BREAKING NEWS

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Success in succession

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Grooming your successor ensures your clients will remain in capable hands

Monday, February 9, 2009

By Maureen Halushak

Ed Rempel was 45 when clients began asking what was going to happen when he retired. “I enjoyed hearing that question,” says Rempel, an advisor with Armstrong & Quaile Associates Inc. in Brampton, Ont., “because it meant they were thinking of being with me long term.”

But, like the majority of advisors in their mid-40s, he hadn’t given much thought to the answer. “At first, I told them that [when the time came], I’d refer them to another advisor,” says Rempel, who recently turned 50.

After giving it some thought, however, he concluded that he owed his 600 clients a more structured approach to succession. And rather than sell his business to an outsider, Rempel wanted to transfer his business internally — to ensure his clients’ financial plans would remain on course after he was gone.

“Eventually,” he says, “I realized it’s much more effective to say, ‘I’m training a team of advisors who are going to follow the same strategies that I do’.”

For the past two years, Rempel has been doing just that. He is mentoring two assistant advisors, whom he hopes will eventually take over his practice along with the three or four other assistants he has yet to hire. Rempel’s succession plan is tied to his phased-retirement plan. “My ultimate goal,” he says, “is to have a business that runs without me, so that I spend the majority of my time in Barbados but still keep in touch with my team.”

To that end, Rempel has ensured that his company’s telephone system will operate out of the country, allowing him to be reached at the same extension whether he is in Canada or in the Caribbean.

But he’s not packing his bags quite yet. “It’s going to take at least another five years,” he says, “to build up the team to that point.”

Rempel has yet to put his plan, which he describes as a “work in progress,” on paper. He’s not alone: only 12% of advisors have a written succession plan, according to a 2005 study conducted by Toronto-based **Advisor Impact Inc.** Chances are, however, Rempel is still years ahead of many advisors in his age group. “A lot of people think succession planning is saying, ‘Well, I want to retire next year. So, I either have to bring someone in or sell’,” says

Julie Littlechild, president of Advisor Impact. “A year is absolutely not enough time to figure that out.”

Instead, a proper succession plan can take 10 to 15 years to execute, adds Tim Welsh, president and founder of **Nexus Strategy LLC**, a California-based consulting firm that coaches independent financial advisors on succession planning.

According to Welsh, the majority of advisors prefer to transfer their businesses internally. “It’s better for clients, it’s better for employees and it’s better for the principal advisor because he or she feels good about how the business ends up,” Welsh says. “But the advisor often fails to plan for it. It takes a lot of time to find the right person and groom him or her until you feel confident in letting go.”

No matter the stage of your career, it’s never too early to begin thinking about how to transfer your business to an internal successor. Here’s how to start:

> **Build A Business That Can Run Without You.**

“From Day 1,” says Dan Inveen, a senior research manager with **Moss Adams LLP** in Seattle, “we counsel advisors to run their businesses with transferability in mind.”

A highly transferable practice is one with a well-targeted, relatively homogenous client base and standard processes and protocols in place for client service, says Inveen, who helps larger firms plan for succession. “It’s a business with a life of its own,” he says, “as a opposed to a book of business that’s reliant on one key rainmaker.”

Rempel likens the process to parenting: “The hardest part of raising your kids is teaching them independence, just as the hardest part of building your business is making sure it can run without you.”

To that end, Rempel’s firm is developing a procedures manual. “The business wasn’t highly structured when I hired my assistants,” he says. “But now I’m realizing that we have to move in this direction.”

Naguib Kerba, an advisor with **Investment Planning Counsel** in Mississauga, Ont., estimates his practice is “70% to 80% systematized.” The blueprint for his financial planning process is contained in a black, three-ring binder that contains client questionnaires and information covering all aspects of financial and life planning, including a letter of engagement, disclosure on how the advisor is compensated and roles and responsibilities of each team member.

It was especially useful in 2004, when Kerba brought in his successor, Vinh Ta. “Vinh took my binder,” says Kerba, “and modified it slightly to deliver it in his own way.” As a result, the two advisors are always on the same page when it comes to client service.

Procedures and protocols aren’t the only things that should be put in writing.

“When we refer to a succession plan, we’re talking about a real document with an actual time line,” says Littlechild. “It’s a long-term business continuity plan.”

As such, a written succession plan should outline the following:

> **Potential Successors** (or buyers, if you’re planning on selling to a third party). Kerba, like Rempel, doesn’t have a written succession plan, but he and Ta have made a verbal agreement that Ta, 38, will eventually take over the practice when Kerba, 54, retires. Both parties have also agreed to take over each other’s clients in case of emergency.

“The spirit of the agreement,” says Ta, “is that if something was to happen to one of us, God forbid, the other would take over the business and work with the clients.”

> **How You Will Value The Business.** “You should have an appreciation for the range of valuations you can expect,” says Inveen. For example, business valuation can be based on gross revenue, assets under management, recurring revenue or some other measure.

Valuation was an important consideration for Rempel, who decided to transfer his business internally after realizing how little some books sold for. “I’ve spent all these years building my business and getting to know my clients,” he says. “Selling it for one year’s worth of what I bring home didn’t seem like very much money.” Instead, Rempel will continue to oversee the business — and derive income from it — well into his retirement.

Kerba and Ta have agreed upon the payment of half the earnings from the business to Kerba for six years following Kerba’s retirement. A similar agreement applies if either advisor were to die suddenly: half of the business’s earnings would go the deceased’s estate for six years. “We figure that is a fair number,” Kerba says. “Our arrangement addresses a multitude of potential issues. Client retention may not be good. Or business could slow down because of the recession, making a specific dollar amount unreasonable and too onerous.”

