Practifi

Navigating the Merger and Acquisition Landscape

Tips for Creating a Repeatable, Measurable M&A Process in Wealth Management

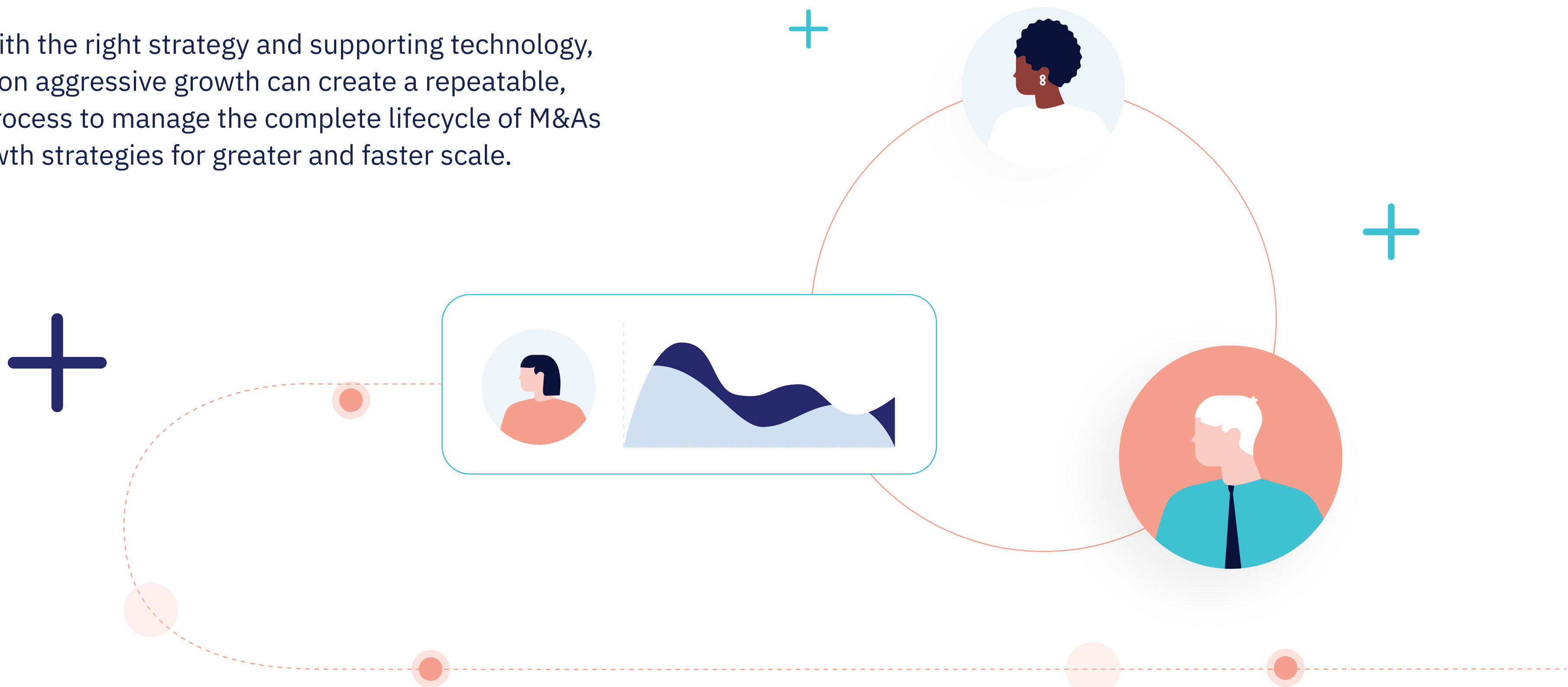
Navigating the Merger and Acquisition Landscape for Financial Advisory Firms

For financial firms looking to scale their business more aggressively, direct growth through acquisitions (M&A), tuck-ins and advisor recruitment are effective strategies. Compared to organic client growth, these strategies allow firms to expand their scope and footprint at a faster pace. For the smaller firms and independent advisors being brought in, they have the opportunity to either gracefully exit the sector or gain access to better, more-established resources. These methods seem like a win-win for both sides, but what about the challenges?

