



Getting Your House in Order

Whether you're looking to buy a firm or thinking about retirement and selling your firm, the work begins well before you "put the word out."

Think about this, before you begin to paint a room in your house, there are numerous tasks to accomplish before opening the first can of paint. Before you can actually start painting, you have to purchase the paint and supplies, clean the area, scrape and sand, repair holes, tape off areas to protect from unwanted paint, and put down tarps. All this prep work is why professional painters are in such demand!

Similar to painting a room in your house, when it comes to buying or selling a financial services firm, your focus should first be on preparation. Additionally, there are numerous strategic decisions and tactical components to address regardless of buying or selling. This paper attempts to illustrate some of the biggest and often forgotten elements.

If you're selling

If you want a reasonable price for something you're selling—a car, for example—it needs to look great and, more importantly, run well! You'll take it to the service station and have any issues repaired, then take it to a detailer for a thorough cleaning and waxing before you ever put it on the market.

You need your firm organized, running smoothly, and looking good to procure the best price possible. Steps sellers should consider before formally announcing their firm is for sale:

- Clearly define and document the roles and responsibilities for everyone, including the financial professional(s). If your team is large enough, consider creating an organizational chart to visually explain the firm's structure.
- Document your office procedures such as financial planning workflow, meeting prep and follow-up, new client onboarding, seminar prep and follow-up.
- Outline your office policies such as the employee performance management process, paid and sick time, holiday schedule, dress code, cell phone use, client confidentiality, social media/technology policy, etc.
- Create a non-toxic company culture. If necessary, determine and remove any counter-productive employee(s) and reward those who work in a positive manner!
- Don't guess or make emotional decisions. Before your sale hits the market, you need to understand the true value of your business and how your key performance indicators compare to other firms by using FIG's Truelytics platform.



- ❑ Think through some paramount concepts and questions.
 - What does the ideal buyer look like?
 - When do you want to put the business on the market?
 - How long are you willing to work during the transition?
 - When will you share the news with the staff?
 - How will you discuss the situation with your staff (why you're doing this, what does it mean to them, how involved will they be in decisions, etc.)
- ❑ Determine any non-negotiables (e.g. Sam the Paraplanner must remain employed, the purchase must include the building, the buyer must be a CFP). It's important to note, the more non-negotiables listed, the smaller your pool of suitors becomes.
- ❑ In your day-to-day activities, adopt a "buyer's mentality." Begin looking at your business from a buyer's perspective to understand if your business decisions, team members, and operations appeal to potential buyers.

You want the most from your sale, and that means taking a hard look at the situations that can affect the final purchase price. According to multiple sources, here are some items that may add or remove value from your business.

These are a few of the items that'll create a discount for your firm:

- Aging client demographics
- Concentration of AUM among only a few clients
- Declining revenue
- Assets in investments that are difficult to transition or service
- Expenses that the buyer will be required to accept (lease, staff, etc.)
- A service model that's difficult or expensive to replicate
- Ongoing compliance issues

These are some of the items that'll create a premium for your firm:

- Reliable revenue recurring annually
- Strong business potential
- Accelerating or steady growth
- A strong cohort of younger clients
- Ease of transition
- Ease of business
- Efficient, well-documented workflow and integrated systems



If you're buying

If you're purchasing a firm, you must demonstrate to the seller that your business can facilitate merging an additional business into it (adding another client base, more staff, and more advisors) without hurting the seller's reputation. Below is a list of items to accomplish before beginning the very competitive process of making an offer on a firm. *You'll notice some similarities to the preparation a seller needs to do.*

- ❑ Clearly define and document the roles and responsibilities for everyone, including the financial professional(s).
- ❑ Document your office procedures such as financial planning workflow, meeting prep and follow-up, new client onboarding, seminar prep and follow-up.
- ❑ Outline your office policies such as the employee performance management process, paid and sick time, holiday schedule, dress code, cell phone use, client confidentiality, social media/technology policy, etc.
- ❑ Create a non-toxic company culture. If necessary, determine and remove any counter-productive employee(s) and reward those who work in a positive manner! A seller (and their team members) will pick up on a toxic culture almost immediately.
- ❑ Know the value of your business and how your key performance indicators compare to other firms by using FIG's Truelytics platform. You need to understand your own firm before trying to purchase another.
- ❑ Become a student of Mergers and Acquisitions. You don't need to be an expert; you just need a working knowledge of the process. People underestimate how much time is involved in this process, and having a good understanding is extremely valuable and keeps your sanity in check! Review online resources, talk to peers who have gone through the process, reach out to FIG's Next Succession and Continuity Planning division, etc.
- ❑ **Pro Tip #1:** To help you stand out from other offers, understand the seller's *desired* legacy and ensure you can implement it, that it's realistic, and that you can build it into your financial modeling.
- ❑ **Pro Tip #2:** An additional tactic to help you stand out from other offers is to have a *firm profile* pre-built. This profile is a one- to three-page document highlighting key points about your firm, such as founder information, staff pictures with names and roles, office locations, investment philosophy, photos of the office, etc. Short but sweet!

As you can see, *both* buyers and sellers need to have their businesses organized and streamlined to turn an optimal deal into reality.



Once a buyer and seller find each other and agree on deal terms, creating a Transition/Integration Plan will be critical to the deal's success. This is where the hard work really begins. However, that's a topic for another whitepaper.

The Next Steps

If you'd like assistance working through these decision points, discussing your M&A strategy, or preparing your firm for the process, please email Surge Business Consulting at info@surgebc.com to schedule a conversation!

The content is for information purposes only and not intended to be investment, tax, or legal advice. The views and opinions expressed herein belong solely to the author. Sources include Live Oak Bank. ©Surge Business Consulting 2021.