Transcript

Better conversations. Better outcomes.

Episode 27 – Succession planning: exit strategies for a smooth client experience

Ben Jones – As season two kicks off, I have a new co-host. I want to thank Matt Smith for his help incubating this show and helping getting it off the ground. In fact, his investor archetype episode, episode one, continues to be one of our most popular topics. Matt has been an incredible collaborator for the show and a dear friend and mentor to me personally. His influence is going to remain squarely embedded in the DNA of our podcast. So, let me introduce you to our new co-host, Emily Larsen. Welcome to the show, Emily.

Emily Larsen – Hi, Ben. I'm excited to be part of the show and really looking forward to all our second season has to offer the listeners.

Ben Jones – Are you nervous?

Emily Larsen – Well, I wasn't until you asked that question.

Ben Jones – I couldn't be more excited to kick off our next season with you. So, let's dive into today's topic.

Rob Goff – The market right now is full of buyers. It's very much a seller's market in that there are not that many. Believe it or not, with the aging demographics, you'd think there'd be a lot more people looking to sell today, but we're probably, this retirement tsunami we've all talked about and recognized, we're probably just seeing it start today, and we're probably about five years out, three to five, and then it will continue for another eight to 10 after that.

Ben Jones – Welcome to Better conversations. Better outcomes. presented by BMO Global Asset Management. I'm Ben Jones.

Emily Larsen – And I'm Emily Larsen. In each episode, we'll explore topics relevant to today's trusted financial advisors, interviewing experts and investigating the world of wealth advising from every angle. We'll also provide you with actionable ideas designed to improve outcomes for advisors and their clients.

Ben Jones – To access the resources discussed in today's show or to learn more about our guests, visit us at bmogam.com/betterconversations. That's bmogam.com/better conversations.

Thanks for tuning in.

Emily Larsen – Before we get started, one quick request. If you've enjoyed the show, found them of value, please take a moment to leave us a rating or review on iTunes. It would really mean a lot to us.

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Ben Jones – In general, human beings are bad at planning for the end; the end of a career, the end of business, the end of life, and financial advisors are not immune from that. Advisors are experts at helping their clients through life transitions and into retirement, but many advisors have neglected to create the same plans for themselves. Today, we aim to fix that during this episode.

Emily Larsen – Succession planning can mean many different things, from grooming a junior advisor to take over a business, building a catastrophic plan, selling your practice to another advisor and retiring, and really anything in between. No matter how you do it, the topic of succession planning is really more than the mechanics of divesting and acquisition. Its success or failure largely depends on the human elements, including open communication with clients and successors, staff and other stake-holders.

Ben Jones – The human struggle to plan for the end of anything is best done at a human level. It takes a methodical plan that's backed up by trust and lots and lots of communication. Today, our guest is an expert on this topic: Rob Goff. He's a vice president of succession planning and acquisitions at Raymond James Financial, and we had the opportunity to discuss this topic at his office in Tampa, Florida. Rob, welcome to the show.

Rob Goff – Thank you for having me.

Ben Jones – How does this topic of succession planning differ from that of, say, just a divestiture or acquisition?

Rob Goff – So, the whole notion of succession planning, what we're seeing in some cases is we're seeing advisors who are maybe nearing retirement as an example and therefore want to find a successor for their book. That successor may not be in the office next door; that successor may not be in the office across the street; that successor may be with a different firm. There's really no limit from our perspective as to where that successor can come from. So, but if you're going to go outside to another firm, you're looking at sort of what we would characterize as an acquisition, and how then do you wrap them into the business, and integrate them, and bring them over, and so forth. And you have to – if you're in an employee channel, then clearly you've got to work with your current firm. If you're an independent channel, then your current firm might also provide some support to that. But otherwise, it might be left up to you, and your attorneys, and so forth.

Ben Jones – So, different from just going and buying a practice, is it fair to say that a succession plan has a much more methodical transition over time, there's a lot more joint client management over some transitory period?

Rob Goff – Yeah, so a true succession plan would be this notion of hey, buyer and seller we'll call them, or successor and retiree, let's have a date in mind as to when I as the retiree will step away, and let's now start planning towards that date. Let's start meeting clients and doing joint meetings; let's start having some marketing events. Let's start introducing clients to the new advisor so that you have a true succession plan where really the idea is we want to make it as seamless as possible to the clients, and the way to do that is to have sort of a joint effort prior to actually the acquisition. It's not just I'm buying something, here it is. There's a lot more that would go into it to ensure A: client retention, obviously, but also taking the clients in mind and making it as smooth as possible for them.

