8 Keys to Inorganic Growth for Advisory Firms

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When advisors think about growing their business and building scale, an inevitable underpinning of the strategy is either deploying a recruiting campaign to attract advisors with a book of business, or trying to develop a functional M&A plan to merge with or buy another independent advisor. There is something intriguing about this phenomenon: most independent advisors fail to realize that many of their peers want to do the exact same thing!

I have been to more practice management forums at various conferences over the years than is probably healthy, and there is a common occurrence at each. The question is posed by the speaker: "How many of you in this room are thinking about buying a firm or recruiting an advisor from another firm?" A forest of hands rises into the air. "Okay,' the speaker continues, "how many of you would consider selling your firm to another?" Perhaps one or two brave souls will raise their hands in defiance of what would seem to be the prevailing sentiment. The imbalance is always there.

Why is there such an imbalance? Is it a psychological effect? Better to be seen as a buyer than a seller? Strength lies with those who buy versus those who sell? Is selling perceived as a sign of weakness?

My hypothesis is as follows. Advisors are less willing to evaluate their strategic plan for an inorganic growth strategy from a systematic and quantitative perspective, but instead let their emotions, their perceptions, take over. Many advisors feel they can translate their success in growing their private wealth or institutional business organically to the realm of M&A.

The reality, however, is that recruiting and M&A are completely different animals that require constant care, nurturing and planning to achieve a successful outcome. And I have news for you: the probability of success is extremely low.

I have had the privilege of working with six of the best RIAs in the United States, via a group called The Alliance for RIAs (aRIA), for some time now. It is a study group that meets regularly to share best practices around inorganic growth. The vast majority of our time is spent reviewing real-life scenarios in a case-study format, where we address situations head on and seek to provide each other with ideas to help achieve greater levels of success. Similarly to how there are multiple ways to solve an abstract challenge, each member has found success with inorganic growth despite each firm's very different approaches to addressing the opportunities for such growth.

In the spirit of aRIA, I would like to offer a few 'guiding tenets' for developing an inorganic growth strategy to those independent advisors seeking to find material success. Any independent firm; whether it be a consolidator, RIA, super OSJ, or service bureau platform, must address these key issues.

The key for advisors is *having your game plan in place before you deploy your strategy*. It is not enough to figure it out on the fly, as the market has quite simply become too crowded.

This is validated from my perspective as recruiters and investment bankers in this space are being more selective on taking on 'buy side' clients. I have personally referred advisors to recruiting firms to only hear the sad feedback that the recruiter won't help. Instead, here are the strategies that multi-billion dollar RIAs deploy to their great benefit when pursuing such an approach.

Key Elements of an Inorganic Growth Strategy

Step 1: Have a Clear Value Proposition

This may be obvious, but if your firm does not have a compelling proposition, your inorganic play is DOA. If you can't answer the simple question, "Why would an advisor decide to join our firm versus all other alternatives in the market," you can't compete. Most independent firms have a unique lever that would attract advisors;you need one too.

Step 2: Identify Your Ideal Advisor

This sounds simple in concept, but having a specific strategy is harder than it seems. Do you want to attract an RIA, are you looking for a successor, do you want to recruit wirehouse advisors? The more specific you get may limit the addressable market, but it will also help you align your value proposition with what an advisor may be looking for.

Step 3: Define Your Advisory Support Platform

This defines how your firm will support the advisor and the client experience. Think office space, assistant, marketing budget, technology, research, etc.

Step 4: Think Through Your Compensation and Equity Plan

This is a key element. Before going out and speaking to prospective advisors, you should have your compensation plan and equity design carefully thought through and ready to implement. Advisors that transition are taking a risk, and they want to understand the personal economic upside of taking that risk. Without a plan, you will be figuring it out 'on the fly,' which is rarely a strong negotiating position. The best plans are 'win/win' plans under which the inorganic growth firm wins and the advisor being recruited may never lose work.

Step 5: Build a Human Capital Strategy and Culture

Successful advisors want to absorb the best practices of other successful advisors. A positive and growing culture can help. My company recently performed research with investment bankers and one of the top deal breakers was lack of cultural alignment. If you don't have a strong and positive culture, finding success in any facet of your growth plan will be difficult.

Step 6: Display a Strong Transition Capability

Having experience in transitioning and integrating advisors is a massive benefit. Advisors will want to understand how you can move them from point A to point B, and nobody wants to be the test case! Leveraging your support providers, such as custodians, can help.

Step 7: Integrate Your Sales and Marketing Efforts

In some ways, inorganic growth is a numbers game. The more advisors you talk to, the greater probability somebody will say yes. Be prepared to invest in marketing materials, sales resources, off-line and social media, PR, and people.

Step 8: Expend Resources

An inorganic growth strategy requires focus, time, and commitment. The most successful firms usually dedicate full-time staff to the effort.

Inorganic growth strategies may look great on paper, but in most cases they are far harder to execute. If you go down this path, think it through: is this your best available alternative for growth, or would you be better off by considering other options?

The best part of being an entrepreneur and owning an advisory business is that you have not one, but myriad choices. Think of inorganic growth just like a VC fund would look at an investment opportunity: if you judge that you can get a great risk-adjusted return, go for it. If you don't, cease and desist, and instead focus on organic growth to achieve the goals you've set out for your business, your family, and yourself.