



5440 Corporate Drive, Suite 205
Troy, Michigan 48098
P: 888.848.3349
E: info@advisorlegacy.com

10 Steps

To Prepare Your Practice For Sale

Your Future



Selling a practice is an emotional journey that takes careful preparation and planning.

Your practice is likely the largest asset you own and signifies years, if not decades, of hard work and investment. Many people only sell a practice once in their lifetime. It's important to get it right.

START NOW

The sooner you start the process, the better the outcome for you, your clients, and your team. There is no magic number, but ideally you would start working on your exit strategy anywhere from 12 months to as many as five years before your target exit date. This ensures that you are making the right move for you and your business, and gives you time to strengthen the value and “saleability” of your firm.

To help you start the process, we've outlined 10 steps to prepare your financial practice for sale. Following these 10 steps will give you the clarity, information, and insight you need to locate the right buyer and ensure a smooth transition for everyone involved.

Step One

Define Your “Why”



Before you begin searching for buyers or preparing documents, you first must develop a clear, well written message on why you are selling. Your why message is a critical element of the process for a number of reasons. First of all, buyers will ask you and you need to be prepared to answer. Second, a well written why will provide you with clarity and focus, especially as it relates to your post-sale plan.

In some cases, practice owners are selling and retiring at the same time, while others are looking to sell while the value of the business is at its peak but will stay on and work for a few years. This information helps structure the deal, informs the process, and gives both parties a clear goal to work toward. Additionally, a well thought out and written why statement helps define what a successful outcome looks like, not just in terms of the seller's role, but in how the acquisition and transition affects clients and staff members as well.



THE PEOPLE/RELATIONSHIP ELEMENT OF YOUR WHY

Is your motivation to sell tied to your personal relationships and the people in your life? In what way are those people and relationships motivating you to sell? How will you spend your time with the people in your life after you sell your practice?



THE BUCKET LIST/GOAL ELEMENT OF YOUR WHY

Are there certain life or career goals that are influencing your decision to sell? What goals or experiences are you hoping to have once you sell your practice?



THE PASSION/HEART ELEMENT OF YOUR WHY

Is your heart pulling you in a different direction? Are there other passions or desires that you want to pursue? How will selling your practice enable you to fulfil those passions?

Step Two

Know What Your Practice Is Worth

Many Practice Owners Don't Know What Their Practice Is really Worth. Many Succession Departments Under Value The Practice As Well.

The Result: Money Is Left On The Table.
Don't Let It Happen To You.



Before you can take your practice to market you must have a sound valuation performed by a professional. Too many sellers try to rely on averages or other indicators as a determination of value. Often this can seriously undervalue the practice, which can lead to problems later on in the process. Too often averages and other common methods can lead to a firm being valued for as much as 60% below the normal selling price for a practice.

Many factors influence the value of your practice, including revenue and revenue sources, staffing, client composition, client assets, liabilities, and numerous others.

Instead of relying on guestimates, a professional valuation gives both the seller and buyers concrete information to work from. For the seller, a proper valuation can inform timing of the sale, especially if it indicates that the value of the business is shrinking due to an aging client base. A professional valuation also ensures a fair market price for the seller and the buyer. In terms of attracting buyers, a professional valuation instills confidence and helps buyers pre-qualify their ability and intention to purchase. This eliminates “tire-kickers” and ensures only serious buyers are brought to the table.

It's smart to get a valuation one to five years before your target exit date and then again six months prior to your proposed list date. This allows you to spot any weaknesses and correct any factors that are negatively impacting your firm's value so you can walk away with the amount you truly want and deserve for your years of hard work.

Step Three

Tell Your Story

To attract the right buyer who will best fit your practice and goals, it is important to tell your story. Usually only one to two paragraphs long, your story should communicate why you started your practice, why you're passionate about what you do, examples of that passion, and any other personal examples that communicate what makes your practice unique, such as moments when you or your team have gone above and beyond for clients. This story communicates your values and the culture you've developed and serves as a litmus test for potential buyers who are looking for a practice that will merge seamlessly with theirs.



Step Four

Take Inventory of Client Deliverables



Delivering On Existing Services And Commitments

It is important to take inventory of client deliverables, especially financial plans that have been paid for but not delivered. This becomes especially important as you get closer to a firm close date for the sale of your practice. In most cases, specific work like financial plans should be

completed by the selling advisor prior to the clients formally changing hands.