From finding and engaging with potential candidates to personnel retention and pooling technologies, firms employing these growth tactics have a list of important points to address before they can take the anticipated benefits from a merger.

Some of these hurdles are surprising and difficult to anticipate.

Fortunately, with the right strategy and supporting technology, firms focused on aggressive growth can create a repeatable, measurable process to manage the complete lifecycle of M&As and other growth strategies for greater and faster scale.



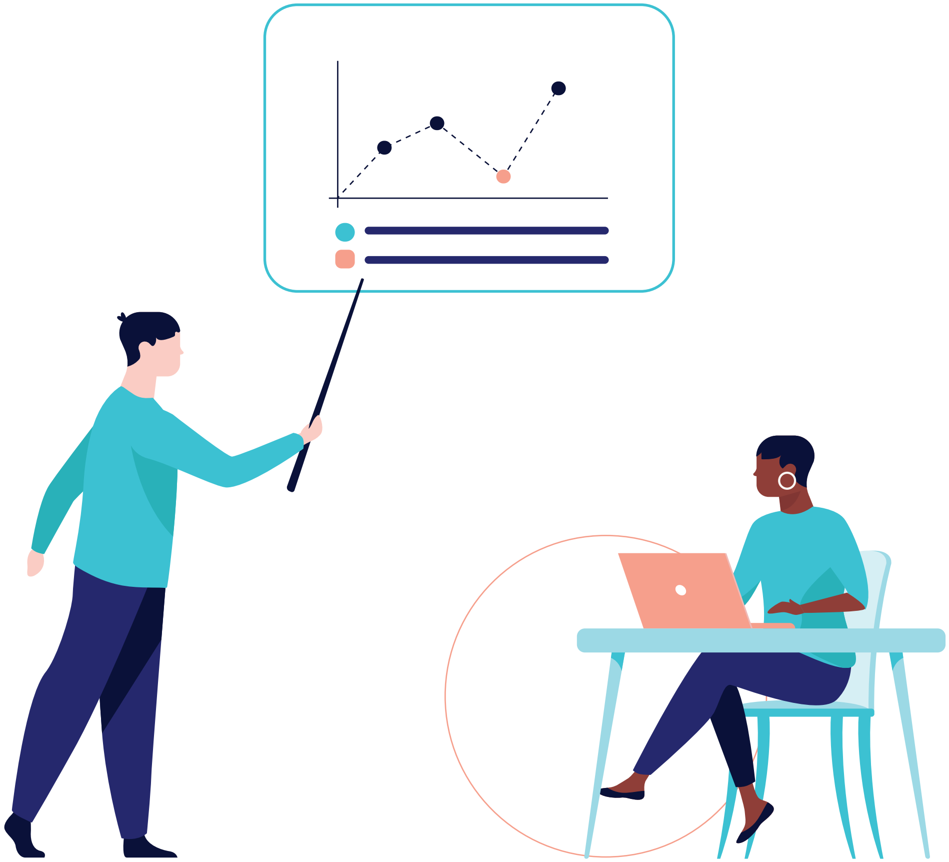
A Closer Look at M&A and Other Growth Methods

Although firms can employ a range of strategies to target faster growth, full or partial acquisitions are the most common. If we look at the last few years, it's no secret that M&A activity has been skyrocketing and experts say that this trend may slow down in the near future. Regardless, acquisition methods will still be a mainstay for firms in search of scale, so it's important to keep a few things in mind:

1. M&A is a journey

As it happens, executives and teams on both sides of an acquisition make assumptions about what is to come. Independent RIAs being acquired anticipate the benefits of better resources and reduced risk to appear immediately. On the other side, acquiring firms underestimate the challenges of onboarding and transitioning these new acquisitions.

