Five Attributes of a Strategic Practice Buyer

Cetera®

In today's "hack" culture, there's no shortage of tips for hacking your life, your wellness, and even your business. A quick Google search delivers hundreds of articles about "growth hacking," promising exponential business growth with minimal effort. It's almost difficult to believe these articles aren't selling actual vials of snake oil. In reality, there's no quick or painless way to grow your business. Every approach involves a significant investment of your time and resources—including growth through acquisitions.

Sometimes financial professionals think of acquisitions as a silver bullet for growth. While it's true an acquisition can double your revenue overnight, it also doubles your workload, your client roster, and often, your team. That's no small responsibility, and it's usually the culmination of a months- or even years-long process of preparing your business, finding a seller, and negotiating a deal, all of which take an enormous amount of work.

If you've been lulled into the belief that an acquisition is simple, easy, or a "hack" for growing your business, you're not alone. Financial professionals are flocking to acquisitions as a growth strategy, with buyers currently outnumbering sellers 58 to 1.[1] The market is flooded, which is both good and bad news for prospective buyers. The good news is that there's definitely something to be gained from buying practices. Its popularity is due to it being an expedited (if not immediate) and cost-effective (if managed correctly) way to grow your business. The bad news is that competition is stiff, and you'll have to work harder to stand out as an attractive candidate for prospective sellers.

In this white paper, we'll help you understand what it takes to approach acquisitions in a strategic way and how you can stand above the competition when soliciting deals. You'll get the opportunity to assess yourself on each of the five attributes of a strategic practice buyer, and we'll give you tips for improving your preparedness in each phase of acquisition success.

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Success factor 1: Intention

Let's start with a self-assessment. How many of the following statements are true for you?

- ❑ I know my specific goals for an acquisition and have clearly articulated how buying a practice will contribute to the success of my firm.
- ❑ I started planning for my acquisition in the third or fourth quarter of the year preceding my intended purchase.
- ❑ I've developed a profile of the type of business I'd like to acquire.
- ❑ I have a clear timeline with periodic goals/ milestones to keep me on track.
- ❑ My team is on board and has participated in the planning process.

Your first and arguably biggest key to success for acquisitions as a growth strategy is to approach them with clarity and vision. Just like organic growth methods, the more you plan, the more likely you'll be to succeed.

Specific goals and success metrics

Before pursuing an acquisition, know what you hope to gain from it. Think beyond "growth" and set specific revenue goals. Think about whether you want to stay within your current service model or expand your offering through an acquisition. Is one of your goals expanding your geographical footprint? Answering these questions will help you set direction and understand what kind of practice you should be looking to acquire.

For instance, if your goal for an acquisition is to double your revenue and stay within your current service model, you'll know to look for practices that are approximately the same size as your own, with a similar service model. If, however, you're looking to expand your service model, you may look for practices with specialties you want to incorporate into your practice, such as taxes or insurance.

As with any business planning, knowing where you want to go is a critical first step in getting there.

Planning sufficiently ahead

Buying a practice is a long process. At a minimum, it will take months, and depending on your starting point, it could take years. If you become a serial acquirer, you'll find the deals start to build on each other, taking less groundwork each time. If you're just starting out in acquisitions, expect to spend a fair amount of time getting your house in order first (see success factor 2).

When you factor in goal setting, preparing your business, finding a seller, structuring a deal, and completing a successful transition, the timeline gets lengthy. If you're looking to acquire a business in the next fiscal year, a good timeline is to begin planning in the third or fourth quarter of the current (preceding) year.

Profile your target business

Once you've established your goals for an acquisition, creating a profile for the type of practice you'd like to buy should be relatively straightforward. For example, if you're looking to expand into a niche, such as doctors, the business you'd like to acquire would include clients that fit the niche.

