBA, CFP

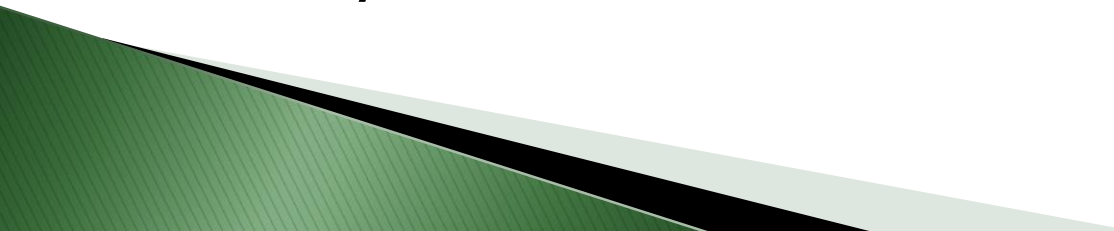
Agenda

- ▶ Why have a plan
 - ▶ When to do it
 - ▶ Which exit strategy
 - ▶ The searching process
 - ▶ What questions to ask
 - ▶ The transition process
 - ▶ A well-matched buyer
- 

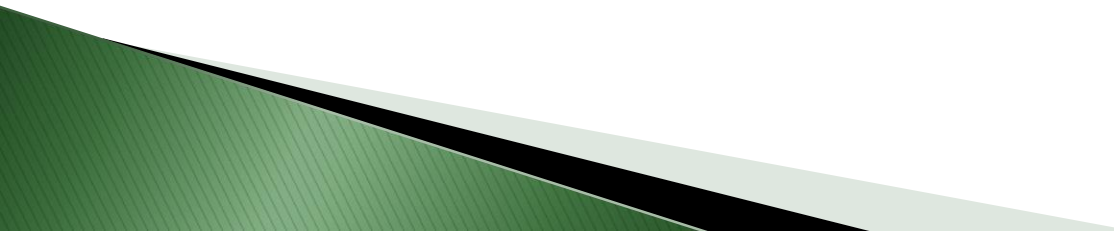
What kind of clients need succession planning?

- ▶ Examples of professional services business owners:
 - ▶ Accountants
 - ▶ Architects
 - ▶ Consultants
 - ▶ Computer/technology service providers
 - ▶ Dentists
 - ▶ Financial advisers
 - ▶ Lawyers
 - ▶ Tax advisers and more
- 

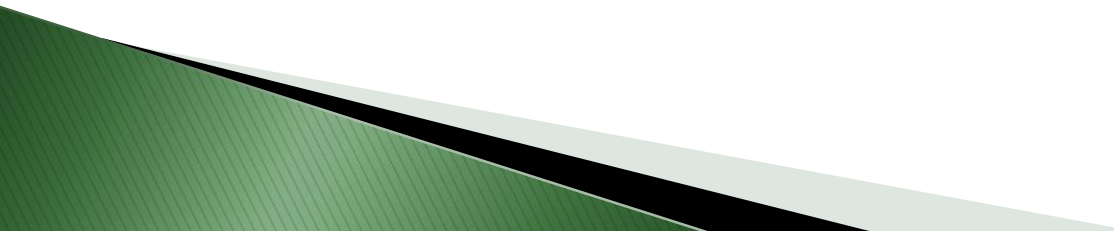
Why gain succession planning knowledge?

- ▶ Assist your business owner clients to determine and monetize the value of their businesses for a comfortable retirement
 - ▶ Understand your own succession planning process and procedures
 - ▶ Establish a plan in the event of disability or death to protect owner's business, clients, employees and estate/family
 - ▶ Establish a stronger adviser/client relationship with your business owner clients
- 

Why have a plan?

- ▶ Death
 - ▶ Disability
 - ▶ Divorce
 - ▶ Disagreement with partners
 - ▶ Exhaustion
 - ▶ Estate planning
- 


Why are business owners reluctant to plan?

