WEALTH MANAGEMENT FOUNDATIONS *for intentional growth*

HOW TO FACE OWNERSHIP CHALLENGES HEAD ON

FP TRANSITIONS®

TODAY'S INDEPENDENT FINANCIAL ADVISORS FACE AN ENDLESS ARRAY OF OPPORTUNITIES (AND CHALLENGES).

Do I have the best regulatory structure?

Do I charge enough for the services I offer?

Is my business growing fast enough? Is it profitable?

How much should I pay my team?

How do I recruit new talent? How do I get them to stay?

How do I build a business that will outlast my career?

How do I slow down but still receive income as the business builder?

How do I ensure that my clients and family are taken care of if something happens to me?

And that's just for starters.

IT'S EASY TO FIND PROBLEMS THAT NEED SOLVING.

The key is to identify the challenges before they arise and to develop strategies for tackling the issues that present the greatest opportunities for improvement and growth.

There are FOUR MAIN CHALLENGES facing advisors today.

1 GROWTH & PROFITABILITY

Growth and profitability are inextricably linked and balancing the two within a single practice and entity structure is the difference between building a one-generational practice and a multi-generational, sustainable enterprise.

2 TALENT RETENTION

Essential to your business's growth and longevity is your ability to recruit, retain, and reward next-generation talent. In an aging industry, recognizing the value of younger advisors impacts everything from growth rates to profitability to the success of your desired exit plan.

3 SUCCESSION PLANNING

Creating a sustainable business that extends beyond your individual career requires a successful internal succession team and a deep look into your enterprise. Internal succession furthers business longevity, increases profitability, and protects the value of your business for years to come.

4 MERGERS & ACQUISITIONS

Mergers and acquisitions provide powerful growth opportunities. Understanding the strengths and structure of your business before you buy, sell, or merge helps to ensure a smooth transaction with maximum client retention.

1 GROWTH & PROFITABILITY

Changing the Way You Think

It is not enough to focus on top-line cash flow and lofty production goals; sustainable businesses must focus on both the top-line revenue **and** bottom-line profitability. You may simply want to increase your client base and expand your territory but profitability is essential if you are building a business or want to take on equity partners: if there are no profits, there will be no next-generation advisors.

Younger advisors are looking for more than a bigger paycheck; they're looking to invest their money, energy, and careers into equity ownership. The benefits and obligations of ownership are vast and without the promise of profit distributions, why would a next-generation advisor take on the risk of ownership, especially at a minority level?

Increasing both top-line growth and bottom-line profitability is important for all owners—founding, new, and future. It ensures that the team is focused on the success of the business as a whole and not just on individual production. Balancing growth and profitability is challenging, but it is necessary for building an investable and enduring enterprise.

3 Steps to Balancing Growth & Profitability

1

Separate and measure **ownership-level compensation,** or the wages paid to the ownership team for the work that they do. These cumulative wages (not including profit distributions) should not exceed **35%** of a practice's gross annual revenue.

2

Focus on **general overhead expenses,** including non-owner wages. These expenses should be equal to **30% to 35%** of your practice's gross annual revenue.

3

Once ownership compensation and other expenses have been accounted for, the **remaining cash** flows to your bottom line as profits. The goal is to flow approximately **30%** of gross annual revenue to the bottom line.

Where do we get these ratios?

These ratios are carefully measured and forecasted from our 15,000+ valuations in our proprietary benchmarking database. Our team creates a plan that turns the goal of balanced ratios into a reality.

Turning Challenges into Actions

CHALLENGE

How do I create a foundation for growth?

ACTION

- Build a talented team with specialized roles.
- Properly structure your compensation system.
- Leverage your technology.
- Develop better processes for efficient and effective production and operations.

CHALLENGE

How do I generate more profit?

ACTION

- Evaluate your expenses.
- Properly structure and align your compensation.
- Shift your focus to encompass both increased revenue and profits.
- Evaluate your entity and tax structures to determine what's most appropriate for your business.

Watch our webcast:
[Advanced Strategies for Balancing Growth & Profitability]

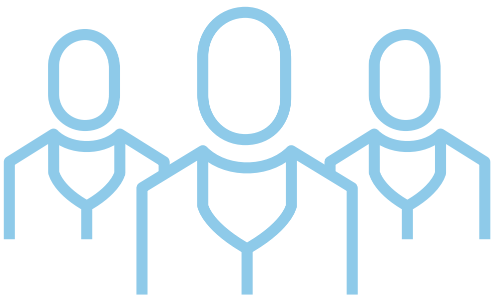
CHALLENGE

In addition to acquisition, how do I increase growth?