Most broker-dealers will have a department to review this for you, so it's good to set up a time early on to get the requirements from them and start gathering the information. You can also apply this to your client service schedule so you can plan for your client meetings to take place prior to the closing date.

Keeping a Promise

Even though you are planning on leaving the business, it's important that you make sure that every promise made to customers is completed or properly handed off prior to your departure.





Step Five

Handle Client Attrition

MAINTAIN THE VALUE

It is common for selling practices to consist of a largely aging client base. The average age of high-net worth clients ranges from 61-65. It becomes a concern when the average age of a client in a practice hits the tipping point of decline, age 70 and above, when most clients begin to draw down balances for retirement or leave due to death or other health issues. An aging client list is a risk for a potential buyer.

To mitigate this risk for the buyer, it is important to demonstrate generational planning. You can do this by creating a simple report for each “A” list client. In the report list all clients and create a column and indicate “yes” or “no” as to who you are doing generational planning. In another column, indicate with whom you are working, such as heirs, a younger spouse, or other beneficiary. This will show continuity and future business opportunities to prospective buyers.

Step Six



The Grocery Store Test

Communication is a key element to passing what we call the “Grocery Store” test. The premise of the grocery store test is this:

Look ahead to a few years after you have sold your practice. You are at the grocery store and happen to run into your client. What will they say? Will they say that you made the transition comfortable, managed the process well, and found the best successor possible?

Many factors will influence their response, but communication is often a main reason.

Segment and Communicate to Clients

Client communication is critical to ensuring a smooth transition. The more you communicate with your clients through the process, the more comfortable they will feel and trust the process. This helps with retention by preserving those existing client relationships for the practice and guiding them to a smooth hand off.

In order to structure your client communications, first segment your clients in to three categories:

A

Your best, most loyal, and most profitable clients. This is where the majority of your income comes from.

B

Next level clients. Typically those with growing assets and the potential to become A clients in the future

C

The rest of your client base, typically those with assets less than \$100,000 or who are difficult to work with.

It is best to reach out to your “A” clients first with a phone call. In this phone call, inform your clients of your intentions to sell and let them know what to expect through the process. Answer all of their questions and make notes of your conversations that you can share with the buyer. You may choose to call some of your “B” clients as well, based on your own judgement. Once all phone calls are made, issue a letter to all clients informing them of your intent to sell and what to expect through the process.

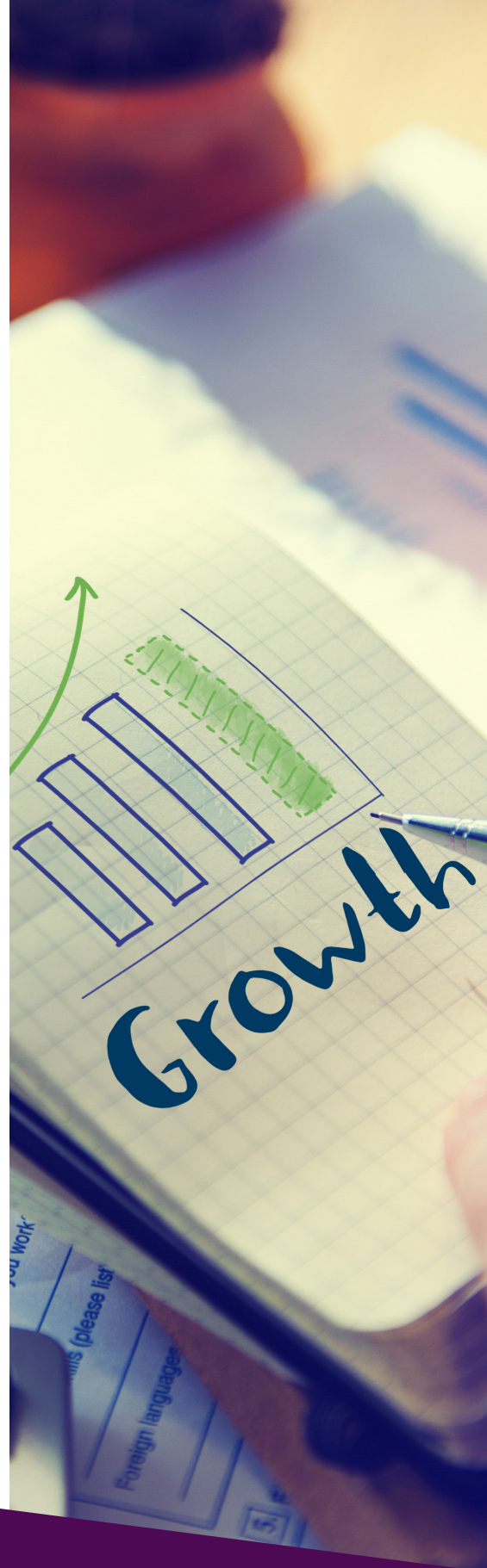
Step Seven

Log Opportunities

To secure a willing buyer who will pay market value, its important to demonstrate not only current revenue, but also future opportunities for growth.