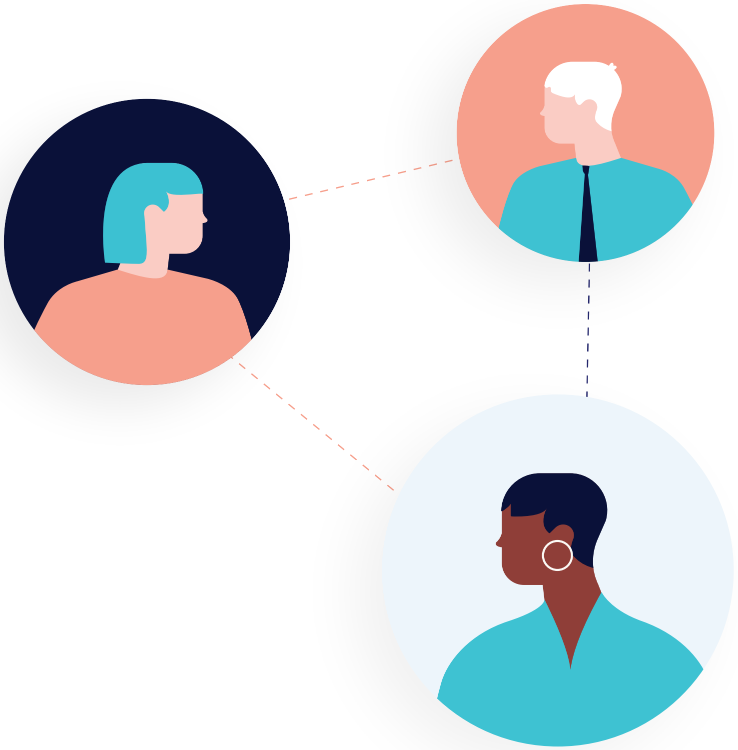
In truth, M&A is a journey rather than a discrete event. The final agreement is simply a point in time. Before reaching it, firms have numerous discussions, meetings, negotiations and due diligence checks. And after it, begins what can be a difficult process of integrating teams, technology and processes. Increased scale and reduced risk are coming, but organizations have to take time to reach them. Creating and following repeatable processes can standardize the journey — making it smoother for both parties.



2. The human element

The financial advisory and wealth management business hinges on personal relationships. Clients work with firms because they trust the people working there, and leaders going into an M&A process must remember this, especially on the acquiring side.

A merger is a major signpost event for a firm, and longtime employees may choose this moment to leave. In turn, their clients may elect to go with them, thus lessening the value of the new combined company. Leaders should have a plan in place to retain both top advisors and high-value clients.

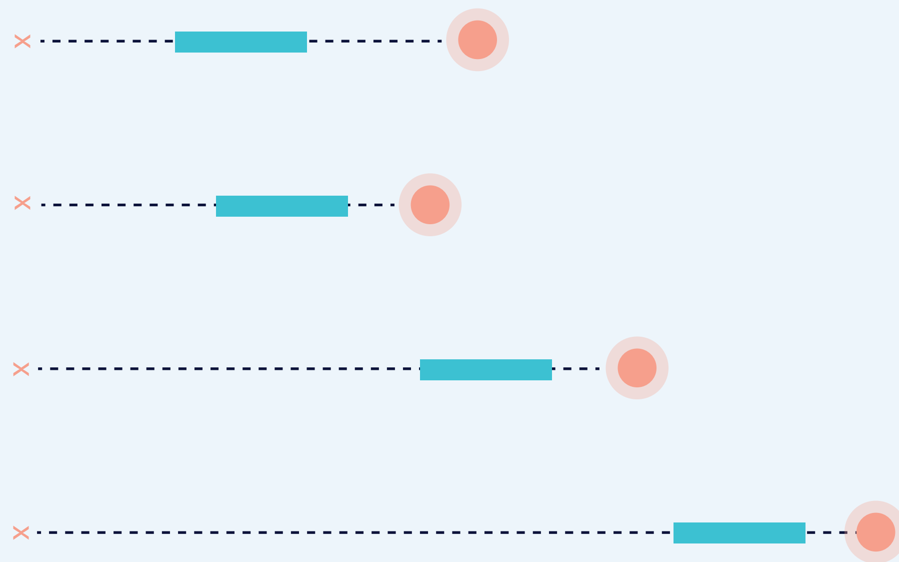


3. Recordkeeping and compliance

As with all corners of the financial space, advisory firm activities need to comply with strict regulations. Perhaps trailing only the healthcare industry, financial organizations have a long and complex list of compliance requirements to navigate. The disconnect between integrating two teams and technology stacks deserves close attention.

