Anatomy of a Buyer

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So, you want to buy? Good idea. The battered financial markets and extreme structural dislocations in the financial services industry have created incredible buying opportunities for wealth managers that are likely to last for the next two years. But, take heed: buying is not for everyone. As you will see below, it is important to take a step back and evaluate whether you and your firm have the requisite makeup to plunge into the process of acquiring another firm.

It is important to remember that "buying" comes in different forms. Preparations can vary. For example, a management team looking to purchase themselves back from the bank that bought them four years ago will have a different set of preparatory tasks than a sole-practitioner RIA looking to purchase a similar type of firm.

Differences aside, we have found it valuable for all prospective buyers to answer the following questions to gauge whether they are prepared to buy, to determine what they need to do to advance their preparedness, and to determine if now is the best time for them to be engaging in buying activity:

Why am I interested in buying – is the desire born out of strength or weakness?

Some firms are very driven to achieve growth targets and, for one reason or another, organic growth no longer provides enough. Other firms recognize opportunities that come about for a host of reasons. The firms that try to buy because they are having a difficult time with organic growth usually have more problemsafter the deal closes, usually for the same reasons they were struggling before the deal. Strong firms with sound and proven business models and teams are better positioned to do deals than firms that are still in trying to get things right.

What does my firm hope to accomplish through an acquisition, and are there other ways that might be better?

It is valuable to outline your goals for an acquisition. Sometimes, those goals can be achieved in a faster and safer fashion than by acquiring another firm. It makes sense to take the time to identify the best route to achieve your business goals, rather than assume that buying is the only way to reach them.

Can I, the leader of my firm, handle the buying process given my skills, my work load, and the time required to perform in a high-quality way?

Buying other firms can take a great deal of time and emotional energy. To succeed, you need to anticipate a high level of commitment, as opposed to a just-get-by approach.

As the key decision-maker of the buying firm, it is worth reflecting on your own readiness to take the steps necessary to succeed.

What message does attempting to buy send to employees and clients? What will they think?

The common messages attempting to buy can send are, "We need to grow bigger" or "We have to capitalize on this opportunity." The message can sometimes have a challenging tone, such as "We are having trouble growing," "We need to get bigger to survive," or "We need to get out from under our current owner." It is natural for employees and clients to worry about change. However, this sometimes stimulates counterproductive behavior and emotions. If a firm tries to acquire and does not succeed, that will have its own set of implications based upon the rationale given for such buying interest in the first place.

Do we have the capital to buy the types of firms we are interested in?

You should assume that, to win most acquisitions, the buyer will be required to put down 20%–33% of the total purchase price, and the remainder will have to be paid in roughly three years. Some deals may have zero upfront cash requirements and longer payment schedules, but it is prudent to evaluate your competitiveness for acquisitions upfront before diving in. Mergers, as opposed to acquisitions, may be far better suited for those with little cash.

Are we big enough to conduct acquisitions?

A sole practitioner can acquire another sole practitioner with relative ease. Yet, generally, the larger the target, the larger the buyer needs to be to handle the process and to handle the target once the deal is closed. "Big enough" is when your company has the capital to do the deal, the team to help with the deal process and deal integration, and the money to hire the advisors to ensure that the deal is done correctly.

Are we in touch with who we are as a firm?

The best way to answer this question is to first identify where your firm is and where it should likely go – your firm's vision. The next step is to conduct a SWOT analysis, outlining your firm's strengths, weaknesses, opportunities, and threats, with respect to the vision (not just in general).

What type of professionals do I need and do I have them ready to go?

To consummate the best possible transaction, it usually takes the assistance of expert professionals who focus on conducting such transactions. These professionals include investment bankers, attorneys, and accountants.

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About ECHELON Partners

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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