

BUYING A FINANCIAL PLANNING BUSINESS

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People often ask me how they should approach the task of buying another business so I have written this outline to give some guidance.

Why Buy a Financial Planning Business?

The financial advice community is in a prosperous period of growth. The demand for financial planning advice exceeds the supply of advisers to deliver it. To support this proposition, look at how difficult it is to recruit an experienced financial adviser or an experienced para-planner. As a consequence of this, growth of financial planning businesses is largely limited by access to good personnel.

At the same time we have another dynamic in that financial planning businesses are sought after because they are profitable and they generate recurrent income. Recurrent income is the most valuable asset of any business. For example, accounting business income (non-recurrent) is generally valued at 0.8 times gross but financial planning business income (recurrent) is generally valued at 3 times gross.

In my experience, most small to medium sized financial planning businesses are not well managed. The reason for this is that the skills needed to start and then grow a business are different from the skills needed to manage a business. Many business owners have been successful in creating the business but they generally need a professional manager to run it efficiently.

When you put these three ingredients together, there emerges an obvious strategy to grow your business by acquisition. The benefits are the acquisition of experienced people, recurrent income, scale, larger potential for growth and the ability to introduce management efficiency.

I think that one of the classic business opportunities today is to buy inefficient financial planning businesses, convert them to efficient businesses and then grow them.

Where do you find a Financial Business for Sale?

I help people buy and sell financial planning businesses. Every week someone who wants to buy a business contacts me. My advice to them is to deal with a business broker or do their own search and then engage me to advise them on the value and terms of the purchase.

Understand that there are few businesses for sale. This is a seller's market. Demand exceeds supply and this is a good time to sell. Here is how you can find a business that suits you.

First identify the geographic area that will be suitable. Next identify the client profile that you prefer as well as the client profile that you don't want. Determine your financial capacity to buy a business. This is an interesting exercise because you can use the target business recurrent income as an asset to borrow against (as well as your existing business recurrent income). Identify any business attributes that would make a business more attractive or less attractive to you. For example, if a business had all client investments in retail, there may be an opportunity to convert them to a wholesale wrap environment; if a business had all client funds in a master trust this might not be compatible with your business operation; or if a business had a poor service standard, there is an opportunity to improve service. These are all factors that will affect your view of the opportunities that you are about to uncover and it is valuable to think of them before you talk to business owners.

Have an open mind, acquisition isn't the only path to growth. Merging with another business is also a good way to achieve your objectives and is often more acceptable to established businesses. It is certainly a more successful way to open the door to discussions.

Next, take out the telephone book and start ringing the businesses within your geographic area. Before you ring a business, look at their website (if they have one). It will give you intelligence about who you should talk to and the positioning of the business. You may even eliminate a business through this process. Talk to the business owner and tell them who you are and that you are interested in buying or merging with a financial planning business and you would like to talk with them. Your objective in this conversation is to find out if they are interested in talking, find out a little about their business and make an appointment. You will get a lot of rejections. However, most business owners are flattered that you have done some homework and you have approached them. Always send them a thank you email with your contact details. You will find that they will check out your website and some people who in the initial call said no, will call you back after they have thought about it for a few days. Through this simple process, you are likely to find some people who will say yes.

Evaluating the Business and Negotiating the Transaction

Here is where I like to be involved. You need to look critically at any business that you are considering and consider issues such as; the culture, is it compatible with yours; client profile, does it suit your objectives; pricing and service, can you add or derive value in this critical area; the value of the business, how do you determine the value? You need to analyse both financial and management information to arrive at a view of the business that will lead to its value.

My experience is that the easiest part of any transaction is reaching agreement on price. However the key to a successful transaction is identifying and reaching agreement on the transitional issues associated with transferring relationships to a new owner. How do you transfer a client relationship; how do you identify when a relationship is successfully transferred; and how do you make sure that you only pay for the clients that stay with you? These are examples of the critical issues.

If you are merging with another business then there is another complex set of agreements to reach. The first lies in the relative values of the entities and the second lies in the governance of the merged business going forward. Here are some examples of the governance issues that need to be addressed. There are now at least two owners but good management requires a single person to be the leader of the business with authority delegated by the Board. Be serious about your business from the beginning and agree on the employee role of each owner. The Board remuneration policy should be applied to the shareholders who are also employees of the business. This prevents any disagreement in the future when a shareholder inevitably thinks that they should be paid more than non-shareholders. Shareholders benefit through dividends and growth in share value.

Evaluating a potential purchase and negotiating the transaction is the most interesting and valuable part of this process and is the subject of much longer article than this.

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