- ▶ I still have time
 - ▶ I love my work; afraid of boredom; loss of identity
 - ▶ I am so busy working
 - ▶ It is too hard to find someone trustworthy
 - ▶ I'm too emotionally attached to the business, clients, colleagues and staff, not willing to end it
- 


The Statistics

- ▶ About 40% of the 260,000 advisers – 100,000 individuals – may retire by 2030 but 26% of them do not have a plan. (Cerulli Associates 2020)
- ▶ 41% of advisers have some form of plan. Only 27% report having a formerly documented plan. (FPA & Janus Henderson 2018)
- ▶ 60% of advisers in firms that manage \$500 M AUM have a formal plan. 13% of advisers in firms that manage less than \$50 M have a formal plan. (Source: FPA & Janus Henderson 2018)
- ▶ 51% of advisers consider the biggest challenge is finding the right person. (Source: FPA & Janus Henderson 2018)

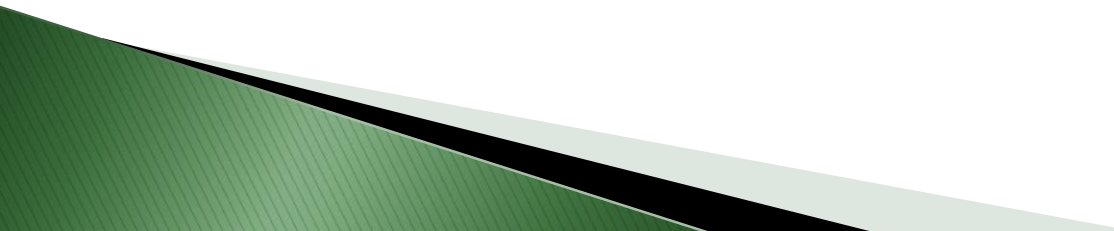
When should owners exit?

- ▶ No longer passionate or interested
 - ▶ Too many senior moments
 - ▶ When they are completely exhausted
 - ▶ When their career has peaked
 - ▶ When their clients ask them when they will retire
 - ▶ Do not want to experience another 2008/2009 or 2020/2022
 - ▶ Covid 19 is a reminder of our mortality
- 

What is your next chapter?

- ▶ Work with a life coach who specializes in retirement planning – Certified Professional Retirement Coach (CPRC)
 - ▶ Where to find a good coach
 - Retirement Coaches Association (RCA)
 - A good referral is the best
 - ▶ What to discuss
 - What is your legacy?
 - Is this all there is?
 - Traditional or non-traditional retirement life?
 - ▶ Be the **choreographer** of your “Third Act”
- 

Which exit strategy is best?

- ▶ **Selling to someone in their firm (internal succession)**
Pro: The least disruptive for clients
Con: Takes a long time to identify and groom the buyer
 - ▶ **Merging with another firm**
Pro: Similar to external sales with established internal succession
Con: May take several years longer than you wish to exit
 - ▶ **Selling to another firm**
Pro: Quickest way to exit
Con: Most disruptive for clients
- 

How should you sell your business?

- ▶ **Selling it yourself**

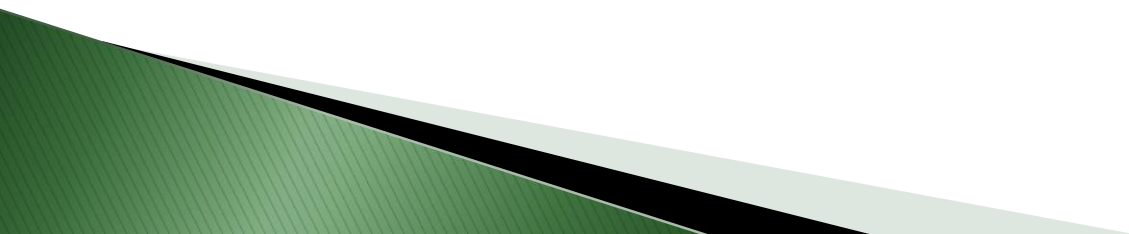
Pro: Take your time to find someone compatible and comfortable to work with