ACTION

- Set your goals: understand where you are, how you got there, and where you want to go.
- Develop strategies and create a timeline.
- Improve client service practices, increase your visibility, and bolster your connections.
- Implement new marketing strategies.
- Recruit new talent.

2 TALENT RETENTION



The Battle for Talent

The need for next-generation talent is quickly becoming the greatest challenge for the financial services industry. New talent and fresh ideas keep businesses sustainable and thriving, but the supply of new advisors coming into the profession is less than the number of advisors who are slowing down and retiring.

Winning the battle for talent requires a careful plan to **recruit, retain,** and **reward** the next generation of advisors. The first challenge is to identify your ideal candidates and determine where to find them. Then, after you've assembled your talented team, you must retain them with a sophisticated compensation system that not only recognizes commitment and hard work but offers career growth and ownership potential.

It's important to remember that recruiting, retaining, and rewarding new talent is about more than just a salary. To stay competitive, your business should offer desirable **Compensation & Benefits,** a vibrant **Workplace Culture,** thoughtful **Mentorship,** and opportunities for **Equity Ownership.**

4 Keys to Keeping Good Talent

1

Compensation & Benefits

Compensation and benefits may comprise a substantial part of your overhead expenses but it is important to invest in productive and successful employees. Businesses of all sizes face this challenge.

To retain top talent, offer a total rewards compensation package that includes:

- Fair and competitive wages for work performed.
- Performance-based bonuses to individuals that go above and beyond.
- Employer-based health insurance plans.
- Paid vacation and sick time (PTO).
- A 401(k) plan with an employer match.

For smaller practices, the expense of some of these benefits can be daunting. Investing in even just a few can give you a leg up in this competitive market.

2

Workplace Culture

Creating a workplace culture that reflects the priorities and values of your business is key to building the team you want. If a work-life integration is important to you, offer flexible schedules and allow time for employees to work from home. If transparency is paramount, encourage open communication channels and make sure the management team is accessible.

Whatever qualities you choose to foster in the workplace, your office culture should be viewed as a potential benefit to new hires.

Some added perks to consider:

- Periodic company-hosted lunches and team-building events
- Paid time off for birthdays
- Relaxed Friday dress code to allow for more casual attire
- Employer-paid volunteer time (VTO)
- Flexibility or opportunity for remote work days

3

Mentorship

The success of professionals in this industry greatly relies on the relationships between advisors and their clients. Developing these relationships largely comes from on-the-job experience and the guidance from one's team. This makes mentorship essential when cultivating new team members. It may be difficult at first to entrust younger talent with key responsibilities, but it is important to empower your team if you want your business to grow and succeed.

To nurture new team members:

- Create an open environment for asking questions and seeking guidance.
- Allow new advisors to observe, and eventually participate in, client meetings.
- Leverage younger owners to oversee training and employee assessments.
- Create opportunities for new advisors to take the lead on projects or tasks.

4

Equity Ownership

The potential for growth and equity ownership is an appealing prospect for future advisors. As part of the hiring process, communicate the possible growth opportunities within your company and describe what the pathway to ownership looks like. This not only improves your recruitment strategy by setting your business apart from your competitors, it motivates new employees to work towards their ownership goals from the start.

When creating equity pathways, remember to:

- Set clear expectations.
- Foster an “ownership mentality” by focusing on team performance rather than individual production.
- Evaluate and offer constructive feedback to employees as they progress on their ownership paths.

Customizing Your 3R Plan

RECRUIT, RETAIN, and **REWARD** new talent by designing a ten-year plan that solves for hiring, training, advancement, and ownership.

Two years before you hire your first next-generation advisor, develop a plan that defines the following:

BUSINESS NEEDS

- What gaps are you looking to fill? Would you like to add more people, expand your services, or create a more focused team?
- Do you have a niche clientele that requires specialized services?
- What are the important business philosophies new talent must uphold?

TALENT & EXPERIENCE

- How much experience and education do you require of new team members?
- Do you have the time and willingness to provide mentoring?

WAGE & BENEFITS

- What are typical starting wages for new hires?
- What criteria do you have for raises and promotions?
- What are the bonus eligibility requirements?

GROWTH PATHWAYS

- Is there, or will there be, an option for equity ownership?
- What is your personal exit plan and timeline?

Turning Challenges into Actions

CHALLENGE

Where do I find talented people to join my firm?

ACTION

- Make connections in your community and join professional networks.
- Leverage internship programs and resources at local universities.
- Use traditional job board sites to post open positions.
- Consider utilizing recruiting services.

