INDUSTRY BRIEF

# Succession Planning: Five Key Considerations

Mergers and acquisitions in the wealth management industry broke records in 2021. According to investment banker Echelon Partners, RIA firms closed 307 deals, up nearly 50% from the previous year, which was also record-setting.[1]

Fueling much of that activity is the accelerated retirement of advisory firm founders. Industry analyst Cerulli Associates estimates that more than 100,000 advisors will retire in the next decade. Yet among those retiring advisors, 26% have no succession plan.[2]

If you've been working to build your business for many years, you want to ensure its value endures after you step away from the business. A succession plan is one of the most important steps you can take to secure your firm, its employees and clients for the future and allow you to take a worry-free, richly deserved retirement. So whether you plan to retire within the next few years or include a partner to help carry on your legacy, here are some key considerations to bear in mind.

## 1. Make a formal, up-to-date succession plan a top priority

You've built a business and made a living helping other people plan for their future. Now it's time to heed your own advice. First, explore your options: do you want to sell, merge, or pass the business along internally to your most capable managers? Do you want to stay engaged with a few clients or wind down your involvement? Consult your attorney and accountant on the pros and cons of each scenario and the mechanics of transferring ownership. Then formalize your plan in writing and bring the appropriate people into the conversation.

## 2. Engage your team in the great generational wealth transfer

As your firm prepares for generational change, so are your clients. What has been called the most significant intergenerational wealth transfer in history is now underway. According to Cerulli, affluent baby boomers are expecting to transfer some $70 trillion to heirs and charitable organizations by year-end 2042.[3]

Your firm should be actively working to get to know your client's heirs and gain their trust. Crucial to this effort is giving prominent roles to advisors who are closer in age to these prospective future clients. The continuity of family relationships can be a significant factor in the continuity of your business after you have retired.

## 3. Explore the benefits of joining forces

Unless you have identified highly qualified internal succession candidates, a merger may benefit you and your team. Consider the type of firm that would make sense to combine forces with, such as an aggregator or larger firm that may have more infrastructure or resources that you lack. Do rigorous due diligence on any prospective partner to minimize the risk of red flags during negotiations.

Increasing regulatory requirements has been a key influence in today's record-breaking M&A trend. Therefore, if you don't have or want to build the necessary compliance processes on your own, it may make sense to partner with another firm that has already done the work.

### 4. Plan your communication strategy

Once you have decided on a course of action and put your plan in motion, you will need to communicate it to employees and clients in the most favorable light. You will need to decide when it is appropriate to announce the plan. However, communicating "early and often" is an excellent guideline. Reassuring clients that they will continue to receive informed advice and excellent service is critical to retaining them—and keeping clients is really what succession planning is all about.

Few professions are as grounded in personal relationships as the RIA business. Therefore, the time between the announcement and the actual transition should include opportunities for your clients to get to know the incoming management team and vice versa.

### 5. Review your technology capability, which has an impact on your firm's valuation

Technology has become an increasingly important topic in conversations with potential merger partners or buyers. Make sure you optimize technology in your business first so that your records are in impeccable order for the incoming team. Second, you will help improve your valuation by demonstrating superior operational efficiency and performance.

A modern technology platform is a critical asset in enhancing your value and attracting and retaining advisors. If your succession plan depends on buy-in from next-generation advisors, consider their technology expectations, including interactive client portals, mobile apps, dynamic reporting, and digital client communication and meeting tools. And because you are planning for the long term, it's critical to have a technology partner with staying power that your successors can count on to provide continuity of service and ongoing platform updates.

Succession planning is one of the most important steps to ensure your legacy is intact. While achieving a sound plan takes time, the peace of mind that your business and clients will continue to thrive for years makes the journey you've taken all the more rewarding.




1. Echelon Partners, *The 2021 RIA M&A Deal Report*, 2021. https://www.echelon-partners.com/research

2. Cerulli Associates, "The Impending Succession Cliff," 2020. https://info.cerulli.com/rs/960-BBE-213/images/2020-The-Impending-Succession-Cliff.pdf

3. Cerulli Associates, "The $70 Trillion Opportunity," 2020. https://info.cerulli.com/rs/960-BBE-213/images/2020-The-70-Trillion-Dollar-Opportunity.pdf