Before Buying Other Firms, See if your Pactice is Marriage Material

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Here at **ECHELON Partners**, we sometimes get calls for help from executives who have started the process of buying another firm and found it overwhelming and all consuming. These executives have spent too much time on it, 30 hours a week in some cases, at the expense of other parts of their business.

The battered financial markets and the rapid restructuring of 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. Most deals take 6-12 months to consummate, and the only guarantee is that it's likely to be more complicated than you expect.

"Buying" comes in different forms. 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. But we suggest that all buyers can benefit from considering some simple questions about whether they are ready to blast forward with the process of acquiring another firm.

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

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). Does an acquisition fit into this vision?

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 is no longer enough. Other firms recognize opportunities that have come as a result of broker breaking away or independent RIAs that want to increase their intellectual stimulation and marketing might by moving from a sole practitioner model to one of a multi-partner model.

The firms that try to buy because they are having a difficult time with organic growth usually have more problems after 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 trying to get things right.

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

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. Time will also help you choose a target that is a good fit. Being less discriminating about target selection can be costly after the deal closes.

Can I, the leader of this 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 a high level of commitment, as opposed to a just-get-by approach. As the key decision maker of the buying firm, reflect on your own readiness to take the steps necessary to succeed. You may need to increase your M&A knowledge and skill set.

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

If you try to buy another firm, you will probably send a simple message: "We need to grow bigger" or "We have to capitalize on this opportunity." But depending on your firm's history and your reasons for buying, your communication might also take on a more challenging tone, such as "We are having trouble growing," or "We need to get bigger to survive," or "We need to buy ourselves back from the bank or roll-up firm so we can regain our independence."

It is natural for employees and clients to worry about change. However, the pursuit of acquiring other firms can sometimes stimulate counterproductive behavior and emotions. If you launch an acquisition campaign, but fail, what will that failure say to employees and clients? If you've explained that the firm needs the acquisition to grow or survive, how will you answer questions about the future?

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

You should assume that, to win most competitive sale processes, you will be required to put down 20%–33% of the total purchase price, and pay the remainder in roughly three years. Evaluate your competitiveness for acquisitions up front. Though some deals have zero up-front cash requirements and longer payment schedules, considering your options ahead of time might well pay off. Mergers, as opposed to acquisitions, may suit you better if you have 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.

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

It's telling that most buyers that have tried to go it alone, usually get assistance the second time around. It is important to work with an investment banking firm that focuses on the wealth management industry, because the professionals there will know the industry norms of valuation and deal structuring. A great investment banking firm should add value 3-5 times in excess of its fees. Attorneys are also useful. The can put the transaction documents together that contemplate a host of issues related to partners coming and going, as well as the privileges and responsibilities of the owners.

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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