CHALLENGE

How do I recruit top talent?

ACTION

- Provide competitive wages and a positive work environment.
- Develop an enticing benefits package.
- Highlight your business culture.
- Offer growth and equity potential as well as mentorship opportunities.

Watch our webcast:
Cultivating Talent Through Culture

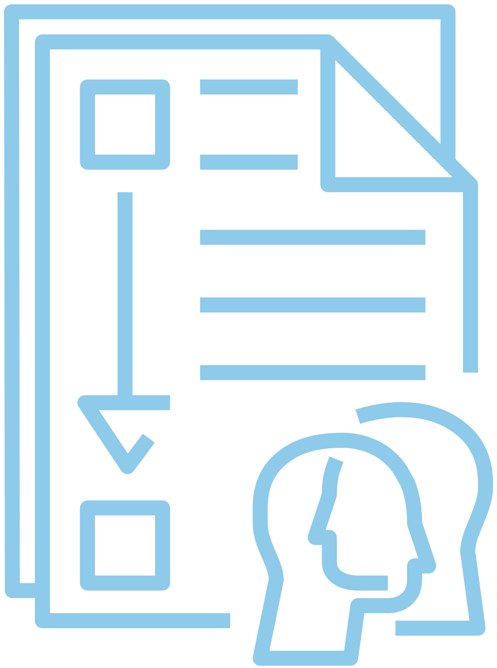
CHALLENGE

How do I retain my top talent?

ACTION

- Motivate your team with performance-based bonuses.
- Offer expanded benefits for tenure.
- Provide leadership opportunities through promotions and increased responsibility.
- Cultivate an “ownership mentality” and pave the way for growth.

3 SUCCESSION PLANNING



Build Your Legacy

Once you‘ve built your business and established your team, it’s time to start building your legacy. Succession planning—or the process of gradually transitioning ownership and leadership within your business to the next generation of advisors—creates long-term, sustainable business growth that goes beyond the length of your own career. Powered by multiple generations of collaborative ownership, successful internal succession planning not only increases your business’s value, it protects it for years to come.

Remember, potential successors don’t necessarily need to be another “you.” They simply need to have the drive, potential, and ingenuity to build upon what you’ve already created. Allow ten or more years for your succession plan to be fully implemented as a **gradual transition** over an extended period of time not only allows new owners to ease into the obligations of ownership, it also gives founding owners the ability to slow down while still receiving income.

3 Tips for Succession Success

1

Give Yourself Enough Time

Time is a crucial element in the succession planning process. Not only must you account for a gradual, incremental transfer of ownership, you must also consider the time it takes to lay the foundation to support your transition in the first place. The bottom line is: Start early. By starting your internal transition early, you give yourself time to fine-tune your plan and achieve the exit and retirement you envision.

But before you decide that it's too late to start, take time to learn and explore all of the potential solutions. Most advisors are pleasantly surprised to learn what is possible—even in a short time frame. In the end, the fact-finding process itself can accomplish some important succession goals.

2

Choose Your Successor Team Wisely

When it comes to choosing successors, determine the essential leadership qualities you're looking for and consider the candidates on your team: Do they see the big picture?

Do they contribute to growth? Do they focus on the success of the business as a whole rather than their own production?

Remember to identify your potential successors years ahead of implementing your plan to allow time for building trust.

When developing your successor team:

- Carefully evaluate your potential successors' commitment to the business as well as their desire to be owners prior to starting the ownership conversation.
- Ensure **all** ownership goals and expectations are in alignment before moving forward.
- Include your successors in business strategy decisions.
- Nurture their focus on overall business success by including them in benchmarking and goal-setting sessions.

3

Work with the Right Experts

Developing an effective and individualized succession plan is not a small undertaking. There are countless ways to achieve your retirement and exit goals and they almost always require the help of a skilled and experienced group of professionals. The advantage of using succession consultants is that they can evaluate the facts of your plan objectively and take into account the perspectives of all parties.