Con: Time consuming with a steep learning curve

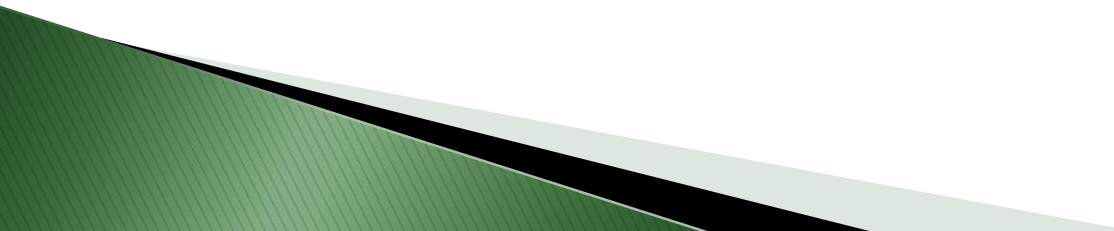
- ▶ **Selling it through a broker**

Pro: Greater access to potential buyers

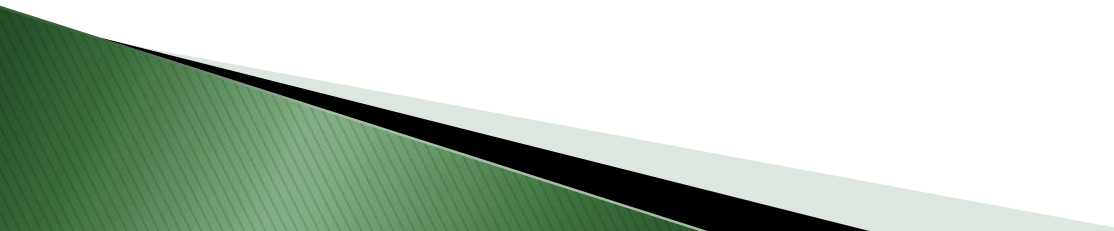
Con: May be under pressure to sell quickly



Before talking to buyers

- ▶ Understand the basics of business valuation
 - ▶ Get several valuations from reputable business-valuation consultants
 - ▶ Valuations may differ; not one-size-fits-all
 - ▶ Accurate business valuation is important
- 

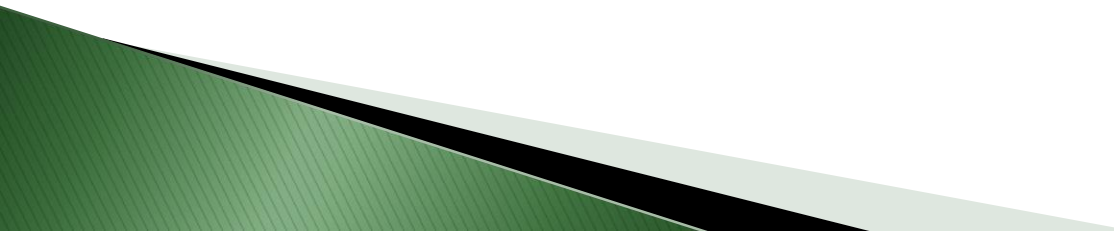
Basic metrics used to value a business

- ▶ Assets under management (AUM)
 - ▶ Revenue from recurring and non-recurring income
 - ▶ Cash flow from the business (EBITDA)
 - ▶ Client and revenue growth rate
 - ▶ Client demographics and lengths of client relationships
 - ▶ Business longevity and its physical assets
- 

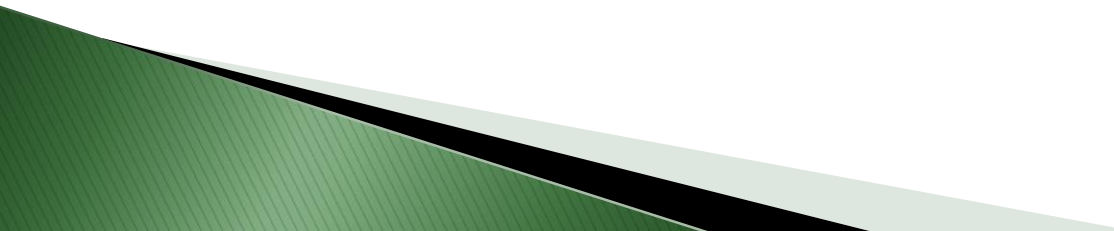
Valuation

- ▶ Work with industry experts for business owner clients
- ▶ The value of the business is a function of:
 - The strength of the client relationships
 - How successfully you can transfer your clients to the buyer's firm
 - How strong the present and projected future cash flow generated from these clients is
- ▶ Example of valuation method:
 - Present value of discounted future cash flow
 - A profitable business commands higher price

