Take action now to achieve your succession goals

By Steven Davison National Manager for GROW, AXA

Steven Davison is a succession expert. As national manager for AXA’s GROW program, Steven eats, drinks and sleeps succession planning, developing the many options and business models AXA offers its clients who are planning for the future.

A strong advocate and champion of succession planning, Steven has been delivering his planning for succession message around the country. He believes the most important element in growing a successful business is planning for when you leave the business.

Steven tackles the very hot and somewhat confusing topic of what succession is and explains how AXA has been so successful in helping businesses achieve their succession goals.

Many financial advisers associate succession with selling their business and exiting the industry, rather than with building a business that will live beyond its current owners. Which goes part of the way towards explaining the research finding that only 12 per cent of financial advice business owners have a fully-funded, agreed and documented plan allowing them to enjoy the benefits of good succession. Benefits like working three days a week and earning the same income, or doubling the size of their business by introducing the next generation of owners.

This lack of planning may stem from the common misconception that succession simply involves selling your business shortly before you want to retire and then hanging up your boots and leaving.

In contrast to this approach, good succession planning is a journey that starts years in advance, potentially enabling you to work less, earn more and increase the value of your business.

MULTIPLY YOUR PERSONAL AND FINANCIAL OPTIONS

Many advisers never achieve true business succession because they rarely sell their business. AXA’s experience indicates that around 90 per cent of sales transactions in the financial advice industry are sale of a client base at a multiple of recurring revenue.

But a good business succession plan will help ensure you sell your business, not just your clients. Not only will it leave you with a legacy and the opportunity to see your business continue well after you’ve retired, but your clients and staff will be looked after once you’ve moved on.

More importantly, a well structured succession plan can increase the value of your business and multiply the personal and financial options available when you decide to exit. Other outcomes include:

- Control in managing retirement at an appropriate speed for you.
- Respect and support from clients, staff, community and suppliers.
- Increased goodwill reflecting your hard work and values.
- Consistent growth in revenue, potentially leading to higher business value.

However, for many advisers most of their time is spent developing clients’ wealth accumulation and retirement plans, with their own retirement and succession strategies put off to a later date. There are too many examples of owners in this position who’ve not been able to achieve a business succession or retire on their own terms.

PLAN YOUR SUCCESSION

After spending 15-20 years building your business it can often be difficult to untangle personal objectives from business ones.

But it is always powerful to step back from the business and think about the personal and family goals you want to achieve. Perhaps on your next holiday you should forget the phone, not call the office and think about your goals beyond work.

When planning your succession try separating your business activities into three categories – adviser, manager and shareholder.

Adviser

While your business was founded on the clients you introduced and the high level of service you provided, at some point you need to transition the relationship from yourself to your business to achieve a greater degree of corporatisation.

By bringing in other advisers to look after some of your client base you can reduce your workload, and if the right people are chosen you can actually grow your business at the same time as they introduce new clients.

Manager

More financial advice businesses are now employing practice managers to deal with daily administration and people management, allowing the owners to reduce their workload and keep doing what they’re best at – providing advice to clients.

Accountants and lawyers have been doing so for many centuries and the reason is simple – it makes good economic sense. If you and your advisers can generate $200 an hour in fees, then hiring a practice manager for $80 an hour is a very sound investment.

Shareholder

Many of you are probably shareholders in publicly listed companies and some of you may even own shares in private companies. So what is preventing you being just a shareholder in your own company and making that a key part of your retirement and succession plan?

In reality if you trust your staff and business systems you probably have greater knowledge of the risk/return profile of your business than some of the other shares in your investment portfolio. While the concept of remaining a shareholder in your own business exists in many other industries, to date only a few business owners have retired from work and remained a shareholder in their former business.

GET READY FOR SUCCESSION

Your preferences will greatly influence how you manage your retirement and you need to reflect on what you want to achieve.

Those who have simply had enough may find a straight sale of their business the best option. But someone seeking to move into retirement gradually may want to sell their business internally to younger advisers and in stages. This will allow an owner to steadily reduce their daily involvement in the business, while still achieving their business objectives.

Important questions to ask yourself include:

- What do you believe is a fair and reasonable value for your business and efforts?
- Are your lifestyle plans able to be supported leading up to and in retirement?
- Do you have plans you want to see realised for staff or family?
- What is the likely impact on your clients?
- What is your proposed timeline?
- Do you want your business to operate beyond your exit?