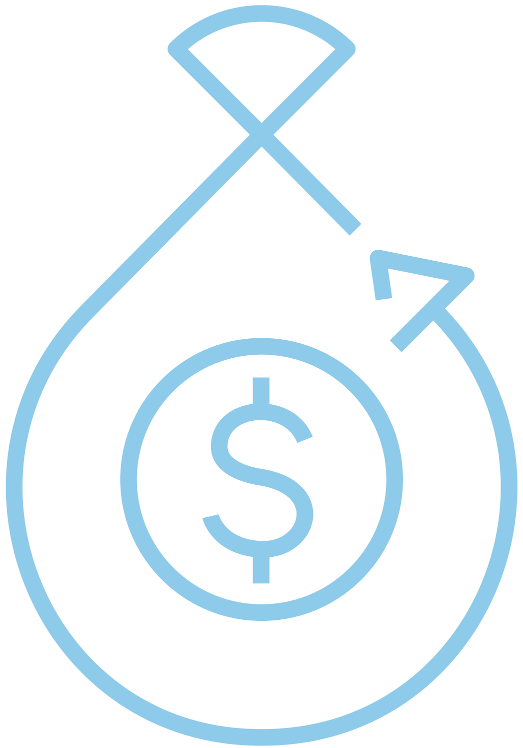
When looking for an expert, evaluate the following roles:

- Appraiser (business valuation)
- Consultant (fact-finding and education)
- Analyst (cash-flow modeling and compensation restructuring)
- Tax Advisor (tax and payroll implications)
- Legal Advisor (documentation and contract review)

Funding Your Succession Plan

Understanding Seller Financing

Because next-generation advisors are in the early stages of their careers and often don't have the capital to buy stock from founding owners outright, seller financing is common. In a seller-financing arrangement, a founding owner carries the paper of the transaction and the successor uses their profit distributions to make payments on the promissory note or earn-out agreement that defines the payment terms, interest rate, and length of the transition.



The Value of Bank Financing

In addition to seller financing, bank financing—either through conventional or SBA loans—is an option. A bank loan helps to derisk the transaction for the founding owner. Bank financing can be used to facilitate a partial buy-in, and is an especially popular choice if the transition team decides to initiate a full buy-out.

Turning Challenges into Actions

CHALLENGE

How do I start the succession planning process?

ACTION

- Determine what your ideal exit and retirement look like.
- Forecast your expected workweek hours between now and your projected retirement date.
- Establish benchmarks that trigger the start of your plan.
- Start hiring talented advisors as potential successors.
- Set up a formal continuity plan.

CHALLENGE

What if I don’t want to share sensitive business information with my successors?

ACTION

- Build enough time into your plan to cultivate trust and transparency.
- Sensitive information (like compensation) can be accounted for without disclosing specifics.
- Remember that a clear financial picture is necessary for successor advisors to make informed buy-in decisions.

Watch our webcast:
Synergy of Multigenerational Ownership

CHALLENGE

What if my transition isn't going as planned?

ACTION

- Evaluate the areas that are falling short and determine what is fixable.
- Assess your timeline and make the necessary revisions.
- Work with your succession consultants to adapt your plan (add/remove successors, adjust repayment terms, or update projections).
- Consider Plan B: an external sale.

4 MERGERS & ACQUISITIONS

Powerful Drivers of Growth

Nothing generates business growth quite like mergers and acquisitions. In less than a year, a single merger or acquisition has the potential to double the size of a financial services practice and lead to new markets, more staff, increased revenue streams, and an expanded client base. The rewards are remarkable, but only when the acquiring or merging businesses have the proper foundation to support the transaction and the quick growth that comes with it.

In addition to building a strong foundation, it is important to find the **right match.** Once you've prepared your business for growth and created an acquisition strategy, focus on finding the right seller or merger partner. It's best to look for someone with a compatible business philosophy, leadership style, and vision for the future, as most clients wish to interact in the same manner to which they've grown accustomed. For the sake of all parties, it is important that buyers and sellers (and merger partners) work together to ensure a successful outcome.

Become a Strong Buyer

BIGGER DOESN'T MEAN STRONGER

Don't make the mistake of thinking that the acquisition itself will make your practice stronger; bigger and stronger are very different things. Strength comes from building a structure that supports the growth gained through acquisition.

As with any growth strategy, business owners must be well prepared. Many advisors believe that the acquisition process **starts** with the search for the right seller and they assume any issues can be addressed as they arise. But taking the necessary steps to strengthen your business—like valuing your practice and identifying your goals for the transaction—before you begin your search will help improve your chances of acquisition success.

Prepare for the acquisition process early and create a solid business foundation that:

- Demonstrates consistent growth and profitability.
- Supports an increase in clients and cash flow.
- Shows your commitment to multi-generational sustainability.
- Proves your strength as a buyer.

