Why building a multibillion dollar firm is not for the faint of heart

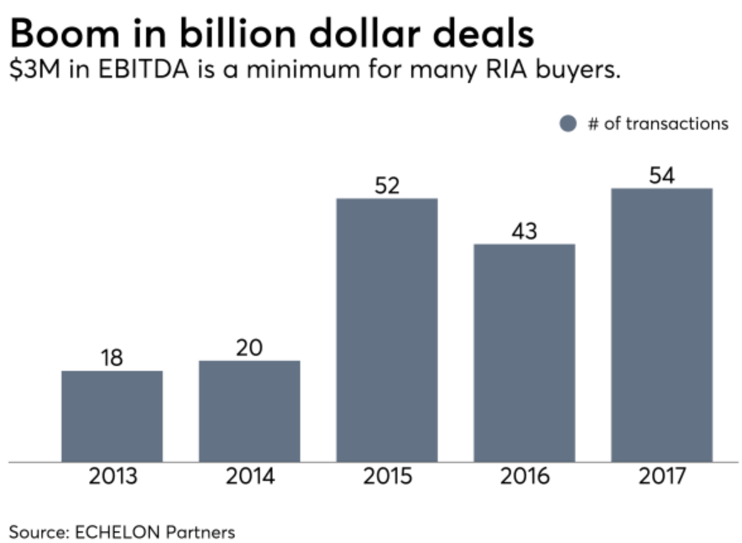
by Charles Paikert for Financial Planning

If you want to become a multibillion dollar advisory firm, be prepared to make some hard decisions.

Principals committed to growing their RIA into an enterprise firm need to recognize the difference between management and leadership, said Brent Brodeski, CEO of Savant Capital Management.

"Management is telling people what to do," Brodeski told advisors at a session titled "The Road to a Multi-billion Dollar Firm: Pushing Past Challenges and Setbacks" at Charles Schwab's annual IMPACT conference. "Leadership is having a vision and attracting people to it."

Owners will have to give up some things they enjoy doing.



"I was good at attracting assets, but the business needed something different," Brodeski explained, "So I focused more on providing leadership and vision."

Firm founders will also have to learn that they won't be able to accomplish everything on their own. Hiring a capable staff will only help.

"We had to learn where we weren't excellent, and let others take over," Brodeski said. "When we hired, we looked for people who complimented us, not people who were just like us."

While cultivating homegrown employees to become asset gatherers is always preferable, “most firms have zero experience developing people,” noted industry consultant John Furey, who also spoke at the session.

What’s more, Furey added, “Developing people is a high risk strategy. You can’t predict the results.”

The challenges of attracting high quality advisors was a chief reason Savant began to acquire other firms, Brodeski said.

“The reality is the best people are hard to get,” he said. “They’re not standing on a street corner waving a resume and saying ‘Hire me.’ So if you can’t hire them, you can add them by merging with another firm.”

But the frothy M&A market isn’t for the faint of heart, warned Matt Cooper, CEO of Beacon Pointe Advisors.

A buyers’ offer to provide back office services for a smaller seller is now just “table stakes,” Cooper said.

M&A is about “economics and emotion,” Cooper said. If valuations and deal structures are similar, he explained, “You have to give sellers a personal reason where they fit best.”

Cooper also cautioned that M&A comes with a potential “opportunity cost” for growing RIAs: principals who might otherwise be bringing in new business — and revenue — are instead trying to persuade firm owners to sell, a much riskier proposition.

Brodeski added his own word of caution to potential buyers.

“You don’t get good at M&A until you screw it up a few times,” he said.