Emily Larsen – Succession planning has become a hot topic as it corresponds to the aging demographics in the United States. The average age of advisors is 52, and remember, that's an average, so many are looking to retire within the next few years. Others are at retirement age but feel like they can't or don't want to leave their business, especially if they don't have a plan in place. So, Rob talks about when advisors should start thinking about succession planning and the steps they need to take to get started.

Ben Jones – At what stage should they start thinking about the idea of succession planning?

Rob Goff – There are really two answers to that, and something we haven't talked about yet, which is catastrophic planning. So, catastrophic planning, the proverbial bus coming through town and taking out the financial advisor. What happens to them? What happens to their client? What happens to their family? What happens to their staff? One of the things as we're talking to advisors out there, first and foremost, is what is your catastrophic plan? And some don't have one, some do, but it's important that they do have one. So, from a catastrophic standpoint, the earlier the better. And quite frankly, if you have just one client, you should have a plan for that client if something happens. So, we're constantly trying to get our advisors to understand the real need to have one in place. From a long-term succession planning standpoint, we talk about how many advisors are over 55 as an example. So, that might put them 10 years out. That might put them 15 years out from retirement, whatever the notion is. But in their 50s is a good time to start really thinking about solidifying a plan. Obviously, if someone in their 40s or 30s wants to start doing it, I encourage them to start thinking about it for sure.

Ben Jones – What are the different approaches an advisor might use to start thinking through how they might structure a different approach?

Rob Goff – So, as they work with clients on this, the same concepts apply. So, what are the immediate funding needs of the retiring advisor, as an example. So, do I need cash up front to fund whatever that might be? Do I need cash over time? Am I sensitive to sharing in some risk going forward? So, if I'm going to split some business post-retirement – which FINRA allows – then do I take that into account? Or what we're seeing is some seller finance notes on the independent side for sure. So, how do I, if I'm the buyer, how do I fund it? If I'm the seller, how do I want to receive those funds? There's a lot more that goes into it, but the concepts are the same as client retirement. So, what are your needs today, what are your needs five years from now, and how are we going to meet those needs? As we're consulting with advisors, we tell them all don't necessarily take the highest bid because what's more important is the quality of the transactions. So, things such as is it a fit. So, are the clients a fit for the new advisor, the incoming advisor? Is it a fit for the same philosophical approach to investing? Is one advisor going to have to transition all of the clients to a new product or a new fee structure? All of that is taken into account, and financial advisors develop really a friendship and a kinship with their clients. And so at the end of the day it's still a relationship management business, and the more the clients' interests are taken into account, the better that transition transaction is going to be. No question about it.

Ben Jones – So, I think it would be interesting maybe for our audience to just maybe walk through with you some of the proper ways to go about planning from the retiring advisor, and then maybe we could talk a little bit about from the new incoming successor, from their point of view a little bit.

Rob Goff – Sure.

Ben Jones – And then maybe last we can just kind of walk through just the practicality of steps that have to take place in order to do this really well because I think we could all point to examples of where it's been done poorly. And so there are obviously some best practices there that you and your team are well aware of.

