CERITY PARTNERS®

Mapping the Succession Odyssey

Time, Talent, and Treasure as Your Strategic Guide

Careers are marked by change, and the financial advisor's odyssey is no different.

For financial advisors who start their own registered investment advisory (RIA) firm, their career path becomes one in which they serve as a "business owner" and "advisor." In this role, they are responsible for managing the business, including time, talent and treasure, while also balancing client growth and service. In the early days, this role is exciting, motivating and offers the utmost control over business decisions.

But RIA ownership isn't easy

Being great with clients doesn't automatically mean being great at running a dynamic business. Some of the challenges RIA owners must navigate include:

- Talent is a scarce resource and finding individuals who are the right fit for the team can be time-consuming and difficult
- Finding the next generation of advisor to continue the vision and growth of the firm requires commitment and dedication
- Compliance is a nonnegotiable that usually falls on the business owner advisor to manage
- Facing competition from local, regional and national rivals can be intimidating and stressful
- Advances in technology that require selection and deployment of operational and financial tech calls for specialized knowledge

Financial advisors often envision helping clients and growing their practice as their ultimate career success. But do they want to run and manage the business with all its stress and complexities? There comes a time when these advisors may want to transition out of their business ownership role. Are they prepared for this type of transition? Business owner advisors espouse the importance of planning to clients, but how often do they create a succession plan for themselves?

The reality is that successful business owner advisors have an emotional attachment to the practice that they built, which requires a more emotional approach to their transition. The wealth management industry is always on the hunt for assets, meaning there are always opportunities for a successful advisor to monetize. However, not every firm, model, serial acquirer and platform are created equal.

If you're ready to transition your RIA business, a deep dive in the areas of treasure, time and talent can provide an insightful roadmap to inform your succession decision. Having a succession plan in place ensures that clients aren't left rudderless if you become incapacitated and that you extract appropriate value for the hard work and risk you've taken on.

Treasure

You built your firm. Your name is on the sign on the front door. You chose the company name and designed the brand. You have immense pride and attachment to the clients and team you've cultivated. Congratulations.

It also means that you have responsibility for protecting that treasure and finding the best possible outcome for its future survival. Your legacy will live on if you are able to successfully transition the practice to the next generation of advisors or merge it into a larger organization that will help your clients and people thrive.

That treasure you built is valuable. You know it and so does the industry. As a result, understanding the dynamics of negotiations is crucial, as RIA owners must weigh immediate benefits against the long-term implications of a proposed sale.

In short, what may look good now might not look so good in a few years—and vice versa. The seller's goal should be to find a merger partner that respects the RIA's legacy and culture while offering attractive and workable transition options. In this scenario, a partner with a track record of merging with smaller firms may fit the bill.

Time

Your time is finite—both the time you can commit to clients and daily operational requirements and your career timeline. Advisors preach to clients regularly about the importance of planning, valuing their time, pursuing their goals and yet, business owner advisors often ignore time. Succession planning with an ultimate transition can take years and many business owner advisors either ignore the need or don't give it the proper prioritization deserved. While many advisors love their work, most recognize that eventually slowing down makes sense. Equally, they understand that retiring calls for more than just stepping back. It requires a detailed succession plan to ensure a seamless transition experience for colleagues and clients.

Business owner advisors often feel a sense of relief after offloading the "run-the-business" activities. No longer managing compliance, technology, human capital issues and recruiting frees up time. How that time is redeployed can depend on the work-life balance desired.

There are often options to continue to participate in the part of the practice that you love the most.

A sale, whether internal or external, can set the stage for restructuring internal responsibilities over time, as detailed in a forward-looking succession plan. This holds true whether the goal is doing a bit less overall, concentrating on preferred aspects of the practice like client service, or in time, sailing off into the sunset.

Where external succession planning makes sense, aligning with firms that have strong track records managing retirement-oriented transitions should be a priority.

Talent

It is often not possible to hire all the people with relevant skill sets needed for a business owner advisor to divest all the work they are doing to "run the business." Often the very size of the firm makes that impossible. This growth hurdle is sometimes the primary reason for transitioning the practice through sale or merger. If choosing this route, the key is finding a firm that can take the operational activities and provide the flexibility for you to engage in the activities that fit your requirements.

Then there is advisor recruiting. Making a concerted effort to develop the knowledge and skills of junior advisors is a hallmark of a well-run RIA. Effective mentorship and continuing education are vital to nurturing emerging professionals, especially when the emphasis is on equipping them not only to manage existing relationships but also to expand the client base.

Equally, the ability to retain talented young advisors is tied to any firm's growth trajectory. Stagnation in client growth can lead to the loss of talented advisors, thwarting internal succession plans in the process. The hamster wheel of talent acquisition retaining, training and growing can be exhausting.

Growth is the ultimate solution to all talent challenges.

Finding a firm that has invested in growth channels to drive referrals into the organization means a pipeline of clients to be serviced. Providing excellent service ultimately drives more referrals and increases organic growth. This is a flywheel of growth success.

Finding a firm that has enhanced their training and development programs, means they are already positioning the next generation of advisors. A business owner advisor should dig deeply into the training, development and growth opportunities at all of their succession options. Merging with a like-sized entity might not solve the issue, only making it worse by bringing more junior teams together without a growth solution.

Combine growth with training and you have magic. An internal training program with clear career pathing aligned with technical learning means that advisors at every level are accelerating their skills. For a business owner advisor concerned that selling means less career advancement or opportunity for their team, think twice. A firm with committed and defined training plus growth pillars, could accelerate growth of clients and skills for a team.

Mapping Your Odyssey

Succession planning is an ongoing process that demands careful consideration and dedication. Transitioning your practice is not merely about passing on a business; it's about safeguarding your legacy and ensuring the continuity of something you've poured your heart and soul into. By proactively engaging in succession planning, you not only secure the future of your business but also create opportunities for growth and prosperity for generations to come. With the framework of talent, time, and treasure in mind, you can find the right outcome for you.

Look for these important characteristics when evaluating potential successors:

ENHANCED GROWTH OPPORTUNITIES

A firm that offers opportunities for professional growth and development for your team is essential. You can continue to work with clients, mentor younger advisors or explore new areas of specialization, all within the supportive environment of the firm.

ACCESS TO EXPERTISE

A firm with a team of highly experienced financial professionals—client-facing and shared service—will allow you to tap into skills beneficial for your clients and the run-the-business activities at the firm.

SCALABILITY

A firm with the resources and infrastructure to support growth and adapt to evolving market conditions ensures that your clients continue to receive top-notch service.

RISK MITIGATION

Transitioning your practice to a well-established stable firm mitigates the risk associated with unforeseen circumstances, such as health issues or unexpected market downturns.

CLIENT CONTINUITY

One of the most significant concerns when transitioning a practice is ensuring client continuity. A firm with a proven track record in client retention during transitions is key. A firm with a client-centric approach ensures a seamless experience for your clients, which can preserve the relationships you've built over the years.

LEGACY PRESERVATION

Your clients will continue to benefit from your expertise and the relationships you've cultivated while also gaining access to the added resources and capabilities of a larger firm.

As ancient Chinese philosopher Lao Tzu once said:

> *"A journey of a thousand miles begins with one step."*

We hope these insights help you consider the first step in succession planning, marking your successful odyssey in wealth management. If you are interested in a deeper discussion on treasure, time and talent, we are always happy to share our experience and expertise.

Contact Masha Hodi to learn more about joining Cerity Partners.

Visit ceritypartners.com or call 212.202.1810 to learn more.