PRACTICE MANAGEMENT

Need a Succession Plan? 3 Questions to Help You Get Started

by Michael Futterman

IT'S A CONVERSATION I wish I can say was unique. Sitting in a Miami office, appreciative of not being outside in the humidity, I sighed and looked across the table at an equally exhausted adviser before asking yet again, "What would you tell your client who wasn't sure about their future?"

You'd immediately be able to tell from our body language that we'd been at this conversation for quite some time—for almost a year in fact.

"I'd show them the financial plan and ask them again if their goals had changed for retirement," he suggested, tentatively. We were struggling with the hurdles of bringing this financial adviser in for a career landing following an impressive 35 years helping his clients.

When it comes to succession planning, many advisers aren't heeding their own advice. Less than a third report having a formal succession plan, according to the latest research from FPA and Janus Henderson. This is concerning for many reasons. A lack of a plan makes it less likely that advisers will achieve their retirement goals, causes stress for their teams, and may negatively impact clients.

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The research shows that advisers are well aware of the risks. So what's the holdup? Advisers and the teams surveyed cited finding the right person as the most common barrier to creating a succession plan. In my experience with Janus Henderson Labs™ and by researching the industry and coaching thousands of advisers for the greater part of two decades, I understand why they'd falter at this stage: most have deep financial and emotional ties to their practices. Transitioning a team and clients to another person is a big decision—one that intertwines financial needs in retirement with issues regarding an adviser's identity, sense of obligation to clients, desire to maintain control, and the vision of the practice's future.

If these underlying issues aren't addressed, then identifying and grooming a successor becomes that much more difficult. On the flipside, answering some core questions about what you want can help you set the direction for the future of your practice and lay the groundwork for cultivating a successor and your own transition to retirement.

Succession Planning? It's Personal

FPA released a report in 2015 that noted only 28 percent of advisers had a formal succession plan. Fast-forward three years and that figure has barely budged. The recent study showed that just 27 percent of advisers had a documented succession plan in place. The lack of planning was especially pronounced among advisers or teams managing less than $50 million—only 14 percent in that cohort reported having a succession plan. The research included responses from 390 financial advisers/planners and team members. [FPA members can go to OneFPA.org and click on Research and Practice Institute to download a full survey report.]

More than one-third, including the adviser in Miami, reported finding the right successor as their top issue. Personal concerns understandably come into play as well. Consider that 74 percent of advisers report that while their businesses may be ready for transition, they're not sure they are ready to retire. Others who responded to the survey worry that the business won't be as successful if they're not there and say that it's hard to think about moving on from their practices.

These are common sentiments for advisers nearing retirement. I was recently working with an adviser in Cleveland whose father-in-law owned the practice and planned to transition it to him. In this case, the team had a succession plan in place, but the supposedly retiring adviser didn't want to leave. So, the plan became essentially meaningless because the senior adviser created it without contemplating the bigger issues. What did he want to do next? How would he relinquish control of the practice he built? What would he do if he wasn't a financial adviser? Did he even want to retire?

When it comes to succession, the planning process is as important as the end result. Whether you ultimately sell your business outright or identify an internal successor, it's important to start with a deep understanding of what you need to move on. Only then can you create a plan that makes sense for you and whomever is following in your footsteps.

3 Key Questions

A solid succession plan may take seven or even 10 years to implement. Begin contemplating these questions now and you'll be ready to take the next steps toward your own retirement:

1. What do I want for me? This is a critical component of any succession plan and yet I find that many advisers haven't taken the time to root out the answers. To be sure, it's a multifaceted question. One of the first and most important aspects is financial. Advisers need someone who is able to buy them out of their practice. Without that, the rest of the issues are secondary. Much like helping your own clients' retirement plans, you need to determine how much you need to get from a business sale to reach your retirement goals. The answer will help direct your next phase of succession planning. Do you need a lump sum? Then perhaps you should aim for a direct sale. Do you want a more phased-out transition that provides a steady income stream? Cultivating an internal successor to take over as you ease out and then perhaps stay on in an advisory capacity could be the right solution.

The personal piece is also important. I was recently working with an adviser who was dreading retirement—he didn't know how he'd spend his time. He didn't necessarily want to be home more and he wasn't in good enough health to fill his days with golf or travel. As an adviser, you want to consider all aspects of this next stage, from where you want to live to what you want to do and not do. This is the self-reckoning portion of the process and it will inform a lot of how you create your plan.

2. What do I want for my clients? Once you understand what you want for yourself, the next step is considering what you want for your clients. Are you comfortable selling your business outright and walking away? Or are you more interested in a continuation of your practice and team? The answers to these questions lead to how you'll select a successor—and who will be best for the job. Among the top-performing advisory teams that we've studied, more than half have hired a junior producer to help grow the firm. Improved performance in the near-term is obviously part of their motivation, but so is developing advisers who retain the client book and grow it over generations.

This is why I advocate hiring with the end in mind. You don't need to immediately identify which member of your team is the best choice to succeed you. But you do want to understand what you want for clients long-term and evaluate hires through that lens. For instance, articulate your own values and your "why" for your practice—and ask job candidates the same. Ideally, as you're building your team, you'll end up with a pool of potential successors who can carry out the practice's mission, which is what helped you attract and keep clients in the first place.

If continuity of service is a key objective, then part of your planning should also include development of your junior advisers into senior roles. I see far too many situations in which people hire a junior employee and don't provide them opportunities to interact with the clientele. How are they going to eventually take over the relationships? Advisers need to create training and development plans that integrate the junior advisers into the practice and with the clients early, so that when the transition occurs, it is smoother for everyone.

3. Where am I willing to compromise? This might be the most important question of all. The saying about best-laid plans is true in life and in succession planning. As I noted, advisers need to know what they want. But they also need to be aware of their other options and what changes or concessions they'd be able to make if Plan A turns to Plan B or Plan C. This is applicable not only to the selling of your practice, but to the mechanics of the transition as well.

For example, consider when you plan to shift decisions about the practice to your successor. What if he or she wants to have a say in business decisions earlier than you're ready? Also contemplate whether it's important that the entire team stay intact. Are you all right with your successor letting go of people you hired? What do you believe the value of your practice to be—and what will you do if there's a difference of opinion on that figure?

Getting a sense of what issues you won't budge on and where you can be flexible allows you to create a succession plan that addresses your needs, but also exists in reality. In addition, it makes it easier for the person you're developing as a successor to understand their role in the process and whether a plan meets his or her needs as well.

Moving Forward

The FPA and Janus Henderson research shows that when it comes to succession planning, many advisers are stuck. As the adviser from Miami learned, digging a bit to identify the true issue motivated him to spend more time mentoring a junior member on his team who his clients already knew and trusted. Together they came up with a five-year plan to transition the business. He's now enjoying retirement in the Florida Keys and is pleased to know his clients are still getting the type of support he signed them up for in the first place.

Use these three questions to jump-start your planning process and provide some solid guidelines for what you need from retirement and what you want for your clients. The answers will help you develop a succession plan that meets your personal goals, begin to identify individuals who are a good fit, and set yourself up for an easier transition to whatever comes next. ■

Looking for additional resources to help you with succession planning? Visit janushenderson.com/advisor/succession.

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