You may also want to begin considering less tangible elements at this stage, such as the core values of the financial professional selling their practice. A buyer/seller relationship is more than a transaction. It's two people working together to create a new home for clients who have most likely been with the seller for many years. Think about what kind of seller you'd like to pursue and for whom you'd be an attractive buyer. What core values and service philosophy do you embody? Will you succeed more with someone who wants to stay on and help with the transition or someone who wants to sell and leave?

The profile you create should include factors such as:

- Revenue
- Staff size
- Service model
- Specialty
- Geographic location
- Core values/service philosophy
- Seller involvement interest

Set a clear timeline and periodic milestones

As with any other business plan, you'll see the most success if you establish periodic goals and milestones to track your progress. Make sure to be realistic in your timelines and to give adequate time for each step, even if some may overlap.

Your milestones might include:

1. Assessing your business value
2. Aligning your team on transition goals
3. Creating or accounting for staff bandwidth to manage transition
4. Getting professional team in place (lawyer, CPA, broker-dealer, etc.)
5. Getting your funding/capital sources in place
6. Finding seller
7. Structuring deal
8. Completing transition

Get your team on board

Buying a practice will inevitably bring about change in your current working environment. Change may be minimal—a few new processes and names on a staff roster—or it could be significant, depending on the size of the acquisition. You may be merging two teams into a cohesive unit or asking your staff to take on extra work to manage the transition.

Once you have an idea of what you'd like to accomplish and how you expect the process to play out, bring the plan to your team for their input and approval. Change is always more amenable to people who've had input and whose voices have been heard throughout the process. That means if your staff brings up concerns about your plan, be open to hearing them and adjusting your plan accordingly.

Success factor 2: Preparation

How many of the following statements apply to you?

- ❑ I have secured the financial resources to structure a deal.
- ❑ I have created or accounted for bandwidth to manage the clients I'll be taking on.
- ❑ I have created or accounted for staff resources to handle the transition, including paperwork, client onboarding meetings, and process adjustments.
- ❑ I have a team of professionals in place to help manage all facets of an acquisition, including a CPA, lawyer, and broker-dealer.

Perhaps this should go without saying, but sufficient preparation is critical to the success of your acquisition. You'll need to make sure your house is in order before you bring in a new book of business.

Securing financial resources

Often, this is the simplest part of the process. Many lenders are eager to support acquisitions for well-qualified buyers, and finding a loan is generally straightforward. Your broker-dealer should be able to support you in this. As an example, Cetera® Financial Group offers financing options for qualified buyers.

Bandwidth for new clients

Any acquisition will involve an increased client load. If you plan to double your revenue, you'll very likely be doubling your client load. Let's say you currently have 100 clients. Do you know how you'll service 200?

Many—if not most—acquisitions include the transfer of staff from the seller's firm, who would continue servicing incoming clients. That's a relatively straightforward way to account for staff bandwidth, though it comes with its own set of considerations. For instance, how will the new employees interact with your current team? What will you do to make sure their transition into your business will be smooth and that they'll want to continue working with you? What benefits are they currently offered, and will you be able to maintain continuity in that aspect? Will you be a good cultural home for them?

If you choose not to keep staff from the seller's firm, how will your own team handle the incoming client load? Make sure you've staffed up appropriately before the deal is finished to prevent any snags that could affect client retention—and to assure the seller you'll be ready to handle their book.

Transition resources

Beyond the ongoing service needs of new clients, you'll see a temporary increase in workload to complete the transition process. Each new client will need to be onboarded into your systems. You'll likely want to contact them and set up get-to-know-you meetings. You'll have to manage new paperwork. If you're expanding into a new geographic area, you may have to consider local licensing or regulations. If you're bringing new services into your practice, such as insurance, you'll have to update your service offering and incorporate the new elements into your branding, website, and collateral materials.

If you're bringing on new staff, they'll need to be integrated into your practice. They, too, will need to be onboarded to your systems and your culture. Whether your new team and your preexisting team will be a cohesive team or will continue working separately, you'll need to create new processes to make sure everyone has sufficient leadership to do their jobs well and with confidence.

