Succession Planning 101: A Roadmap to Retirement

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While many advisors are good at planning for their clients' futures, not all of them are so adept at planning for their own. Indeed, only three out of 10 advisors have a succession plan in place, according to industry research.

If you're within five to 10 years from retirement age, and you haven't already done so, it's really important to start planning for the future of your business. When you're 55, you might feel like you want to and can work forever. But when you're 65, you might not feel that way. You don't want to wait until you hit that point to start thinking about selling your business.

Once you reach a certain age, you're probably not as effective as you once were, explains Fred Schaard, managing principal and president of Rehmann Financial, a financial services firm based in Lansing, Mich., which offers advisory, financial planning, and retirement plan services. It gets harder to keep up on technology, clients get concerned about your health and abilities, and your client base is probably aging too. "The value proposition to a purchaser is diminished the older your client base is," said Schaard, whose firm is a buyer of various fee-based financial services practices.

Before you can create a succession plan you need to determine what your plans are. For example, what do you want to do with your life after you sell your book? How much involvement, if any, do you want in the day-to-day business after you sell it? When do you want to actually exit the business?

The next step is to determine the route you're going to take to sell your business. Evaluate your options. Do you have an internal candidate lined up or someone who might be groomed for the role with the proper coaching and mentoring? Or are you looking to sell to an outside party?

Then you'll need to determine whether you're going to proceed on your own or with the help of an industry professional. While you can do it on your own, it behooves you to work with consultants, investment bankers, accountants, lawyers and other industry professionals along the way to help protect your interests and avoid potential liability.

At this point it's also important to understand how much your business is worth. There are, of course, many different ways to gauge this, but it's important to have some sort of baseline from which to work. "There is a major disconnect between what most buyers think it is worth and what most sellers think it is worth," said Mary Sterk, a certified financial planner and founder of Map It Build It Buy It, a Dakota Dunes, S.D.-based company that helps financial advisors grow their practices.

The next step is to begin negotiating a deal, keeping in mind that you'll likely need to remain involved—to a point. Once you are ready to transfer ownership of your business, you should plan on staying involved for some period of time, even as you move from an equity position to a non-equity position in the firm, said **Aaron Jackman**, an analyst with **ECHELON Partners**, a Manhattan Beach, Calif.-based investment banking and consulting firm for the wealth management industry.

Clients like to see a smooth, gradual transition with minimal complications, and such transitions can take several months to years to complete. "Even if you wanted to exit immediately, you can't simply close the deal and head to the golf course. You need to stay close by to hand off staff and clients to the new owners," Jackman said.

That said there's such a thing as being too involved. "If the seller stays too involved, you lose the opportunity for trust transference," said Sterk who has built her financial planning practice partly through acquisition. "If you don't transfer the trust to the buyer, the clients are not apt to follow future recommendations or refer future business to the buyer."

As you're in the process of succession planning, it's also important to make sure your clients are informed. Especially as you get older, clients start to worry about how their accounts will be handled if something were to happen to them and they want to make sure that some plan is in place.

Mapping out a communication strategy is crucial to keeping clients once you do begin handing over the reigns of your business. You always want to ensure clients understand that the change is in their best interest. "Your communication strategy is going to be the beginning of the trust transference process and be a barometer for how much attrition you'll have," said Sterk of Map It Build It Buy It.

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