U.S. Planning Group, Inc.®

An Affiliation of Financial Planners and Professionals

Succession Planning: Why it REALLY matters

We provide business advice to a broad range of financial advisors and one of the most common question that we are asked is, "How can I transition out of the business?" This question is critically important because most business owners' net worth is tied up in their businesses and how their businesses' value is extracted affects the future.

U.S. Planning Group, Inc.® recently helped one of its financial advisors sell his practice. As featured in the Wall Street Journal, Georgia-based advisor Mike Monroe was advised by U.S. Planning Group, Inc. on how to structure the sale of his business and the transition. With a detailed succession plan in place, Mike was able to successfully bring a new owner on board. "It took work," says Mike, "but the result was worth every minute we invested." In this article, we will share things we learned and explain how to get started in succession planning for your business.

The #1 Lesson we Have Learned

The #1 lesson we have learned helping advisors transition their businesses is simple: plan, plan, and plan some more. The planning process of Mike Monroe's business took almost two years! The importance of planning cannot be overemphasized.

6 Steps to Creating a Plan

With a succession plan, the business owner identifies a person (or persons) who can continue the business if the current owner retires or sells his practice. A succession strategy is a long-term event that takes months and, in some cases years to implement successfully. To be successful, we have found that an effective succession plan requires six key steps:

1. Evaluating your options and setting a goal

Evaluating realistic options and setting goals are the beginning of the succession plan. First, get yourself a clean piece of paper and write down all the ideas you have about your future. Think about financial goals. Think about lifestyle goals. Think about timing: do you want management and ownership to be transferred simultaneously or on different time lines? Think about who would be the ideal person to take over your business: young or old, high energy or laid back, etc.?

Now take a look at the list of attributes you have written down. Which of these are most important to you? Which are less important? Write them down again in priority order. Your strategy going forward should emphasize the most important items on your list. As the saying goes, "You have to paint a target to hit a bull's eye."

2. Envisioning likely scenarios

The hardest thing about succession planning is predicting the future. Because it is impossible to predict exactly what will happen, we suggest you should pick two or three "most-likely" scenarios to plan for. First should be your retirement. Most people want to retire, and you should decide when and how you will retire. With financial advisors this can be a real challenge because client needs are often prioritized above personal needs. As the saying goes, "The cobbler's children have no shoes." Creating a retirement plan is an essential component of your succession plan.

Next you will need an emergency plan. No one can foresee what emergencies might come, but the effect on your business in an emergency will be the same. You must consider how your business will function if you are not an active part of it. Human resources must be in place to fill in the gaps if you cannot work. Decision making authority must be clearly designated to others before there is an emergency. Whether because of a severe illness or death, an emergency absence from your business must be planned for. Emergency plans should be updated regularly (e.g. annually), to make sure the plan reflects the current reality of your business.

Retirement plans can be more complicated than emergency plans. While emergency plans address a rapid change in circumstances, retirement plans can address change that occurs over months or years. A longer transition plan could incorporate several different phases each leading to the end goal. While emergency plans are meant to react to one specific event, transition plans can include multiple events and milestones. Both types of plans are equally important.

There are several important factors that should be included in the retirement plan. The first is timing. When would you like to start the transition? When would you like to be completely detached from your business? How much time is between these two points? Another factor is the complexity of your business? The more complex your business, the longer a transition is likely needed. Other factors that affect the plan include assets under management, number of clients, and scope of practice activities.

3. Identifying the right successor

Once the rough plan is completed, the next issue to decide on is who will take over the business. Sources for candidates can be referrals, industry associations and broker dealers.

We have found that for many practices, the ideal candidate will be a family member. Family businesses have their own set of complexities. Many times family members do not have the same set of skills as the business founder. To see what might be lacking, it is important to evaluate skill set, passions and abilities of the family member taking

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over the business. We all have strengths and weaknesses and need to rely on the skills and abilities of others. In the case of the new owner—particularly a family member—it is essential to identify core skills, abilities and where additional skills are needed.

If family members are not a part of the succession plan, then a candidate from outside the family must be identified. This could either be an internal candidate or an external candidate. A good first step is to consider existing employees. Is there someone already working in your business who in time could take it over? If the answer is yes, then this possibility should be investigated. If the answer is no, then a search must be performed to identify outside candidates.

Identifying external candidates is not easy. Sure, you can post an ad on "Craigslist" and you will have 100 applicants. But how many will be qualified? A better way to approach the problem is to identify the skills required for the ideal candidate. These skills and abilities can be divided into several key categories. First is character. What is this person like? How does he do business? Is he trustworthy? It is important to verify this attribute with outside references.

The next most important attribute of a potential successor is customer relationship and sale skills. The financial services business is a people business. Customer relationship skills are essential. Selling is the only way to make the business grow. A potential candidate should have both of these traits. The candidate should also have a strong work ethic. The smartest, most personable candidate who is lazy and will not work will be a disaster for your business.

What about industry specific skills and experience? While this might be the first attribute that comes to mind, it is really not the most important. Why? Because character and work ethic are developed in a person over their growing up years and are not easily changed. Industry skills can be taught.

4. Valuing the Practice and Financing the Sale

The sale of your financial advisory practice is the most likely scenario for you to achieve liquidity and to transition out of your business. We have learned that most sales of businesses are straightforward—it is important to not make things more complicated than they need to be. Legal and tax advice is essential. The biggest question in both the minds of the seller and buyer is usually price. The seller wants to maximize the return on years of work. The buyer wants a lower price to offset the risk of purchasing something that has "unknowns."

Obtaining financing is the biggest hurdle for a business sale in the financial advisory business. Financing the purchase is typically a combination of buyer savings, seller financing, and specialized bank financing. The benefit of significant seller financing should be reflected in a higher sale price. Valuation assessments can come from several sources, including other financial advisors who have sold their office their business, the advisor's broker-dealer, and experienced accounting firms.

5. Training and Transitioning the Successor

Your succession plan must reflect the specifics of your particular business and the person you have chosen to be your successor will need to be trained in those specifics. We have learned that your succession plan should include a successor training plan. Training areas could include building/maintaining client relationships, understanding administrative systems, employee management, and marketing. Compensation for the successor should be detailed in the training plan. As the practice owner, you will need to take on most of the responsibility for successor training.

6. Evaluate the Milestones

Milestones should be set to evaluate your successor's progress while in the training period. We believe that a good timing for milestones is about every three months. A meeting should be held to discuss the good and bad of the previous quarter and how the succession plan should be adjusted to achieve the transition goals.

If at some point it becomes clear that your chosen successor is not capable of managing your business, it is always best to address this problem sooner rather than later. Also be cautious about not placing unreasonable expectations on your successor. You know your business better than anyone and it is easy to assume that someone new will manage your business as well as you do. Of course this initially won't be the case—be reasonable when evaluating performance!

It's worth the work!

Despite the challenges of selling your business, financial advisory practices are in demand. It is very difficult for a new or less experienced financial advisor to build a robust financial advisory practice from scratch. There are many young financial advisors looking for the opportunity to own and run their own practice.

Glenn Williams, CFP®, CLU, ChFC

I would love to talk to you about your plans and thoughts on succession planning. Give me a call at 770-395-9595.

U.S. Planning Group, Inc.®
An Affiliation of Financial Planners and Professionals

400 Perimeter Center Terrace NE, Suite 900, Atlanta, GA 30346 | tel: 770-395-9595 | fax: 877-397-5137 | glenn@usplanning.com | www.USPlanning.com