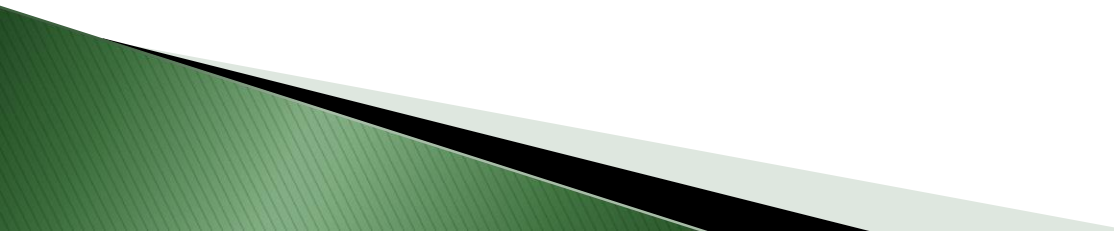
Your team of experts

- ▶ Contract attorneys
 - ▶ Tax accountants
 - ▶ Business valuation consultants
 - ▶ Industry experts for business owner clients
 - ▶ Business and/or life coach
- 

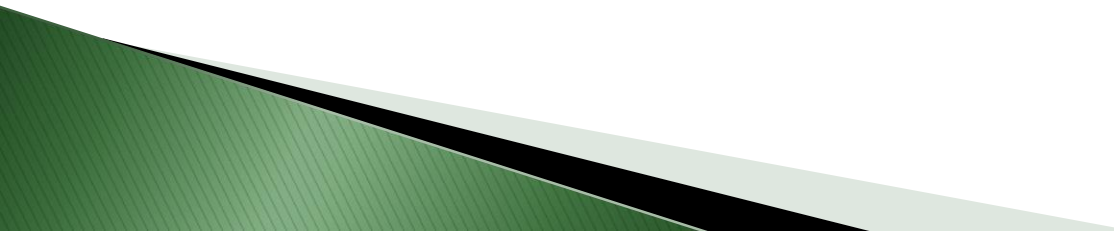
What are the attributes for a well-matched buyer?

- ▶ High ethical standards with no compliance issues
 - ▶ High IQ (intelligent quotient), EQ (emotional quotient) and AQ (adaptability quotient)
 - ▶ Compatible culture, same investment philosophy, similar fee structure and client servicing standard
 - ▶ Ambition and motivation to be a business owner
 - ▶ 10 years of experience; late 30s to 50 years of age
 - ▶ Required designations
 - ▶ Someone you already know, like and respect
 - ▶ Strong financial strength
- 

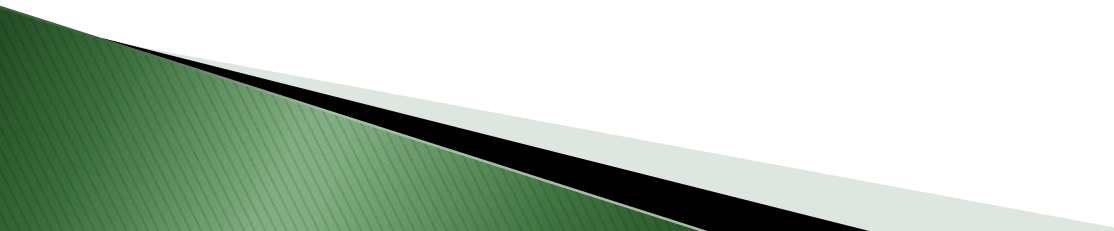
Where to find the buyer

- ▶ Your local professional chapters are fertile ground i.e. FPA and NAPFA chapters
 - ▶ Your colleagues, master mind and study groups
 - ▶ Business brokers
 - ▶ Wholesalers
- 


Preparing for the initial meeting

- ▶ Describe the demographics in a succinct and confidential manner
 - ▶ State the longevity of the business and the number of clients
 - ▶ Provide current and historical revenues and general marketing strategies
 - ▶ Prepare a summary to tell the story of your owner client's **life's work**
 - ▶ Ask the buyers to share similar information about their businesses
 - ▶ Do not exaggerate; honesty is the best policy
- 