Rob Goff – Yeah, so it starts with recognizing that a plan is necessary. So, from a financial advisor's perspective, I think the first thing they have to do is say, okay, I don't have a plan today or my current plan isn't going to meet my needs, so I need to plan. That doesn't mean they have to know their departure date or retirement date today. You don't need to know that to start planning. The next thing they have to determine is, "who is my successor going to be. Who is a good fit for my clients? Who's going to be able to treat them the way that I treat them?" "Who's going to be able to manage their accounts the way that they deem appropriate?" That's the second thing that would have to go into it. And in some cases, the successor, as an example – and this is why planning is so important – the successor may not be an established advisor and might be newer in the business. Therefore, there's sort of a mentoring phase that might be needed, a grooming if you will, of that ultimate successor. And we see that a lot with teams. As more and more teams are formed, we have sort of this potential built-in succession. And so if that's the case, if they're in a team, is the successor on the team or do we need to go find that successor and put them on the team so they can start being groomed by the financial advisor? And a big part of what's very difficult to institutionalize with policies or rules is how do we transfer the knowledge from the aging, retiring, experienced financial advisor to the younger generation financial advisor because not all of that is written down in a format that someone can just read and accept it. Those financial advisors, the baby boomer financial advisors if you will, have been through a lot. They've seen markets up and down, they've had to deal with clients in great times and bad times, and so how do we get that knowledge out into the younger advisors? And so there's a whole mentoring piece of it that I can't stress the importance enough, that's needed. And then you've got "how do we transition ownership from the outgoing advisor to the incoming advisor?" because that's – if you're thinking about a team and a younger advisor, or less experienced advisor on the team, they're going to be wondering when they're going to take over; how they're going to take over, and so that needs to be worked into the plan as well. And then it becomes an execution. And if you notice – as I just talked about, price was not one of them because that doesn't come in really until the end. So how are we going to move from a valuation from a pricing standpoint? And that's almost one of the last things that needs to be discovered. Because it's not the highest bidder that matters, it's all the rest of it. Some advisors do treat it like an acquisition, in which case it's less of a plan and just, "let's get the transaction done," but those are by and large not as successful as a true long-term succession plan.

Ben Jones – So, you recognize the need for a plan and now you want to execute one. But how much time is required to properly transition your business in order to make it a smooth process?

Rob Goff – Yeah, I would tell you really from without knowing the dynamics on the team or the dynamics of the retiring or outgoing advisor and the successor advisor, without knowing all of that, you'd be looking at realistically a year of, what I would call, a transition phase really to be able to introduce all the clients. If you think about the average book and how many clients are in the average book and wanting to meet them face to face and introduce them, it's going to take a bit of time to do that. So, even a year might be light. Anything less than that, and I think you're running the risk of clients leaving during the hand-over. You're running the risk of clients not being happy, and so a year is a good gauge. Anything more than that, I think, can be very helpful as well.

Ben Jones – And before the transition, that one-year transitory state, is there a grooming period year that you would recommend? In other words, like you mentioned, like if they're bringing up an advisor and grooming them, is that three or four years to groom someone correctly or does it just depend on who they choose?

Rob Goff – Yeah, it's going to depend on who the individual is and how quickly they're picking up on it. If it's an experienced advisor, then you're not going to need as long of a lead time. So, that would be cut down. If it's a new advisor, you're probably looking at at least five, maybe 10 years to groom them and get them really up to speed to be able to take over the book. But it could vary. It's going to vary depending on who the individual is.

Ben Jones – And if an advisor does choose to go down the route of grooming their successor in their values, and philosophy, and the clients, the time to start is yesterday.

Rob Goff – Yeah, absolutely. Absolutely. You can't start that too early, I don't believe, and if you do it right, if you're going to take on, we'll call it a junior partner, and if you do it right and you groom them along the way and you teach them how you do it, you teach them, and they're, by the way, going to teach you as well certainly some of the newer ways to do things, but that's okay. But if you do it right, then the new advisor should be able to seamlessly transition in, and at some point the roles would flip and the junior advisor now becomes the main contact, and the outgoing advisor becomes a mentor and can help them along the way. That's prior to their final departure. So, we see that a lot of times happening that way. We also see it happen – I'm just going to buy a practice and make it go to the highest bidder, and those aren't nearly as successful.

Ben Jones – And you know it's interesting you say that. I want to really talk about this idea of transitioning. We're not very good at the end of anything planning; particularly end of career, end of parenting periods, end of life. Those aren't things that we like to deal with in particular. So, when an advisor enters this transitory period and they have these deep relationships with clients, is it hard for the outgoing retiring advisor to let go of some of those controls?

Rob Goff – Absolutely.

Ben Jones – And so if that's the case, what are some best practices that you have for maybe that incoming advisor where they can have those communications together so that they can identify when that's happening and make sure that it's not confrontational, but that they can resolve and move forward?