> **The Transition Process.** “You need a plan that maps out how, over time, you are going to make the transition from senior [advisor] to junior,” says Littlechild. “It’s not going to happen overnight if you want to maximize the value of the business.”

The succession plan will serve to inform many aspects of your practice, from compensation to staffing. Once Rempel had decided to pass his book to an internal team of advisors, for instance, he chose to model his business after a law firm, training assistant advisors (and paying them a combination of salary and bonus, as opposed to commission) with an eye to handing them the reins eventually.

> **Make The Right Hire.**

With lots of young advisors looking to purchase an established business, it’s a seller’s market, says Littlechild, But the highest bidder may not necessarily be the best fit for you or your clients.

“I didn’t want just to pass my business over to someone who has money,” says Kerba, who chose to find a successor who showed a willingness to deliver the same level of service to his clients as Kerba himself had provided.

“There has to be a clear alignment of goals between junior and senior,” Littlechild says. “I’ve seen situations in which the junior advisor was highly motivated to grow the business, but the senior advisor was focused on winding down, which caused a real clash because junior’s ambitions were being quashed.”

The fundamental steps of hiring a new team member — such as creating a job description and career path, and conducting personality testing on potential candidates — can be important steps in finding the right person. But finding a successor requires a lot more digging than hiring a team member.

“You need to know his or her philosophies [concerning] client service, investing and financial planning,” says Inveen.

Your contacts, professional association or dealer may be able to play matchmaker.

Candidates aren’t the only ones who need to sell themselves, however: advisors need to illustrate what the business has to offer.

“Increasing the attractiveness of your practice will increase your options,” Inveen says, adding that potential successors are looking to purchase a business that runs on referrals, has a healthy culture and is open to change and collaboration.

Ta says he couldn't ask for a more flexible and open-minded partner than Kerba: "If a new idea makes sense, we'll give it a try."

The pair met almost 10 years ago, when Kerba was teaching a certified financial planning course at Sheridan College in Oakville, Ont. Ta approached Kerba after class one day to ask for advice on how to get started in the industry; Kerba hired him soon thereafter.

The pair worked together for two years before Ta left for another dealer; they continued to maintain a friendship and often met for chicken wings and beer. Eventually, Kerba asked Ta to return to IPC as his successor.

"He saw how I service my clients and realized I was a good fit," Ta says. "You don't want to pick out a protégé from the street; you have to work with that person and see whether the way he or she serves clients is in line with your view."

Rempel, for his part, interviewed a number of experienced advisors in his search for a potential successor, to no avail.

"Planning is the main focus of our practice," he says. "But we found it hard to find someone with existing experience who really fit in with what we are doing." Many of the experienced candidates were sales-oriented. "So, we decided to hire people who were young and smart and eager to learn."

Rempel eventually found his two assistant advisors, Quyen Vu and Harvinder Arneja, through networking. Arneja, who is in her 30s, was working at a bank and helping Rempel's clients with their mortgages. Vu, in her 20s, was a star graduate of York University's finance program; she was recommended to Rempel by a professor.

"Our systems can be learned," Rempel says. "But you have to have the basics: integrity, smarts and people skills."

Both assistants are aware of Rempel's intentions to transfer his book to his team eventually, but at this point there is no firm deal in place. "I make it clear that it's a possibility," he says. "It's not a guarantee."

That's a smart move, says Littlechild, who recommends addressing the potential for a transition up front to ensure there's interest, but without making any promises to your team. "They could turn out to be entirely wrong for your clients," she says.

> **Take A Team Approach.**

Although neither Kerba nor Rempel has a firm retirement date in mind, both will have spent years grooming their replacements by the time they back away from their practices. That degree of commitment gets a gold star from Littlechild, who recommends that junior and senior advisors work together for at least five years prior to completing the transition.

"One of the key success factors in a succession is the extent to which clients see a team approach in place," she says. "You need to take a formal, organized approach to sharing and then transferring relationships."

At the onset of a succession arrangement, the senior advisor should make clients aware that he is no longer their sole point of contact. Over time, junior and senior advisors should share responsibility for clients, with the senior advisor eventually moving into the background before the final transition takes place.

"Transition typically starts earlier for smaller clients, and toward the end for larger ones," Littlechild says. "Closer to retirement, junior and senior should be seen as a very cohesive team."

Rempel's assistants have been rubbing shoulders with his clients from Day 1, with the intention of eventually taking over his book while he gradually fades to the background.

"[Vu and Arneja] started off by sitting in on meetings, and then slowly got more involved," Rempel says. "It's important that they get to know the clients and how we work with them." (Vu and Arneja also underwent six weeks of training on the firm's strategy, style and software.)

Ta also has a strong presence in Kerba's practice, with the former's photo on client newsletters and the company website. Ta has built up his own book over the past eight years — partly through buying a small book of business, which he likens to cold-calling in terms of a prospecting strategy — but he also serves 20% of Kerba's clients and stands to gain more as Kerba slowly phases himself out of the business over the next 10 to 15 years. Even now, Ta is a familiar face to the majority of Kerba's clientele.

"Whenever Naguib is not around, I can help his clients with whatever they need," Ta says. "It's making for a seamless transition."

> **Pass The Torch.**

Advisors who take a team approach to succession will find there's little need to announce the impending shift formally. "In an ideal world, you won't have to tell clients anything because it's just going to happen naturally," says Welsh. "The successor will have a gradually increasing role, in terms of serving clients, until he or she is playing point on the relationships. It will become increasingly clear to clients that a transition is underway."

Advisors racing against the clock may face more obstacles, however. "The less time you allow yourself," says Inveen, "the fewer options you will have and the less value you will receive from your practice. There are definite penalties for procrastination." **IE**