As a general rule, buyers will pay more for your business if your clients are satisfied with how their needs are being met, and their satisfaction doesn’t depend on dealing exclusively with specific business owners.
The ideal scenario for a buyer is to find a business that can function profitably and effectively without heavy reliance on its owners – one in which the owners delegate everyday tasks like client engagement and administration to competent staff who follow consistent, documented processes. This type of business is a more attractive investment for a buyer because it’s more likely clients will remain satisfied after the owners have left.

Reducing owner dependence does involve making a conscious decision to relinquish some level of involvement, but not necessarily control. This can allow you to reduce your workload as an adviser and manager, or redirect your emphasis back to the things you enjoy without sacrificing earnings. In fact, if care is taken in selecting and developing the right staff you may even increase your returns.

In considering retirement and/or succession, it’s vital to think about how your potential successor will view your business in terms of its strategy, client value proposition, the quality of its people, its systems and financials.

If these aspects are closely aligned with a potential buyer’s own business, it is more likely they’ll be interested. And if the buyer has identified future savings and efficiencies, and the risk of client loss is low, it is likely they will continue to run your business successfully, which means they may be willing to pay more.

Preparing your business so that it attracts the right type of buyer and its value is fully realised at sale is a critical step in the process.

IDENTIFY YOUR PREFERRED EXIT STRATEGY – THERE ARE MANY OPTIONS

The option you choose for your retirement and business succession will dramatically affect the value and complexity of the sale. There will also be implications on how you structure the business as you approach your departure.

It’s important to keep in mind that multiple options may be adopted, such as selling unprofitable clients to help improve profits before selling the whole business. Equally, it is wise to have a fall-back position if your initial plan doesn’t work out as expected.

AXA has developed a range of options that are tailor-made to suit varying business and personal needs – here are just three:

**Acquisition** – acquiring client registers or businesses to build value in the business and drive growth before a sale in the future.

**Generational succession** – selling down the owner’s equity to a younger adviser over time, providing continuity and gradually transferring clients.

**Merger/partnering** – entering into a long-term agreement to transfer ownership over a period of time. This will provide continuity and growth opportunities before final equity sale.

The following case studies provide real life examples of successful acquisition, generational succession and merger/partnering options. In contrast to these, the final case study illustrates a lack of good succession planning which led to a forced exit and resulted in undesirable outcomes.

**CASE STUDY– ACQUISITION**

**Background**

Set up in mid-2003 by two former employees of a large financial institution, this rapidly growing business was hungry for further growth. So the entrepreneurial owners decided on a strategy of growth through acquisition.

Although at a relatively early stage in the business's lifecycle an opportunity arose to acquire a client base from a well known self-licensed enterprise. In what is becoming common practice in the financial advice industry, this company had undertaken a strategic review of its clients and identified 1,000 non-core clients. The client base was taken to market through a business broker and attracted a large number of bidders.

To have a good chance of being the successful bidder, the business needed to address a number of critical issues:
- Existing business structure represented an unacceptable risk for lenders.
- Owners needed support to manage an acquisition and plan the transition of clients.
- Staff turnover was high, with insufficient staff to support growth.
- Back office systems and processes were inadequate to accommodate the expansion.

**How AXA tailored the right solution for business growth**

AXA helped the business obtain professional advice about the most appropriate business structure and develop an integration strategy.

Discussions were then held with the seller to ensure that a plan was in place to transition the new clients.

Three very high calibre staff not available on the open market were sourced and provided with appropriate training by AXA. And AXA also helped with the introduction of improved technology and processes for back office operations.

**Results**

While not the highest bidder, the business was the successful one. The seller’s decision was based strongly on its assessment of the business’s calibre, professionalism and ability to successfully integrate the clients. AXA's expert assistance played a crucial role in giving the seller the necessary peace of mind to clinch the deal.
The figures tell their own story:

- Gross revenue following the acquisition jumped from $630,000 to more than $1.1 million.
- Funds under management grew from $40 million to $75 million.
- Business value leapt from about $900,000 to $2 million.

**CASE STUDY – GENERATIONAL SUCCESSION**

**Background**

This large financial advice business is located in regional Victoria. It has grown significantly over the past 18 years and currently manages around $120 million of funds under advice and inforce insurance premiums of about $2.3 million, generating gross revenue of more than $1.7 million.

The business provides holistic financial planning advice, incorporating personal insurance and corporate superannuation. General insurance and mortgage broking services are also offered under the same roof through two separate companies.

There are four business owners – all are active financial advisers. Completing the team are a further two advisers, one of whom was appointed to set up an expansion into Melbourne’s CBD.

Two of the owners are older with a documented and funded plan to retire within the next 10 years, and two are younger, having been recruited into the business about five years ago.

At the time AXA’s succession support commenced they all had a significant management load associated with running the business, on top of their adviser responsibilities.