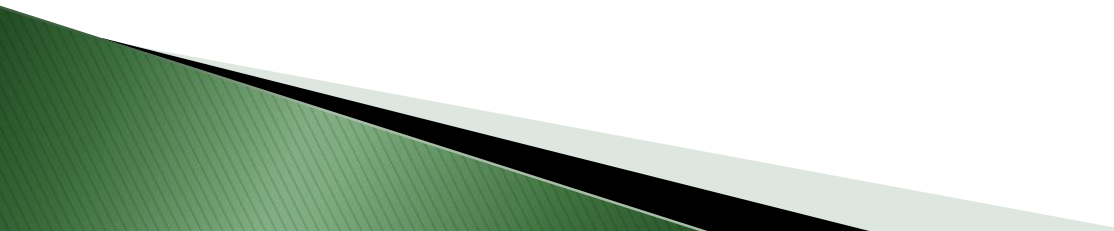
Preparing for the meeting (continued)

- ▶ For serious buyer: be ready to show 3 to 5 years of historical, current and projected income and expenses
 - ▶ The selling price is a function of the projected revenues and cash flow (we can not *sell* relationships)
 - ▶ Share your sample financial plan, investment portfolio and performance statement confidentially and ask your buyer to provide the same data to determine compatibility
 - ▶ Design a **customized** and **strategic** plan for each client
- 

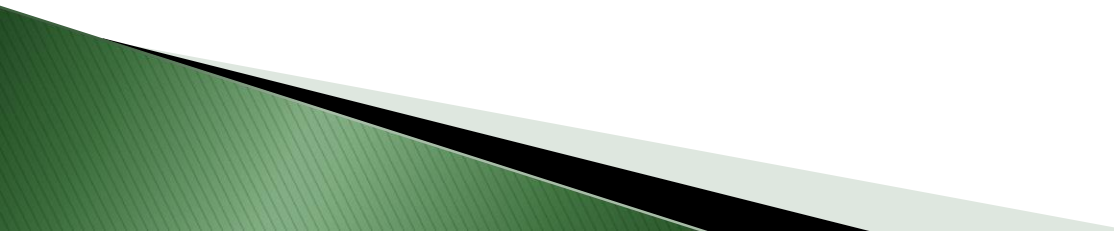
Questions to ask the buyers

- ▶ How long have you, the buyer, been in the business?
 - ▶ What is your business plan for the next three to five years?
 - ▶ What do your clients like about you the most? i.e. relationship, trust, level of service or performance
 - ▶ How will you, as the buyer, incorporate newly acquired clients into your firm's overall operation and growth trajectory?
 - ▶ Have you bought any businesses before? What is your client-retention rate?
- 

Questions to ask buyers (continued)

- ▶ What is your firm's culture and investment philosophy?
 - ▶ How did your portfolio perform in 2008, 2009 and 2010 during the great recession? What about 2020/2022? How did it compare to the benchmarks?
 - ▶ Can you provide sample portfolio reports and historical returns?
 - ▶ Who will be servicing the clients and what are their educational backgrounds and their designations?
- 

Questions to ask buyers (continued)

- ▶ What is the average number of years the buyer's own clients have worked with the buyer?
 - ▶ Discuss and negotiate with the buyer about the appropriate length of transition period
 - ▶ **Goal:** Someone your clients trust and feel comfortable working with. Someone who is *better* than you in the craft of the business and client servicing skills
- 

Major success factors to find a buyer

Major factors stated by Mark Hurley:


- ▶ Timing
- ▶ Pricing
- ▶ Personality

(Source: “Brave New World of Wealth Management.” Fiduciary Net Work. April, 2013)


My factors:

- ▶ Values
 - ▶ Match
 - ▶ TRUST
- 

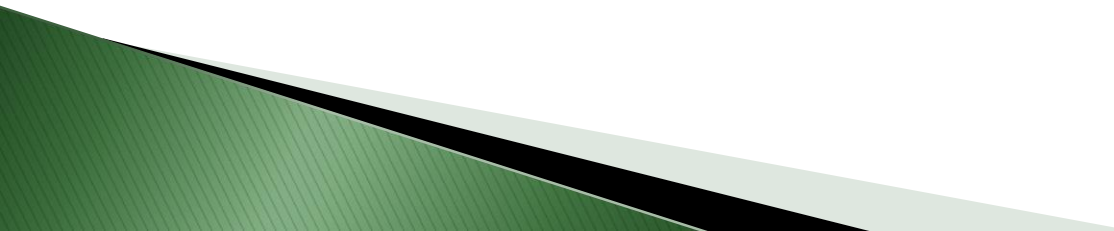
What are common deal structures?

