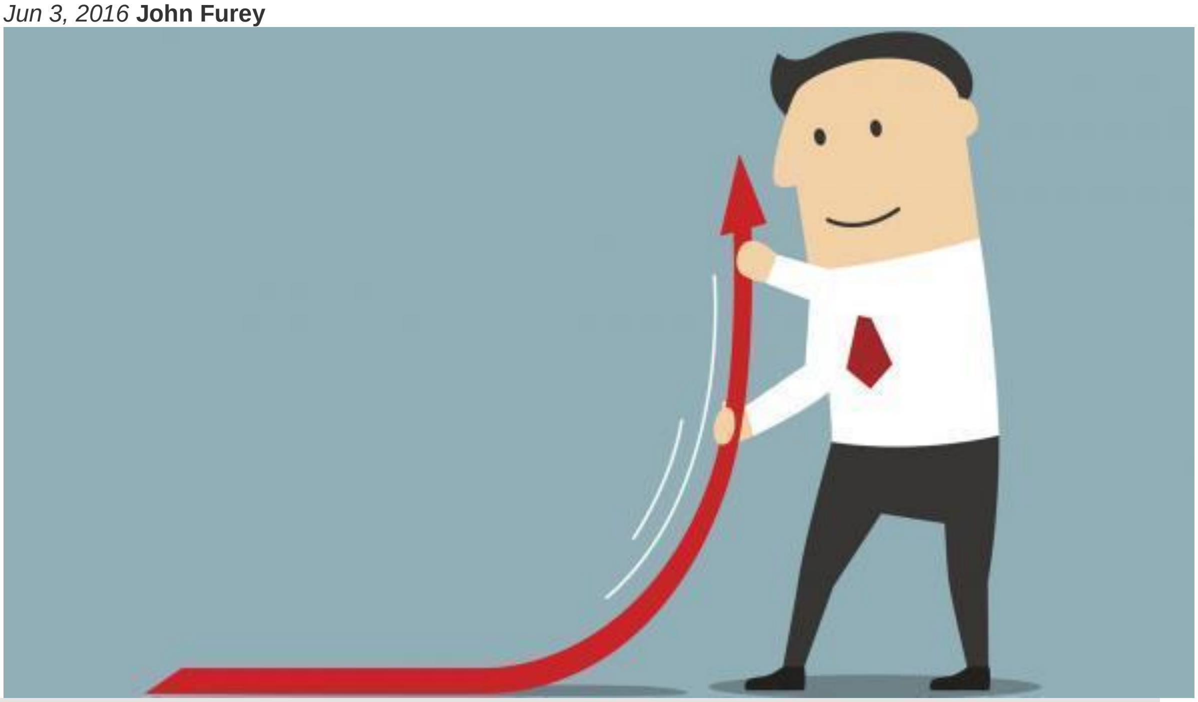
How Building a Succession Plan Can Increase Your Firm's Value

Jun 3, 2016 **John Furey**



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Industry participants have articulated the risks of not having a succession plan for years – lack of continuity for clients, inability for advisors to realize the value of their life's work, and risk for employees in terms of their long term employment. Surveys tell us that not enough advisors have developed a real succession plan, with most surveys triangulating about two-thirds of advisors without one. Although it is widely accepted that succession planning improves business continuity and protects owner equity, a comprehensive succession plan brings additional benefits. But to develop a truly comprehensive succession plan that maximizes value, advisors need to shift their thinking about what a succession plan really is.

Too often, advisors consider a buy/sell agreement to be a succession plan. Many advisors feel they are covered if they identify a buyer to take the reins in the case of their unexpected demise or an involuntary exit from the business. But a succession plan is not simply a continuity plan. It is a living document that outlines an intentional plan for owners to ensure the business will remain a sustainable entity, with or without some or all of the owners. The best succession plans are also actionable and clearly outline a systematic way that ownership will be passed from one professional to another over time. Such a plan usually includes owner criteria, the transition of roles/responsibilities, and contingency plans if the initial plan does not progress or the plan goes off track.

Good succession plans function as an element of a broader business plan that improves firm value by lowering risk to fuel growth. In order to fully realize the benefits of succession planning, advisors should think of it less as an agreement and more as a business partnership with firm contributors. As with any business partnership, succession plans should be reviewed to ensure successors can meet future commitments – particularly if they are planning to buy equity. Once a firm identifies successors, communication with clients and employees about the plan should be developed and strategically rolled-out.

The primary value-measure of an advisory's book-of-business is the degree to which its "goodwill" is transferable (e.g. clients' willingness to continue to pay an on-going fee to an advisory firm). Through comprehensive succession planning, firms can maximize the transferability of goodwill and minimize revenue loss. Thoughtful succession planning distributes ownership of clients among "successor" staffs, which has the effect of sustaining client confidence in the team (versus a single professional) that in turn protects a firm's value. It also ensures a better degree of certainty around business continuity. In addition to preserving existing firm value, succession planning can attract new client relationships and grow existing ones. With a comprehensive succession plan in place, advisors are positioned to better attract younger clients that are in "accumulation mode" versus older clients that may be drawing down assets. A succession plan assures these younger client prospects that a firm has the next generation of advisors in place to serve their needs for the long-haul.

Succession planning also may help a firm win the race for human capital. There is a high demand for top advisory talent and few firms have defined career paths for their professional teams. By outlining a succession plan that includes *a* path to ownership, criteria to achieve it, and the economic benefits, advisory firms have an opportunity to differentiate themselves in a highly competitive labor market.

Owners of firms in smaller markets typically face headwinds, given they have limited professional talent to choose from. By beginning the process of succession planning early, owners can recruit and develop talent – thus allowing talent to begin playing a meaningful role professional management over time. In this way, succession planning paves the way for talent to become potential successors.

Succession plans are often viewed as an important and worthwhile effort, but always something that needs to be addressed immediately. By changing the paradigm from a strategy of mitigating risk to one of driving growth, advisory firms may begin to view succession planning as something worth tackling now rather than putting off until later. Succession plans take different forms, but one thing is consistent—when approached correctly, having a plan is paramount to determining the future and potential value of your firm.

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