Do this by documenting all future opportunities with existing clients and creating a report to provide to the buyer. This report shows growth and progress for the practice, which builds buyer confidence. It can also influence the ultimate offer you receive, both the price and the overall terms.

One example of an opportunity log is to provide a list of all clients with existing 401k accounts and their current balances. This communicates potential roll overs to the buyer. This is just one example. Anything that would illustrate potential opportunities can and should be included in the report.



Step Eight

List Major Expenses

In recent years, expenses have become a heavily weighted item in determining the value and profitability of a firm. This is largely due to the fact that instead of merely purchasing a book of business, more often acquisitions are now for the full enterprise, including all of the assets and operating expenses involved. It is also common for a buyer to have different assumptions about the expenses the practice should have. So, begin compiling a list of all major expenses including but not limited to office rent, marketing, and staff compensation that can be provided when requested.



LOCATION BASED EXPENSES

Anything related to where you locate and operate the business including:

- Rent or Leasing Obligations
- Utilities and Phone/Internet
- Copier or Equipment Leases

GENERAL OVERHEAD

Anything related to running and marketing the business:

- Marketing and Advertising Services
- Memberships and Subscriptions
- Technology and Management Software

EMPLOYMENT LIABILITIES

Anything related to maintaining staff including:

- Payroll and Benefits Services
- Direct Employee Compensation/Salaries

Step Nine



Record All Business Services

In addition to the expenses listed above, it is important to provide a record of all business subscriptions and contracted services. In the records you provide be sure to include the contact information, the terms of the agreements, and assess if and when you can exit any of these contracts. This information can influence the timing of your exit, as well as provides the buyer with information regarding their options for office location, equipment, and other services.

Examples

Any contracts or agreements you have, no matter how minor or their renewal terms, should be recorded and communicated to the buyer.

- ➔ Phone Service Agreements
- ➔ Office/Location Leases
- ➔ Equipment/Printer Leases
- ➔ Marketing/Service Contracts

Step Ten

Create an Organizational Chart



Creating Continuity

The last step to prepare your practice to sell is to create an organizational overview chart. Often, sellers are very concerned about the fate of their staff. Buyers are equally aware of the importance of retaining and utilizing staff to provide continuity to clients and preserve client accounts.

However, the buyer does not know the staff and so it is important to provide them with all the information they need to make decisions and to negotiate terms for the transition. To provide the buyer with what they need, the organizational chart serves as a foundation for developing an agreement around how to handle staff during the transition.

Value of Human Capital

The organizational chart shows much more than just the hierarchical and departmental/function structure of the practice. The chart should include:

- All staff members
- Staff titles
- A description of each person's duties
- Compensation for each person
- Your recommendations for retention.

In your recommendations specify exactly what value they bring to the table, not just their role and responsibilities, so the buyer can fully understand how each team member impacts the success of the practice.

Conclusion

Overall, the farther in advance you begin to prepare your financial practice to sell, the more positive the outcome. Often, we recommend starting the process at least one year in advance and as long as five years ahead of your projected exit date. By taking your time and deliberately and diligently going through the steps listed above, you set yourself and the practice up for success.

You likely only get one chance to sell your practice. Make sure you do what you need to do to get it right.



Next Step

If you think you're ready to start planning your exit strategy, its time to schedule an initial consultation with a Succession Planning expert who can asnwer all of your questions.

Go to <https://advisorlegacy.com/contact>



Advisor Legacy can help you through every stage of succession planning, from the first step to a successful outcome.



BUSINESS
VALUATIONS



CONTINUITY
PLANNING



LENDING &
LEGAL SUPPORT



DEAL
SUPPORT



PRACTICE
SALES



SUCCESSION
PLANNING

Your future is our only priority.

You wouldn't leave your client's legacy to chance. Why leave yours?

CONTACT US



5440 Corporate Drive, Suite 205
Troy, Michigan 48098



888.848.3349



info@advisorlegacy.

www.advisorlegacy.com