

# A Guide to Succession & Continuity Planning

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# Agenda

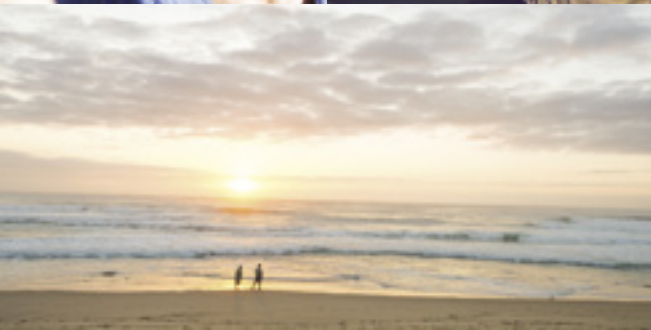
Background Issues

Succession Planning

Continuity Planning

Lifestyle Planning

Exit Planning





# What do we want to achieve today?



- ✓ Understand the challenge the industry faces
- ✓ Learn about the options available to you
- ✓ Talk about the action you need to take
- ✓ Examples of succession plans implemented
- ✓ Work through an interactive exercise
- ✓ Open your minds to alternative approaches
- ✓ Provide a more practical perspective – not just theory and academic mumbo-jumbo



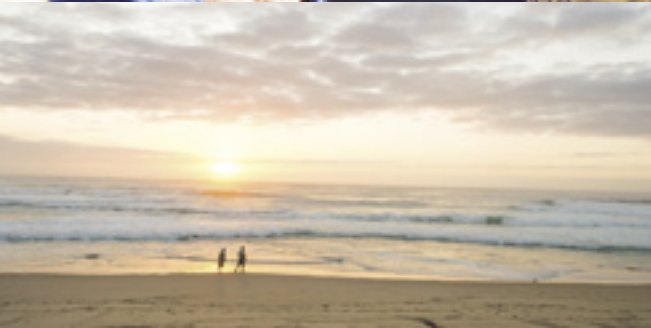
## Background Issues



- Adviser demographics
- 1/3 have a plan, only 50% of these have it documented
- Tough topic to face
- Lack of young talent prepared to be advisers
- Regulation is changing the landscape
- A provider perspective – we need more advisers
- Succession planning doesn't always make financial sense
- More buyers than sellers?



# Succession Planning



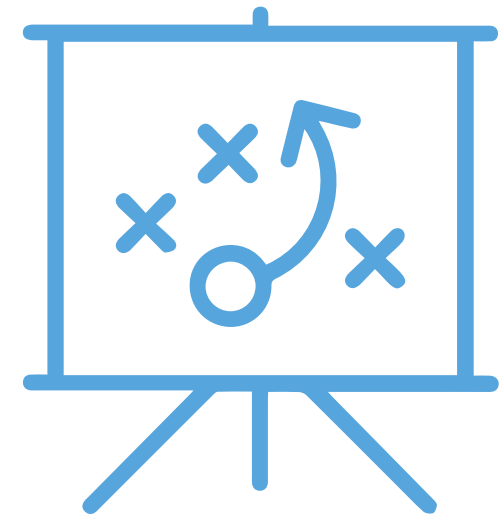


# Succession Planning



A documented, formal plan to transition the ownership and leadership of an advice practice or business to the next generation of advisers

- Who has one?
- Methods:
  - Recruiting and training
  - Joining a larger advisory network
  - Merging with another local adviser
  - BOLRs
- Where do your clients end up?
- It's not just about unlocking value on exit – it's about building more valuable businesses today.



You will depart your business one day – will you control your exit or leave it for others to dictate what happens to your clients and your business?



It's called a plan for a reason...



Advisers create plans for their clients every day, yet they often don't plan for themselves

- A succession plan takes time
- Are you able to detach yourself emotionally?
- Are you able to detach yourself financially?
- Determine when you would like to exit
- Develop the best strategy for you
- Find successor
- Draft plan
- Implement.





## Make your business more saleable



Rather than believing your business is worth X, put yourself in the shoes of an acquirer first



- Without you, what is your business?
- Is your business custom-made for you?
- Is it adaptable?
- Is it attractive?
- Is it scalable?
- Can you demonstrate the potential for growth?





# What does your successor look like?



The hardest part of succession planning is to find the right successor – start with narrowing down the options



– What skills and experience do they have?



– Where would you likely find them?



– What core beliefs and philosophies do they have?



– What financial resources do they need to have to buy your business?

