

For succession to be success, advisers must face their fears

To make an internal transfer work, owners have to let go of the reins

By Lavonne Kuykendall

February 19, 2012

Writing a succession plan isn't too difficult. Overcoming the concerns that inhibit advisers from tackling the project in the first place is.

According to consultants and investment bankers who deal with advisory firms in transition, the chief stumbling blocks that stand in the way of advisers' creating a plan include concerns over sharing client records, fears about giving up control and getting past the anxiety of dealing with younger advisers.

An internal-ownership transition makes the most sense for advisers, according to experts — but that doesn't mean it is easy to do.

“A lifestyle retirement plan based on an internal-ownership transition is the most lucrative and, not surprisingly, most popular succession-planning strategy in the industry today,” said David Grau, president of FP Transitions, an investment bank for financial services firms.

“Not only does it provide a high level of control and the ability to perpetuate the founding owner's revenue for a generation to come, it also builds a stronger, more stable, more valuable business,” he said.

Many advisers don't understand how long it takes to plan and carry out an internal succession, said Kelli Cruz, director of research and consulting at *IN* Adviser Solutions, which is owned by Crain Communications Inc., the parent company of *InvestmentNews*.


“Advisers think it's not an issue because succession is so far off in the future,” she said.

Advisers who go the internal-succession route face predictable challenges in executing a plan to put a younger employee on an ownership track.

In a recent report, Mr. Grau identified five common worries that hold back advisory firm owners. Advisers who have executed equity deals said they faced these issues but found a way through.

- **Revealing business expense and salary information.**

InvestmentNews Reprints

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Reprints tool or the Reprints link at the top or bottom of any article, respectively.

- [View reprint options](#)
- [Order a reprint article now](#)

Eric D. Brotman, president and managing partner of Brotman Financial Group Inc., recently sold a portion of his firm's equity to a junior partner, and plans to sell more shares in the future.

He took the salary issue off the table by having an open-book policy for all employees, revealing everything, including total firm compensation, he said.

When Eric Christiansen began his career at Quantum Financial Planning as a college intern in 1995, the firm also had an open-book policy. He said he appreciated that the firm's owner was open about financials and gave employees the opportunity to gain a stake.

"One of the ways I was able to build my [book of] business was that my mentor said, "Here is the number of clients I want, and as I get new clients, I will pass some on to you,"" said Mr. Christiansen, who now is one of the firm's four partners.

• **Loss of control.** Mr. Brotman was bothered by the thought of losing full control of his business eventually when he decided to sell the first 5% stake.

As the plan developed, however, he began to see things differently.

"I was still able to do just about whatever I wanted to as the owner," Mr. Brotman said.

While selling a stake in the business meant his partner would have a say, it turned out to be an advantage, he said.

"Having a sounding board in what otherwise is a lonely business has great value," Mr. Brotman said. "When it was just me, I had to eat, drink and sleep the job."

• **Doubts about the next generation's readiness for leadership.** "Of course, they're not ready," Mr. Grau wrote in his report.

But were you?

"Do you remember when you first became an independent business owner?" he asked.

Mr. Grau advises that financial advisory business owners show a little patience.

"The biggest concern for me was making sure that person had the drive and the ambition to do the right things that made our business successful in the first place," said Bryan Sweet, chairman of Sweet Financial Services Inc.

When Mr. Sweet took on Ty J. Totzke as a partner in 2011 as part of his internal-succession plan, Mr. Totzke has been with the firm for about eight years.

"I am comfortable that Ty is acquiring the right skill sets," Mr. Sweet said. "We just haven't been in any rush, and it has been working out very well."

• **Worry that a younger partner won't have the money to buy a share.** This is a common problem, and one solution is a 10- to 20-year plan that allows younger advisers to pay for their shares in 5% to 10% tranches, Mr. Grau said.

Mr. Brotman, for example, started out selling 5% of his equity, and he offered to co-sign for his junior partner's loan.

That gives both sides the needed time to make everyone comfortable with the internal succession plan, Mr. Grau said.

“Investing in equity and committing to your business for years to come has a strange way of bringing about the necessary changes in behavior,” he said.

• **Concern that internal-financing deals are tantamount to advisers' paying themselves with their own money.** Mr. Brotman said he overcame that worry by realizing that every employee essentially finances his own retirement, either through their retirement accounts or by earning their way into a pension. He began to think of the sale of his business as diversifying his retirement portfolio.

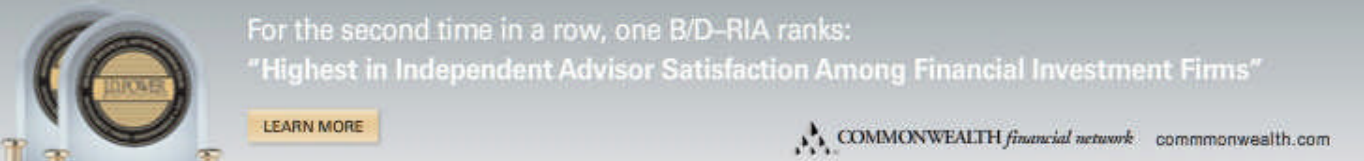
“My portfolio is overweight in microcap financial services. Two-thirds of my net worth is with this firm,” Mr. Brotman said.

“My impression of what happens in the industry is that [owners] get to the point where they are just about out of business before they address the [succession] issue,” said Brian Heckert, owner of Financial Solutions Midwest LLC.

To relieve that pressure, Mr. Heckert is developing a partnership agreement with an adviser at his firm.

“I want a partner, somebody to help me think through management issues, not just somebody to buy equity,” he said.

lkuykendall@investmentnews.com



For the second time in a row, one B/D-RIA ranks:
“Highest in Independent Advisor Satisfaction Among Financial Investment Firms”

LEARN MORE

COMMONWEALTH *financial network* commonwealth.com

Reproductions and distribution of the above news story are strictly prohibited. To order reprints and/or request permission to use the article in full or partial format please contact our Reprint Sales Manager at (732) 723-0569.