Your Acquisition Checklist

- [ ] Ensure you have the correct entity structure and that it is built for acquisition.
- [ ] Examine your financial statements and verify you are building a profitable, investable business.
- [ ] Obtain a third-party, market-based valuation.
- [ ] Become pre-qualified with a conventional bank or SBA lender.
- [ ] Put a continuity plan in place to protect your business and clients in the event of your long-term or permanent absence.
- [ ] Determine what you want and need from an acquisition, e.g. more clients, higher AUM, new territories, more revenue, increased profitability, new talent, or next-gen advisors.
- [ ] Communicate your acquisition goals to your B-D, custodian(s), wholesalers, spouse, and colleagues.
- [ ] Broaden your search for acquisition targets.

Sellers: Maximize Your Value

The truth is: It's a good time to be a seller. The open-listing marketplace has an average of 85 buyers per seller and the steep competition results in higher negotiated sales prices and excellent deal terms. But that doesn't mean you can rest on your laurels. Selling your business to a third party is all about maximizing the value of the business you've built.

To maximize your business value:

- Perform a yearly, third-party valuation to monitor your business's growth.
- Protect your value against an unexpected exit by implementing a continuity plan.
- Strategize and execute short-term and long-term growth plans to maximize your business's potential.

VALUE IS MORE THAN JUST A NUMBER

Deals fall apart when buyers and sellers dispute the numbers. Don't turn this into an adversarial event. Take the valuation argument off the table by using a formal, market-based valuation and remember to focus on other deal terms like location and financing options.

Don’t Forget the “M” in M&A

True mergers—two or more companies coming together to form one new entity—are rare, but their endless permutations are just as powerful as acquisitions for generating growth. By increasing your client base, saving on overhead expenses, and improving efficiency by removing operational redundancies, a merger offers an excellent opportunity to reshape your business and make it stronger.

Examples of how mergers can be used to solve a variety of challenges are:

- A smaller business merges with a larger enterprise to gain expanded talent, operational functions, and client base.
- A larger firm merges with a smaller one to acquire both the book of business and the talented advisor who owns it.
- Advisors with a large age difference, or disparate time left in their careers, merge to solve for lack of succession.

What is merger synergy?

Merger synergy describes how the result of two or more businesses coming together is **greater than the sum** of their individual parts. By combining forces, the new business can achieve more than what the independent businesses would have been able to achieve on their own.

Turning Challenges into Actions

CHALLENGE

How do I buy a practice?

ACTION

- Value and prepare your business to support an influx of clients, cash flow, staff, and other assets.
- Develop an acquisition strategy based on your business goals.
- Exhaust all acquisition avenues such as open-market listing services, connections through your professional networks and business communities, and continuity partner opportunities.

CHALLENGE

How do I finance my acquisition?

ACTION

- Know your value.
- Understand seller-financing strategies and how they are enhanced by bank financing.
- Get pre-qualified for financing (even if you don't take out a loan, approved bank financing helps demonstrate your financial viability to a seller).
- Recognize what you are and able to risk.

Read our blog:
[Components of a Deal]

CHALLENGE

How do I merge my practice with another business?

ACTION

- Identify and evaluate the strengths and weaknesses of each business.
- Understand the customizations required to unite them.
- Carefully align your entity, operational, and compensation structures.
- Seek out the necessary professionals to assist with each step of the process.

THE CHALLENGES OF CREATING A SUSTAINABLE AND GROWING BUSINESS ARE INTERCONNECTED

AND THEY REQUIRE A STRATEGIC GROWTH TEAM.

While you solve for one challenge you may soon discover a new and reliant opportunity in its wake. Developing a growth strategy is not a linear process and it requires an end-to-end perspective with fully integrated solutions.

As with any complicated plan, it is important to work with a skilled and experienced team of experts to help implement your growth strategy and achieve your business goals. Enterprise consultants, cash flow analysts, compensation specialists, attorneys, and M&A experts are all well-versed in the highly-regulated financial services industry and should play essential roles in your growth plan.

Once you identify the opportunities and challenges around **Growth & Profitability, Talent Retention, Succession Planning,** and **Mergers & Acquisitions** on your own, leverage a professional, integrated team who can provide strategies for sustained and profitable business growth.

FP TRANSITIONS: YOUR STRATEGIC GROWTH PARTNER

We are the only firm of our kind offering end-to-end solutions with all of the necessary tools and experts under one roof.

Our **ENTERPRISE CONSULTING** program is designed to adapt to your needs, your goals, your time frame, and your budget to provide effective and cost-efficient solutions. Together we'll explore your immediate objectives, and we'll develop a comprehensive plan complete with a timeline and an accurate cost projection to reach your unique goals.

We listen first in order to offer an informed solution, then we plot the course forward—together.

Visit:
fptransitions.com/strategicgrowth
for more information and to schedule a consultation.
Or call 800.934.3303.

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