Rob Goff – Yeah, if you think of the psychology behind even the notion of retirement, it's you're moving into a new chapter, and we understand that. It's not easy to let go. And then you add in this fact of the human element of clients and the relationship with the clients. And now you've added another element of not wanting to let go. And then you add in an element of, "I just built a business over the last 20, 30, 40 years, I built a business and it's a thriving business. How do I let go of that?" So you have all these different factors that come into play. Then you have the other factors perhaps: the spouse at home, or the grandkids, or whatever the case may be, saying, "Hey, I want to spend more time with you. Can you spend less time at work, less time at work?" And so you have all of these competing factors that are out there. So, it's not easy for an advisor, certainly what we're finding, to get to, and in general, get to the point of saying, "I'm ready to walk away." And we understand that for sure and there's really no reason. One of the, if you look at the benefits of an aging advisor, I think our average lifespan now goes to 79, which means you can work longer and be productive and so forth because we're living longer. And if you take all that into account, there's nothing necessarily pushing advisors out the door. And so they have to come to that understanding themselves. If you have a junior partner or successor advisor, they're wanting to get on with their life, they're wanting to move to the new direction. They want to be able to handle things on their own, and so from a best practices standpoint, you've got – it's really all about open communication. And so open communication between the advisors. We've seen a lot go south or sour because the advisors just aren't communicating. One advisor wants to stay, the other wants him to go, and they're just not talking to each other. And so we'll get them into a room and then work through it and it turns out okay, but they have to be able to communicate amongst them. So, the more communication that happens, the better.

Emily Larsen – Speaking of the incoming advisor, let's switch to their perspective for a moment. As an incoming advisor buying a practice or taking over a book of business that's taken years to build sounds intriguing. What are the challenges as well as the opportunities?

Rob Goff – So, the first thing they're going to think is this is great. I have an opportunity to buy a book. And so one of the things I think it's important for them to think about is this: I want, if you think about it, they think I want to buy a book, and then the question is is this the book I want to buy. And so it's two different questions.

Ben Jones – Why do you think they all have the desire to buy?

Rob Goff – From a growth strategy standpoint, if you think about acquiring clients, and this is probably no different than any business that's out there, you could do it one by one; time, effort, time, effort, work.

Ben Jones – Organic growth.

Rob Goff – Organic growth, yeah. So, there's a lot that goes into that. It's successful. There's a high level of retention and so forth. Or, you could buy assets or a practice in one sort of fell swoop, and now you've doubled your business, or whatever the case may be.

Ben Jones – So, it's maybe an exponential type growth versus an incremental type strategy.

Rob Goff – Yeah, absolutely. So, from a growth strategy standpoint, no different than big companies out there, there's an excitement about doing that. The problem is, if you buy a book that's not the right fit, then you're going to have a whole lot of trouble. You can have issues with retention. You could have issues with not coming to an agreement with the selling advisor. You can have issues with ongoing, sort of, support of those clients.

Ben Jones – And, ultimately reputation.

Rob Goff – And, absolutely reputation. Because at the end of the day, if you're buying a book, you have to have an infrastructure in place to support that and to provide benefit and value to those clients. Those are the things we talk about with, with the potential successor, is we understand you want to buy a book, but is this the book you want to buy?

Ben Jones – Interesting. And do you ever talk with inquiring or advisors looking to become a successor to a retiring advisor's book about the capacity issues that they might have?

Rob Goff – Absolutely.

Ben Jones – I mean they only have 2,000 hours a year, regardless of how many clients they have.

Rob Goff – That is a big part of, when we're talking to the successor, what is their current structure? So, do they have a team in place, or is it just them and a support staff? Can they take on this new practice without adding any infrastructure, and how are they going to do that? Is it similar business? It might be easier to do, than if it's an entirely different business model. Is it the same service model? If the outgoing advisor had, I'll make it up, a monthly sitdown with every client, and the successor only meets his clients face to face once a year. That's going to be an issue. You have to talk through all those different facets, and how you're going to incorporate them and integrate them, without adding a lot of costs that's going to negate the value of having those, part of your business.

Ben Jones – When an advisor's looking at this business, and all the pieces look right, how does an advisor determine if the clients are going to stick, or the enduring nature of the clients? Should they anticipate some sort of attrition?

Rob Goff – We estimate that, and we ran some numbers on our front, and the numbers are very good. They're almost statistically not relevant enough to say there's attrition, but we know it happens. We tell them to plan on 5% to 10%, as just a standard preparer for that. So that when you're pricing it and when you're thinking through the structure and the valuation side of it, try and plan for that. If it happens less than that, then it's a bonus to you. But I think that's a realistic number to, at least, plan for.

Ben Jones – Now, a deal's been reached. We have a great fit. We have similar philosophies. We've worked out this transitory period, and we are moving forward with the agreement. What are the ways that the new and the old advisor can successfully handle the client communications piece? How should that occur, what are the best practices?