- ▶ Value of the business
 - ▶ Down payment
 - ▶ Earn out
 - ▶ Tax treatment
 - ▶ Consulting agreement
 - ▶ Non-compete agreement
- 

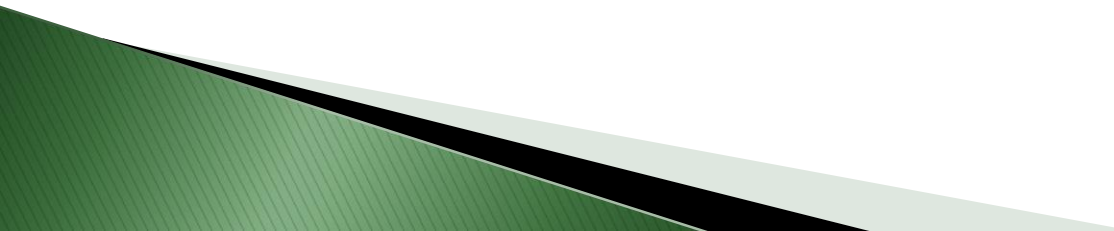
Post-sale transition process

- ▶ Be transparent with all clients and employees
 - ▶ Talk to the top 20% of highest paying clients or those who contribute 80% of the total revenues
 - ▶ Write formal letter to remaining clients
 - ▶ Introduce the buyer to clients and explain the due diligence process of selecting this buyer
 - ▶ Begin working at the buyer's office
- 

Transition process (continued)

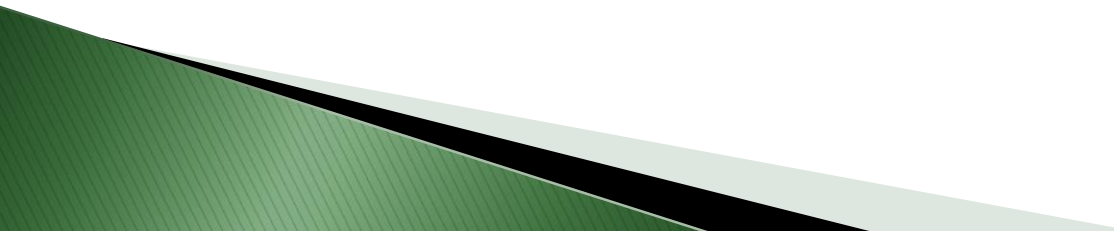
- ▶ Buyer discusses their services in detail – similarities and differences
 - ▶ Be fully prepared that some clients may not follow you to the buyer's office
 - ▶ The goal is to maximize a high transfer rate; buyer and seller should refer to their customized transition plan for each client
- 

Transition process (continued)

- ▶ Buyer provides meeting agenda, reports and analyses similar to seller's method
 - ▶ Make changes **slowly** over time
 - ▶ May take 4 or 5 meetings or 1 to 2 years for a seamless transition
 - ▶ Complicated and challenging clients may take longer
- 

What business practice differences could derail the transition?

▶ Cultural differences

- Business behavior, philosophy, value and reputation
 - Entrepreneurial vs. corporate
 - Sole proprietor vs. team
 - Gender-based management style
- 

Major business differences

(continued)

- ▶ **Investment philosophies differences**
 - Growth vs. value
 - Passive vs. active
 - Long-term investing vs. tactical investing or market timing
 - Overly concentrated vs. highly diversified
 - Model vs. customized
 - Client is vs. isn't educated about differences
 - Alternative investments vs. traditional investments

Major business differences

(continued)

