Keys to M&A Success: Making a deal that makes more than business sense

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A rising number of Registered Investment Advisor (RIA) firms are turning to mergers and acquisitions (M&A) as a way to sustain their business momentum in a period of slowing growth and rapid consolidation. Such deals are not small, either. Case in point: advisors anticipate that M&A deals they plan to strike in the next five years will increase the size of their firms by 37%, according to a recent InvestmentNews study. In other words, nearly one out of every two firms expect to grow by an average of $235 million through M&A activity over the course of the next five years.*

This is a monumental shift, considering the typical firm size in the industry was established on average about 20 or so years ago by individuals who had deep technical skill and who loved to work with people. As this cottage industry has grown and matured, however, there's been intensifying pressure to develop new offerings, achieve greater scale and solidify a strategy for becoming a successful, enduring firm. For many firms, a merger or acquisition is a strategy to address all of these needs. But, the path to success is not a straight line (and the pitfalls can be costly).

In our two-part Secrets Behind Success video series, we interviewed leaders at three firms that recently completed mergers or acquisitions. The second video in this series—Keys to a Successful Deal—delves into the business and cultural factors that firms need to consider to help ensure a sound strategic fit in an M&A scenario, such as:

1. ***Clearly Articulating How the Merger Will Benefit Clients***—Serving more clients isn't the same as serving more clients better. Increased scale is critically important, but the best deals are those that will ultimately empower the firm to "do the things we want to do" for clients and staff alike, notes Joseph Belfatto, Managing Partner of Massey Quick Simon Wealth Management Investment Consulting, whose firm merged with William E. Simon & Sons in early 2017.

2. ***Overlooking the Cultural Alignment of the Firm***—A deal might look great on paper, offering compelling financials, geographic fit and experienced staff. But, if a potential M&A target's culture and values do not mesh with yours, that's a deal breaker. Among the questions to consider, "Do the firms have a common corporate culture?" and "Do they have a shared vision of the strategic purposes for a deal?" are key, says Richard Hough, Chairman and Chief Executive Officer of Silvercrest Asset Management Group, which acquired RIA firm Jamison, Eaton & Wood in 2015

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3. ***Laying Out the Ground Rules for a Cooperative Future***— When two groups of equally talented advisors and other professionals come together, it's vital to clarify what the processes and policies will be for the combined entity—to avoid misunderstandings and any "us-versus-them" rivalries. Everyone must be working toward a partnership: it's a collaboration, not a competition, says Rob Mooney, Managing Partner and Chief Executive Officer of Snowden Lane Partners, which has grown rapidly in recent years through several M&A transactions nationally.

Our team at BNY Mellon's Pershing Advisor Solutions has worked with many firms considering or pursuing M&A strategies and we've noticed a pattern: Familiarity often breeds success. That is, in many cases, firms are acquiring former competitors, so they know these firms' values and how they are perceived in the marketplace. In addition, they're negotiating with people they've known for years. Just as often, our clients approach another firm based on a referral they've gotten from a trusted source in the industry. Either way, this level of familiarity forms the basis for more direct conversations in the exploratory stages of a deal, and more fulfilling collaborations once the firms have decided to link their destinies.

Stay tuned for more videos in our *Secrets Behind Success* series, which highlights critical topics impacting leading advisory firms today.

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Prior to joining Pershing Advisor Solutions in 2010, Gabriel was with Charles Schwab & Co., where he held several leadership positions in sales, training and consulting, including working directly with RIAs. Gabriel has consulted with hundreds of firms with assets under management ranging from $50 million to $8 billion. He is a frequent speaker at industry and national conferences. Gabriel has 24 years' experience in financial services.

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