Often, the seller will stay to help manage some of this work. When you structure your deal, consider how the seller might be able to assist with transition in both tangible and intangible ways (e.g., helping their staff and clients emotionally transition to your leadership and new culture).

Additionally, be sure to plan ahead for the temporary influx of extra logistical work, and know who on your team will be handling that workload. If you plan to bring in extra help, make sure you get them in place with enough lead time that they're ready as soon as the work hits. As with the bandwidth to handle new clients, this is essential to assuring prospective sellers that a transition will be well handled for their clients.

Support team

Buying a new book of business will require the oversight of certified professionals in areas such as accounting and law, as well as the assistance of a broker-dealer. Be sure to hire a CPA to help you review your current financial situation, structure the deal, and plan for your new, post-acquisition finances.

You'll also need a lawyer to review the deal and ensure any contract is legally sound, as well as to advise negotiations as you reach terms amenable to both you and the seller.

A broker-dealer will help you manage all aspects of the transition. For instance, at Cetera, we offer services to help financial professionals find sellers, assess the value of their business, secure capital, forecast business plans, and structure deals. Often, our team serves as a sounding board for those who want to make sure they're on the right track.

Success factor 3: Informed

How many of the following statements apply to you?

- ❑ I know the monetary value of my business.
- ❑ I can clearly articulate my value proposition to prospective sellers.
- ❑ I have done everything I can to maximize the value and curb appeal of my business.

An often-overlooked aspect of acquisitions is being an attractive buyer. In a market as competitive as the current landscape, where buyers dramatically outnumber sellers and there's an average of four offers for every seller,[1] you'll need to work to stand out. That usually means knowing the value of your business and being able to articulate what you bring to the table.

Assess your business value

According to Spardata, a Maryland-based valuation firm, the typical business owner (regardless of industry) misjudges the value of his or her company by 59 percent.[2]

Knowing where you stand financially has a number of benefits. First, it will help you understand your starting place so you can accurately forecast where you want to go. Second, it will allow you to be prepared when you approach prospective sellers. Third, it will reveal opportunities to improve before you begin the process.

In fact, one of the first steps in your acquisition process may be adjusting facets of your business to improve its valuation. The more effective your business is today, the more appealing you'll be to sellers. You're marketing your firm as the ideal home for their clients, so you'll want to do everything possible to show that you're performing at your peak.

Articulate your value proposition

In addition to knowing the value of your business, you'll want to be able to articulate the subjective qualities you bring to the table. Most likely, you already have a value proposition that you use when approaching new clients. It may need some tweaking for prospective sellers, as their experience, knowledge, and concerns will be different than those of clients.

What makes you different—and a better fit—than other buyers in the market? What qualities do you bring that will help you service the seller's clients more effectively than others? Why should they choose you?

Maximize your business value

When you get a valuation for your business, it should be coupled with recommendations for steps you can take to improve. This may include segmenting your clients and adjusting your service model, streamlining your processes, upgrading your systems, and/or reducing overhead where possible.

At Cetera, we help financial professionals assess the value of their business and offer customized recommendations for improving it. We'll work with you throughout the process, providing guidance and resources where appropriate, until you're ready to move forward with pursuing an acquisition.

Success factor 4: Patience

How many of the following statements apply to you?

- ❑ I already have relationships with several prospective sellers.
- ❑ I'm prepared to approach sellers multiple times.
- ❑ I know how long negotiations take.
- ❑ My timeline accounts for false starts.

Successful practice buyers are ready for the long haul. Often, the process is lengthier and more laborious than people initially anticipated, and it requires tenacity.

Relationships with sellers

Getting to know sellers takes time—longer than you might expect. Remember, you're establishing a relationship with someone who's making the biggest business transaction of their life, selling a business that they've likely built from the ground up. They care about their clients and what happens to them. While you may be eager to grow your business, their concern is finding the right home for theirs. They'll take their time.