- ▶ **Work flow differences**

Similar operating process and procedures

Full access to digital assets to avoid mistakes

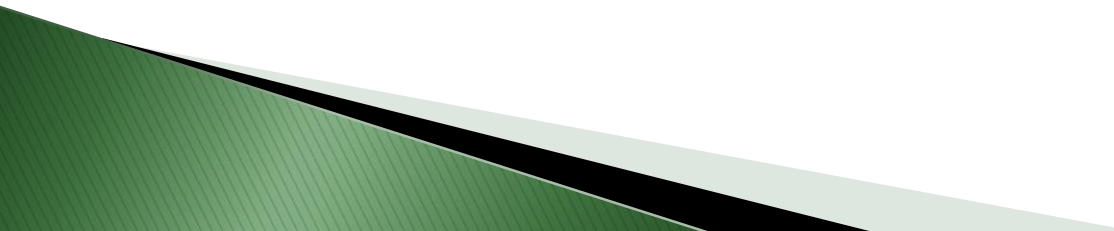
For financial advisory firms:

- Year-end tax loss harvesting
- Re-balancing
- Performance reporting methods
- Discretionary vs. non-discretionary

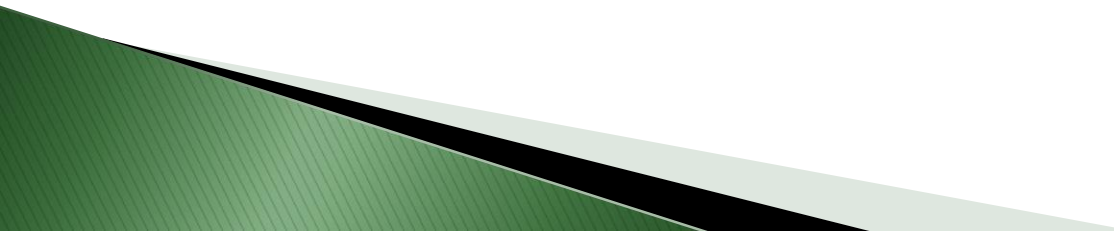
- ▶ **Other potential pitfalls**

One-size-fits-all transition plan may result in high number of defections; must remain flexible and adapt to challenges quickly

How do you know who is the well-matched buyer?

- ▶ The buyer/firm has a similar culture and investment philosophy and work flow process
 - ▶ Someone who can achieve high client retention rate beyond the earn-out period at a minimum
 - ▶ Someone who is both good in the craft of the business and willing to take great care of clients
 - ▶ You would be comfortable to engage the buyer as your own adviser
- 

The ultimate buyer

- ▶ Someone who is ***better*** than the seller in the craft of his/her business and client servicing skills
 - ▶ Someone who is authentic, relatable, trustworthy and a good custodian of the seller's legacy
 - ▶ Someone clients may like more than the seller
- 

Wishing you and your clients
a successful journey to
find a well-matched buyer!

Have questions or comments?

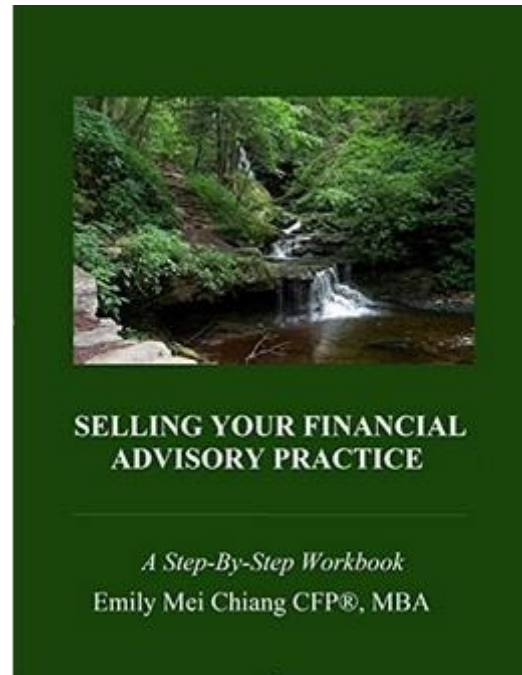
Emily M. Chiang, MBA, CFP

emily@emcsuccessionplanning.com

www.emcsuccessionplanning.com



Selling Your Financial Advisory Practice: A Step-By-Step Workbook



Available in paperback and Kindle versions on Amazon