Rob Goff – Right off the bat, I would tell you, more communication is better, open communication is better, and frequent communication is better. Where it becomes problematic is if there are any surprises to the clients. Clients should never be surprised. If clients are used to face-to-face meetings, then you should have face-to-face meetings. If clients are used to getting a phone call, then do a phone call. But there has to be an introduction, a warm hand-off, if you will, prior to the departure of the outgoing advisor.

Ben Jones – Do you recommend a letter go out to all clients immediately, and then through the normal communication cycle, the introductions be made? Or do you have to kind of have this blitz of here's the letter, and then I'm going to see 300 people in the next 30 days?

Rob Goff – I would tell you, it depends on the transition phase and how long that is. If you're, if the advisors are going to work together for, say, a year, then they've got more time to be able to go, to meet with clients, do an annual review at the same time, introduce the new advisor. But, I do recommend sending a letter to all clients closer to the retirement date, so that clients understand, if you've met with them six months ago, that they understand the date's coming up. I also recommend having a retirement party, if the outgoing advisor is retiring, have a, for the local clients anyway, invite them in and celebrate the advisor's career with the firm and those clients. And make it an event. And it's a touch point for the clients as well. And they have an opportunity to say goodbye, in a business setting, say goodbye to that, even if they're going to hang out with him for dinners, and golf, and so forth. But they have an opportunity to say goodbye as well.

Ben Jones – Rob provided some really good advice for you to consider when building your succession plan. The actionable steps might go something like this:

1. Write down your vision for succession.

2. Look at your network first for possible successors.

3. Consider the fit first.

4. Work out the terms of the transition.

5. Go through the transition period, introducing clients to the new successor.

6. Have a party. I love this part the best. Retirement party, of course, and invite your clients, staff and family.

Emily Larsen – Well, I do love a celebration. Even if you're not nearing your retirement, there is a big thing we can hope each of you take action on right away. Put a catastrophic plan in place for your practice, as tomorrow may be too late.

Ben Jones – When an incoming advisor and outgoing advisor are communicating openly and often, the possibility for a smooth and successful transition is much more likely, if not inevitable. Thanks for Rob Goff for his wealth of information on today's episode. You can learn more about the services that he and Raymond James Financial offer by visiting RJPracticePlanning.com. We also will put a link to that in our show notes. We aren't done with Rob yet. Stick around until the end of the episode, to hear a bit of his parting wisdom.

Thanks for listening to "Better conversations. Better outcomes." This podcast is presented by BMO Global Asset Management. To learn more about what BMO can do for you, go to www.bmogam.com/betterconversations.

Emily Larsen – We value listener feedback, and would love to hear what you thought about today's episode. Or, if you're willing to share your own experiences or insights related to today's topic, please email us at betterconversations@bmo.com. And, of course, the greatest compliment of all is if you tell your friends and co-workers to subscribe to the show. You can subscribe to our show on iTunes, GooglePlay, the Stitcher app, or your favorite podcast platform. Until next time, I'm Emily Larsen.

Ben Jones – And I'm Bill Jones. From all of us here at BMO Global Asset Management, hoping you have a wonderful and productive week. ... Could you leave us with what it feels like when both advisors get this right?

Rob Goff – When we're talking to advisors and they come to an agreement, you've got little steps along the way. So you've got the finding the successor phase, the negotiation phase, the transition phase. As they go through it, each one is an opportunity to feel good about what they've done, and feel good about where their clients are heading. So, when they get it right, I think everyone's happy, including the clients.

Ben Jones – If you could summarize our conversation today, in one or two sentences, what would it say?

Rob Goff – Have a plan. I think from my standpoint anyway, it's important for advisors to have a plan, to think through where they're going and how they're going to get there.

Ben Jones – And if you could put a warning label on your advice today, what would it say?

Rob Goff – The world changes, be prepared for change. Whether that's in retirement, whether it's going off to a new venture, whether it's the market change, or whether it's regulation, the world changes and that's okay.

Emily Larsen – This show and resources are supported by a talented team of dedicated professionals at BMO, including Pat Bordak, Gayle Gibson, Lindsey Blinstrub and Matt Perry. The show is edited and produced by the team at Freedom Podcasting, specifically Jonah Geil-Neufeld and Annie Fassler.

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