The Messy Business of Growth by Acquisition
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Most financial advisors start out in the same precarious position – a handful of relationships and a desperate need to grow and scale their businesses. You need to have paying clients if you hope to sustain yourself, yet you need to build relationships and trust with your community first.

When it comes to growing your financial planning firm, there are numerous schools of thought. Those who knock on doors and host free steak dinners still exist, but the primary way to build a practice is through creative marketing and organic growth.

Still, there’s another way to gain more clients that should be considered – the acquisition of other wealth management firms.

Last year, I dove into this process and purchased the practice of a retiring financial adviser. I did this for a few reasons: I wanted to help the adviser transition into the next phase of his life, and I was eager to help his clients continue growing and preserving their wealth.

I’ve also been interested in pursuing this process from start to finish for some time now – not only so I could better understand how it works, but to help others pursue a similar path.

The truth about growth through acquisition

Before you rush out to search for retiring financial advisers, it’s important to understand that acquiring another firm will create more problems than it solves. It’s possible there are deeper issues at hand if you’re truly struggling to attract clients – so buying another firm could be akin to chasing “shiny objects.”

Financial planner Douglas Boneparth of Bone Fide Wealth, a New York City-based registered investment advisor, recently told me there are a lot of factors to consider when you’re in growth mode – and those factors extend far beyond determining whether you’re trying to “buy” clients you can’t earn on your own.

For starters, when you add revenue to your firm, you also need to increase the infrastructure to match it.

It’s all “pretty daunting” when you dig into the details, he says. To put yourself in a position where you are able to service new clients, you may need to hire more staff, add new compliance oversight and come up with new processes to meet unique client needs.

According to financial planning guru and industry expert Michael Kitces, these new responsibilities can derail your plans if your goal is increasing revenue. Why? Because you may be adding new expenses as new revenue comes in, and those new expenses could be more than you think.

For that reason, “growth does not solve profitability problems in advisory firms,” says Kitces. “It just compounds them in not a good way.”

Then there’s the issue of attrition, says Boneparth. The market isn’t flooded with young, vibrant professionals and older advisers can’t necessarily relate to the children of the clients they’re acquiring.

For that reason, financial planners who focus on acquiring new firms instead of organic growth may wind up in a position where they must continually acquire smaller firms to replace the clients they’ve lost.

Boneparth says a better strategy is to grow organically, which requires a real marketing strategy from day one. A lot of financial advisors believe acquisition is the easier road, so they go that route without doing their research.
Three lessons I learned from acquiring another firm

Of course, these warnings don’t mean all financial advisers should avoid acquiring other firms that are a good fit. Obviously, someone must take over as the older generation retires and moves on.

Just remember that acquisitions aren’t always easy, nor should they be. Our clients become like family and it’s not always so easy to just hand them off. The advisor selling his or her firm is in the unique position of negotiating for their own best interests as well as those of their clients, and the buyer must carefully navigate these issues – which are often fraught with emotion – while negotiating for what they want and need in the end.

Here are the three main lessons I learned during the process:

1. Find the right match

While investment and financial planning philosophies don’t have to be a perfect match across both buyer and seller, it should be very, very close. The financial advisor I purchased had a fee-only firm very similar to mine, yet we still struggled to agree on certain terms.

I can only imagine how much more heated our discussions would have been if I were fee-only and he wasn’t – or if I was in favor of passive investments and he was in the active management camp. If we didn’t agree on the most important factors of how to run a wealth management business, our deal wouldn’t have gone through.

In addition to investment philosophy, it helps to have matching ideas on meetings, reports and the way your firms are structured. Does he or she meet with clients regularly? Quarterly? Do they visit their homes or do clients visit their office for meetings? Do they provide regular performance reports or only when clients ask? These are all good questions to ask.

Look for firms that are run similarly to your own. You’ll save yourself some time, heartache and stress.

2. Start at the end

It’s easy to approach the acquisition process by talking over only the fun parts of the purchase. How did the seller build his or her business in the first place? Do they play golf with their clients? What technology do they use and trust?

Skipping over this small talk and getting serious right away can save everyone a boatload of time. After all, how the seller entertains clients won’t matter much if your business philosophies are radically different or even conflicting.

That’s why I suggest starting the conversation at the end of the process.

“If this is something we pursue, what is the perfect end result?”

Obviously, the end goal should be a profitable exchange for everyone involved, as well as thriving, happy clients. But, how will that actually work?

Will the onboarding process be different for their clients? Do they plan to work in your office during the transition? If so, how long? On the flipside, will they make the sale and disappear?

Will he or she want access to certain information so they can monitor the transition as it moves forward? These are all questions to ask right away, but there are plenty of issues to ponder once you start envisioning what the sale might look like once it’s over.

3. Hire an objective third party

When I made my first purchase last year, the details looked simple on paper. The firm I purchased had a dozen households as clients with about $12 million in assets under management. Both of us were fee-only financial advisers with similar thoughts on investing and financial planning. We thought that since we were both reasonable people, it would be easy to hash out the details.

We were wrong.

I learned the hard way that nothing is that simple – even if it looks simple on paper. Two good people who want to do right by their clients can experience roadblocks and communication problems that hold the process up.
If I had to do things differently, I would hire a third-party consultant who could prioritize conversations and help us stay on track. Ideally, this person would have had a grasp on the order of the decisions needing to be made as well — mostly because I believe that would have saved us time.

My acquisition of another firm took an entire year, which is way longer than it needed to take. We each had an attorney, but your own legal counsel cannot possibly be objective.

Spending the money for a third-party consultant to sit in meetings and guide the conversations would have taken the weight of the world off my shoulders. Next time I acquire a new firm — if there is a next time — I won’t make this same mistake.

The bottom line

Acquiring another firm can be an effective way to grow your business and your bottom line. But, like with any major business decision, the details are crucial. Don’t assume acquisition is the easiest way to grow. The process is much messier and complicated than it seems.

Taylor Schulte is the founder of Define Financial, a San Diego-based registered investment advisor, and host of Experiments in Advisor Marketing, a podcast exploring the world of marketing in the financial planning industry. To learn more about my first acquisition and lessons learned, check out the third episode of Experiments in Advisor Marketing.