



## 10 QUESTIONS TO ASK BEFORE SELLING A PRACTICE

# INTRODUCTION

There is a point in nearly every financial advisor's career when retirement becomes a nearby reality rather than an abstraction that can be put off for another day. Whether a desired respite or an unwanted confrontation with the inevitable, an advisor can't simply pick up their briefcase and lock the door behind them. There are clients who still need advice—not to mention a career's worth of equity—that can't be left in the lurch.

If there is a succession plan in place, maybe involving a junior advisor or a younger family member with whom the clients are already familiar, then the handoff can feel like second nature. Without a plan, though, the sale can seem like a second job.

The good news is that it's a seller's market. You may have seen estimates putting the buyer-to-seller ratio at extremely favorable odds, such as 50 to 1. That ratio, of course, is heavily dependent on where you are located, as well as your criteria for what makes a good buyer, since you are not looking to find *a* buyer, but the *right* buyer. To help you in that endeavor, Matt Oechsli has put together these 10 questions to ask yourself to get you started. Finding a buyer who's a match for your practice is as much an emotional decision as it is a practical one, and it will take more than a handful of questions to sort out, to be sure. But the following considerations will start you off in the right direction.



**10?**



## 1 WHY ARE YOU THINKING OF SELLING?

There is no right or wrong answer to this question, but you should have clarity around why you are selling your practice. Whether you just want to slow down or have a son or daughter who is ready to take over the business, have decided to change careers or want to put your talents to work in a different setting, your reason to sell is a significant part of what you hope to get out of the sale. And while you may have a variety of reasons for selling rather than a single black-and-white one, understanding your motivation is Step 1 to a successful sale.



## 2 ARE YOU THINKING OF WORKING PART-TIME?

Maybe you still love your career, but not the hours, and want to stay on as a relationship manager, rainmaker emeritus, or representative of your practice by serving on boards. Or maybe you are looking to retire entirely in a few years, but want to ensure a smooth handoff of your clients as part of a succession plan.

However you wish to stay involved with your practice or clients, it should be negotiated clearly and completely with the buyer. This means that you need to be honest with yourself how hands-on you want—or need—to be. Will you truly be able to hand the reins over to someone else, either completely or partially? Are there certain clients you want to remain fully involved with for a few more years? If selling to a junior advisor, do you want to stay on in a mentorship role (and more importantly, is your buyer amenable to that)?

The details of your part-time role and its duration should be documented so there is no misunderstanding about your involvement. From clarity of role to work schedule, from compensation to support staff requirements, be clear about what you want before you put up a “for sale” sign.



## 3 WILL YOU HAVE ENOUGH MONEY TO RETIRE?

You’ve likely explained the logic countless times when setting up retirement portfolios for your clients: the younger you want to retire, the more money you will need to have saved up so that you don’t outlive your savings. Despite the simple reasoning, you might be surprised how many advisors attempt to retire without doing the math.

The standard purchase price of a well-run, profitable financial advisory practice is twice its revenue. The typical structure of that sale is a down payment, usually one-third of the purchase price, with the balance financed over the next three to six years. There may also be an earn-out provision that pays a percentage of profits from the business over a defined future period. The catch with the earn-out is, of course, that if your clients do not stay with your buyer, your earn-out can be less than you anticipated. You may also face tax consequences as a result of the sale that can erode your profits.

Whatever the circumstances, it is worth the time up front to do the math to determine if you will have enough for retirement.



## 4 DO YOU HAVE A BUYER IN MIND?

Transfer of ownership of your practice can be gradual through an existing succession plan, part of an outright sale, or a combination of both.

The classic example of a succession plan is the internal buyout by one or more key team members or by a family member in the business such as a son, daughter, or younger sibling. Over time, ownership shifts at an agreed-upon rate year-to-year until the transfer is complete. Clients have a chance to adjust to the change and are often familiar with the succeeding advisor or team.

Between this scenario and a typical sale is teaming with an outside advisor who slowly acquires portions of your book over time with the intent to buy out the rest of the practice at some future date, possibly over several years' time. This scenario may work well if the buyer is a junior advisor looking to expand his or her practice. An accelerated version of this transaction is a merger culminating in a complete sale within a year or two. This may be more appropriate when the buyer is established and has an investment philosophy and service model that is very closely aligned with yours. The advantage of both these options is that your clients have a chance to get used to working with the buyer.



## 5 WHAT ARE YOUR FIXED COSTS AND TANGIBLE ASSETS?

If you own your building, will the building be part of the sale, or will you lease the building to the buyer? If you will stay involved with the practice after the sale, do you plan on your office maintaining its current location? Do you own your electronics—computers, laptops, copiers, televisions, phones—and if so, what is their value? From your building to your technology to your office furnishings, create an accounting of the value of the overhead items you own, or the status of their leases, so they can be factored into the terms of the sale.