If you start establishing relationships long before any acquisition conversations come up, you'll become a known entity and improve your chances of closing a deal when the time comes. This is the same principle that applies to any sort of networking: build relationships long before you need anything from them.

This is a part of the process that can easily overlap with others. You can begin joining professional associations and attending meetings where prospective sellers might congregate while you're in the process of maximizing your business value.

Let your target profile guide you. If, for instance, you're looking to expand into insurance, you may consider attending conferences geared toward insurance service providers.

Multiple approaches

Once you have a seller in mind, be ready to approach them multiple times. In a saturated market, sellers often ignore the first, second, or even third approach before taking a prospective buyer seriously. Again, they're making a major and one-time decision, so they can afford to be picky and take their time. To be prudent, they must.

In turn, a successful buyer will need unabashed persistence to break through that wall. Prepare yourself to actively pursue sellers whose businesses you think would be a good match—and to work hard to make your case.

Negotiation timeline

Once you've successfully found a seller who wants to work with you, know that the process of structuring a deal can take time. Sometimes this process takes months on its own. There's not much you can do to rush this process, so build a long negotiation period into your timeline. At this stage, having laid as much groundwork as you have already, you'll likely be eager to close the deal. Patience is a virtue.

False starts

Sometimes negotiations fall through. You might not be able to reach an agreement with the first seller you begin the process with. That's okay. In the world of acquisitions, persistence is key, and successful buyers know that what's meant for you comes to you. Prepare yourself for potential disappointments, and be ready to keep trying.

Success factor 5: Appeal

How many of the following statements apply to you?

- ❑ I am charming and likable.
- ❑ I am trustworthy and credible.
- ❑ I stand out from the competition.
- ❑ I would sell to me.

The final, key element of success for a strategic practice buyer is intangible. You have to be someone sellers want to choose—someone who rises above the sea of competition.

Likable

Since you're in a relationship-driven business, you're likely already a charming and likable person. It's how you've managed to succeed until this point in your career. Just remember that this is going to be critical in your acquisition, that you'll need to work as hard to impress a prospective seller as you would a potential client.

Credible

Unlike (most) potential clients, the people whose businesses you're looking to buy know the ins and outs of the financial services industry. They'll be able to see you with clarity the average person wouldn't, so it's important to be able to prove yourself. You need to show a prospective seller you have the chops to take good care of their clients.

Stand out from competition

Why you? That's the biggest question you have to answer for the seller. Why should they choose you over anyone else?

One of the qualities Cetera's Business Consulting Group has observed in successful buyers is the ability to help sellers through the emotions of selling. Not only are they making the biggest decision they've ever made for their business, but they're also managing the emotions of leaving their life's work behind. A savvy buyer will recognize the emotional weight of this decision and proactively support the seller through it. It's a great way to build trust and connection, and to stand out from the competition.

Would you sell to you?

Factoring in the state of your business now, your preparedness, and your trustworthiness, would you sell a business to yourself? Keep working until the answer is an unequivocal, "Yes."

Cetera tools and resources

Our Business Consulting Group has handled over 300 successful acquisitions since 2015 and created the Legacy Builder Program, which provides comprehensive support for continuity and succession planning, and is uniquely available to Cetera-affiliated advisors. We're available to help you think through and strategize your acquisition at every stage. We also offer resources for:

- Securing capital
- Assessing the value of your business
- Matching buyers with sellers
- Structuring deals
- Consulting on business strategy

Contact the **Cetera Business Development** team at **800.336.8842** to discuss your acquisition goals and how we can help you grow your business, through both organic and inorganic methods..

[1] Succession Resource Group, 2019[2] adglow, https://www.adglow.com/blog/how-millennials-make-purchase-decisions-infographic

[2] Truelytics Blog

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