**HOW AXA TAILORED THE RIGHT SOLUTION FOR BUSINESS GROWTH**

AXA worked closely with the owners, helping them understand the benefits of a more streamlined focus on their core business – financial planning. This resulted in one of the older owners selling his equity in general insurance and mortgage broking, while the other sold off his mortgage equity only, keeping a small insurance stake.

Another important step was encouraging the owners to appoint a practice manager, making the business more corporatised and less reliant on owner-involvement, while reducing the owners’ workload.

And in a further move towards corporatisation, AXA helped the owners develop and set up an internal paraplanning department which reduced client dependency on the owners and ensured standardised financial plans for all clients.

**Results**

The business has achieved significant administration and management efficiencies, accompanied by stronger growth, with every indication of further improvements in the future. It has become easier to manage, largely due to the introduction of a practice manager, which allowed the owners to devote more time to advising clients. The practice manager, in conjunction with AXA managed the opening of the new Melbourne office – a vital step to establishing new markets.

The figures speak for themselves:

- Funds under management grew from almost $50 million at the end of 2001 to over $120 million by June 2006.
- Profits per owner have grown at an equally attractive rate.

The principal owner said:

**CASE STUDY – MERGER/PARTNERING**

**Background**

Business A’s owner has five years to retirement and wants greater certainty about who will buy his business. He also needs to extract capital for his own retirement planning.

Business B’s owner is around 45 years of age and has a longer time period until he retires.

Merging their businesses will provide several benefits, such as cost savings on office space, and allow Business A to use Business B’s systems to improve efficiency and profitability. It will also ensure Business A’s clients are gradually transitioned to Business B’s advisers and continue to receive wealth management advice which in fact is a key benefit derived from this type of succession plan. Business A’s newly acquired clients will continue to receive the financial advice they need, enabling Business B’s advisers to build strong relationships, which in turn will contribute to ongoing satisfaction and growth of the business.

**OWNER VIEWPOINT**

“AXA really helped us identify and articulate our objectives, and then provided the catalyst to implement a program aligned to our personal, professional and business goals. This has already been a valuable and rewarding step for us, and we look forward with great excitement to growing and evolving our business over the next 5–10 years. From that point on I look forward to my retirement, and hopefully good health, with plenty of travel and golf. But whatever I do in retirement, I will always take an interest in how the business is progressing.”
Succession activity
The owner of Business B acquired Business A by using cash for 50 per cent of the value and issuing shares in his business of equivalent value. Business A's owner extracted capital from his business and in addition received a 20 per cent holding in Business B.

The clients of Business B will gradually be transitioned to Business A's service model, giving Business B's salaried adviser the opportunity to provide greater service to Business A's clients.

Results
Business B gained more scale through the additional revenues and the overall expenses of both businesses were reduced by removing duplication. Business B's profit margins rose by about 50 per cent in only 12 months after the integration.

CASE STUDY – REACTIVE EXIT

Background
This regional business had a turnover of around $600,000 per year. Its owners, let's call them Graham and Bill, employed two senior advisers, a paraplanner and a full-time administrator.

Graham and Bill had numerous conversations with their advisers about taking up equity. They were fully insured and had a partnership agreement to ensure either partner could buy the other out at appropriate trigger events.

In fact, Graham had verbally agreed to buy out Bill in the next six months as Bill wanted to retire. Bill and his wife had bought a caravan and intended to depart on a trip around Australia after the sale.

Sadly, however, Graham was diagnosed with an aggressive form of cancer late last year and died six months later.

Exit activity
After Graham's death the buy/sell agreements took effect, the insurance benefit was paid and Graham's estate was looked after. But Bill now had 100 per cent of a business he'd recently decided to sell. He did everything possible to try to sell to the senior advisers, without success.

This left Bill having to sell externally in a regional market where the likely buyers knew what had happened and weren't willing to pay what he regarded as a full price.

Results
Nine months later the business remained unsold, the two advisers had found jobs elsewhere and Bill had not been able to fully retire as planned. There had been no business succession, rather, a forced exit, where nobody won. Not the owner, not the staff, not the clients and not the community.

AXA’S SUCCESSION EXPERTISE
AXA has a wealth of experience in succession planning and has helped many financial advisers achieve their personal and business objectives through well managed succession transactions. Since 2004 we have worked collaboratively with more than 150 business owners to help them meet their succession goals. We are continuing to work with many business owners who we believe will also succeed in realising their business and personal goals through our succession planning.

One of the most important things we’ve learned along the way is that the right succession option is different for every business owner, based on individual circumstances and needs. At AXA we never forget it’s your business.