Poor choice here gets expensive – both before and after retirement



# Succession Plan Exercise



Work through the 8 questions in “Exercise 1 – Your Succession Plan”



Discuss at your tables



Compare situations, views and challenges



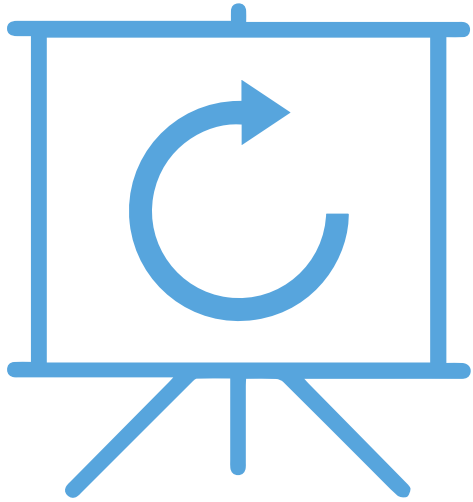
What are the common threads of discussion?

# Continuity Planning





# Continuity Planning



A continuity plan is a stop-gap measure to deal with the unexpected, eg sudden death, illness, disability or unforeseen events

- Every adviser should have one
- What if you don't arrive to work on Monday?
  - Who looks after your clients?
  - Who runs the business?
  - Who organises the business for sale?
  - Who maximises value for your family?
- What does a continuity plan look like?
- Separate from a succession plan
- Don't need a succession plan to have a continuity plan

Make sure the firm offering the plan has the scale and capacity to integrate your clients.



## Continuity Planning – Example



### Pinnacle Advisor Solutions

- PRISM
  - <http://www.pinnacleadvisorsolutions.com/services/prism/>
- Continuity of service if the adviser dies
- Revocable contract
- If you become ill or die, Pinnacle will:
  - Acquire your business immediately
  - Pay you or your estate 25% of the revenue for the next 5 years
- If you align your practice, they will
  - Pay you or your estate 30% of the revenue for the next 7 years
- Downside protection for acquirer, but upside opportunity for seller for growth.



# Lifestyle Planning





# Lifestyle Planning

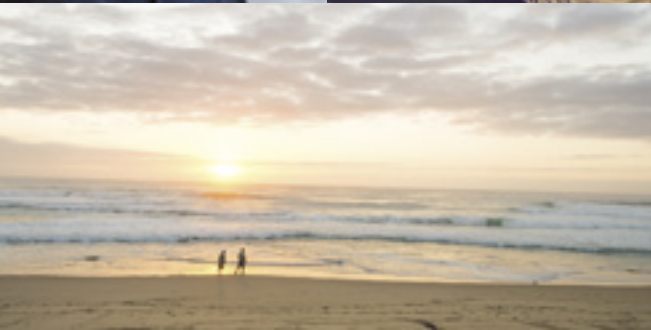


The advice industry is one where it is entirely conceivable that you can ‘die with your boots on’



- Redesign business to suit your lifestyle
- Challenge is to maintain a terminal value
- Makes sense from a financial perspective
  - Net present value of future earnings versus a multiple
  - If you love working, why leave?
- Many functions can be outsourced
  - Research, product selection
  - Plan-writing / SOAs
  - Administration
  - Sell a portion of client base
- Having a continuity plan is **essential**.

# Exit Planning





# Exit Planning



Exiting your business is a case of when, not if...



## Valuations

- What is your business is worth?
- Have you ever obtained a proper valuation?
- Multiples are an outcome, not a starting point
- Buyers and sellers often have unrealistic price expectations
- Put yourself in the shoes of the acquirer.



## Acquirer

- Who is the likely acquirer?
- Who is in the market?
- What differentiates them?

Assumptions that similar multiples apply is an assumption that all businesses are created equal – what sets you apart from the rest?



## How does an acquirer think?



- What is my return on investment going to be?
- I need to understand:
  - Recurring revenue streams
  - Growth rates
  - Lapse/attrition rates
  - Costs
- How well does this acquisition sit with my other business?  
Is it easily integrated?
- Are these clients within my target market?

The higher return you can demonstrate to an acquirer, the higher return you will get





## Summary



- It's your business, therefore make it your plan
- Allow plenty of time to implement a plan
- Consider alternatives
- Establish a continuity plan immediately
- Get serious about how you value your business



# Summary



## Next steps

- Seek advice
  - Aaron Klee: [aaron.klee@amp.co.nz](mailto:aaron.klee@amp.co.nz) or **0275538721**
- Read:
  - EXIT is NOT a Four Letter Word – George Hartman
  - Succession Planning for Financial Advisers – David Grau
  - Michael Kitces – [www.kitces.com](http://www.kitces.com)
- Plan! Don't leave it too late.