## 6 HOW HAVE YOU VALUED YOUR PRACTICE?

The value of your practice will typically determine the terms of the sale. As noted, the standard deal structure is one-third of the purchase price paid as a non-refundable down payment, with the balance financed by the seller over the next three to six years. The more recurring revenue your practice generates, the larger the down payment and the shorter the financing terms. Of course, you need to determine the conditions under which you will sell, and your expectations of the buyer, up front so that you know what you are negotiating towards.

If price is a sticking point there are a couple of ways to meet in the middle. It is not uncommon for buyers to request protection in the form of a contingency clause pertaining to the number of clients and amount of assets that stay. Likewise, you can request an earn-out provision that pays you a percentage of earnings from the practice for a certain period after the sale. Neither tactic is without its liabilities, so be sure you have a thorough understanding of the potential consequences of each before adding them to your agreement.



## 7 WILL YOUR STAFF TRANSITION?

If you are like most advisors, your staff is indispensable to your practice. They have formed strong relationships with your clients and know what their needs are and how to service them. As such, your staff will be instrumental throughout the sale, working closely with the buyer's support team in transitioning the administrative and operational functions (reporting, technology, CRM, and the like) as well as assisting in the transition of all top clients. If your support staff has played a critical role in your success, and they are not ready to retire, you need to include them (role, compensation, and so on) into the selling agreement.

However, if staff turnover has been an issue, your buyer's staff will likely have to assume responsibility for the transition of administrative and operational functions—while also focusing on building strong relationships with their new clients.



## 8 WHICH CLIENTS GENERATE THE MAJORITY OF YOUR REVENUE?

If you haven't already as part of your normal operations, you should create a precise accounting of where your revenue is coming from. It is very likely that your revenue flow follows some sort of Pareto distribution (also called the "80/20 rule"), where a relatively small percentage of your clients are producing a disproportionately large percentage of your profits. Whether it's 20 percent of the clients generating 80 percent of the revenue or 40 actual clients accounting for 70 percent, it's not the numbers that matter so much as that you know them.

It's a good idea to conduct a complete net-profit-contribution analysis which involves segmenting the client base into four categories:

- ▶ Top revenue (who are your most profitable clients)
- ▶ Upgrade potential (clients who are not yet fully monetized)
- ▶ Centers-of-influence (clients who may never be top-revenue clients but are good referral sources)
- ▶ No potential, no revenue, no influence (clients you might consider letting go)

You can help facilitate the sale of your practice by communicating the findings in their entirety to the buyer. If it feels like doing so might be pulling back the curtain a bit too much, be assured that any savvy buyer would be conducting this type of analysis anyway.



## 9 DO YOUR INVESTMENT PHILOSOPHIES AND CLIENT SERVICE MODELS MATCH WITH YOUR BUYER'S?

If you and your buyer met eye-to-eye on everything, selling your practice would be relatively effortless. But whereas most of your differences can be negotiated behind closed doors, a difference in service model and investment philosophy brings your clients into the mix. And if they aren't onboard with any changes and leave, in addition to your reputation, it could affect any client- or asset-retention contingency clauses or earn-out provisions as noted in question 6. While it would no doubt be easiest to find someone who shares your ideology, you might find a buyer whose differences are just what you feel your clients might need.

If your buyer offers a more complete set of services and investment opportunities than you do, you may not have to do much to convince your clients that they are in good hands. However, if your clients could perceive the changes brought about by the sale as a loss or a downgrade in service, you will need to be more involved with your clients during the transition than you might for an average sale. You will of course need to discuss all of these concerns with your buyer and be in agreement on how to proceed before any client meetings.



## 10 ARE YOU PREPARED TO HELP THE BUYER TRANSITION YOUR CLIENTS?

Undoubtedly your answer should be an unqualified "yes." Unless you are selling your practice because of health concerns or significant changes in your life situation, creating a smooth transition for your clients is simply part of the transaction and should be a top concern until the process is complete. If your buyer is fairly new to the industry, or if as noted in question 8 you chose to sell to an advisor with significant differences to you with respect to investment philosophy and service model, then you should be prepared to be more involved and spend more time with the client handoff, and negotiate your transaction with your buyer accordingly.

For a standard client transition, expect to meet with each client and your buyer at least once, more typically twice, over the 6- to 12-month period around the time of the sale. With top clients or when there are fears of client attrition, you may need to provide more contact or special handling.



# FEELING UNCERTAIN? YOU ARE NOT ON YOUR OWN

There are companies that specialize in helping financial advisors find successors or buyers for their practice. But your first resource for how to go about selling your practice should be your broker-dealer. They may offer services to help you determine the value of your practice, find potential successors or buyers, and give you guidance on how to structure or close the sale—including hard-won experiential advice that can be priceless in terms of what it helps you avoid. They may also be able to put you in contact with other advisors who have sold (or bought) practices who can share their insights. Once you start considering the potential to sell, talk with your current firm to find out what kind of support they can give you to make the process easier.

For additional ideas on the support that might be available to you, or for more ideas on how to grow your business, we can help. Contact us at 800.354.5528 or visit [joinsummit.com](http://joinsummit.com).

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