During the acquisition process, leaders must ensure all records from both organizations are retained for a minimum of five to seven years. Businesses need to establish compliance policies, process repeatability and an evidentiary trail of everything that has occurred. Avoiding action by the Financial Industry Regulatory Authority (FINRA) and the U.S. Securities and Exchange Commission (SEC) can depend upon this attention to detail through the merger and beyond.

What makes for a smooth M&A process?



Despite the challenges of merging and acquiring financial businesses, having the right practices, processes and technology can make for a smoother journey. For these deals to be successful, effective prospecting early on followed by a seamless transition of these newly acquired firms (with minimal disruption to clients) is key.

The following three strategies will help firms achieve greater efficiency, consistency and success in their M&A and other growth activities.

1. Find the right fit

All M&A activity starts with prospecting — this first crucial step can have a big impact on the overall success of the strategy. It's no secret that not all independent advisory firms will be the right fit for acquisition and integration. Finding the ideal target depends on several firm details, everything from the number of employees they have through to the technology they use. Timing, market conditions and other external factors also play a role.

As a result, it's important for acquiring firms to track these external factors and better understand the ideal firm profile. Looking at previous successful acquisitions can help shape this profile. You'll likely find common qualities around the size of these firms, the type of clients they serve, and more. Being able to identify an ideal target will not bring greater efficiency to the prospecting process, but it will help ensure compatibility, integration, retention and overall success.

2. Turn best practices into formal systems

The most effective financial firms have a set way of doing things. These are practices and priorities that all employees know about and help the company grow and serve its client base. But when that firm acquires other businesses, can they easily welcome new workers into these systems and create positive continuity? And more importantly, can they repeat the entire process?

The ideal way to standardize effective processes is to ensure the best practices are hardwired into the technology systems employees use to do their jobs every day. When effective workflows are baked into the technology, everything from prospecting potential firms to onboarding new acquisitions is repeatable. That means there’s no need to reinvent the wheel every time and even less need for retraining. The natural, default way will be the right one, and people can get results simply by following the procedure.

Automation has an important role to play in cementing these workflows. Actions that previously required multiple manual steps can now be handled in a uniform way. This helps workers settle into using the system while also creating a clear, audit-friendly trail.

There are a few separate reasons why this approach is so effective:

Employee comfort levels: Learning a new system is never easy. Some of that difficulty vanishes, however, when the practices are explicitly laid out and powered by automation, so they don't require complex, tough-to-remember actions. It's easier to retain employees who settle into new workflows naturally.

Regulatory compliance: Keeping practices in line with regulations is a massive priority for firms going through an M&A. They can increase their chances by creating compliant best practices and then codifying them by embedding these workflows into their systems. Automation ensures these activities are carried out in the same repeatable, approved manner every time.

Firms with an unstructured and untrackable approach to their best practices may have a hard time getting the combined team in line. By formalizing them, they set themselves up for success.

3. Have a succession plan for multiple levels of stakeholders

It's not surprising when the owner and founder of an acquired company takes a less active role in the business — or leaves the industry altogether — following the sale. This level of predictability just means acquiring firms should be extra certain they have strategies in place to thrive without these top executives.

Moreover, chief executives are far from the only important personnel who might leave a company following a transaction. Retention strategies and succession plans should break down into a few categories to reflect differing levels of urgency and the varied courses of action acquirers can take:

Owners: Owners are among the most likely to leave following an acquisition. Therefore, acquirers must have a succession plan for how to retain other employees and keep the team functioning if and when top executives depart, potentially taking intellectual property as they go.

Partners and advisors: While their capital stake in a firm is not as great as the founder's, partners may still leave following M&A activity. The first few months of the process are crucial regarding whether partners and other lower-ranking advisors remain — they need to be sold on the vision and culture of the new firm. Retaining these staff members is a good way to keep their clients loyal, too.

Employees: The level of urgency regarding employee retention below the advisor level will differ from one role to another. While some back-office departments may end up very large after M&A activity, workers who deal directly with clients are important retention targets. These employees' loyalty may be to their old leaders, however, meaning low retention at the top can have ripple effects.

Clients: Client retention can be overlooked in the M&A shuffle, but it shouldn't be. Leaders can't assume customers of an acquired advisory firm will stay loyal. Communication and outreach are crucial here. People like stability, but mergers and major changes undermine that. The newly combined company must put effort into selling its own value to clients.

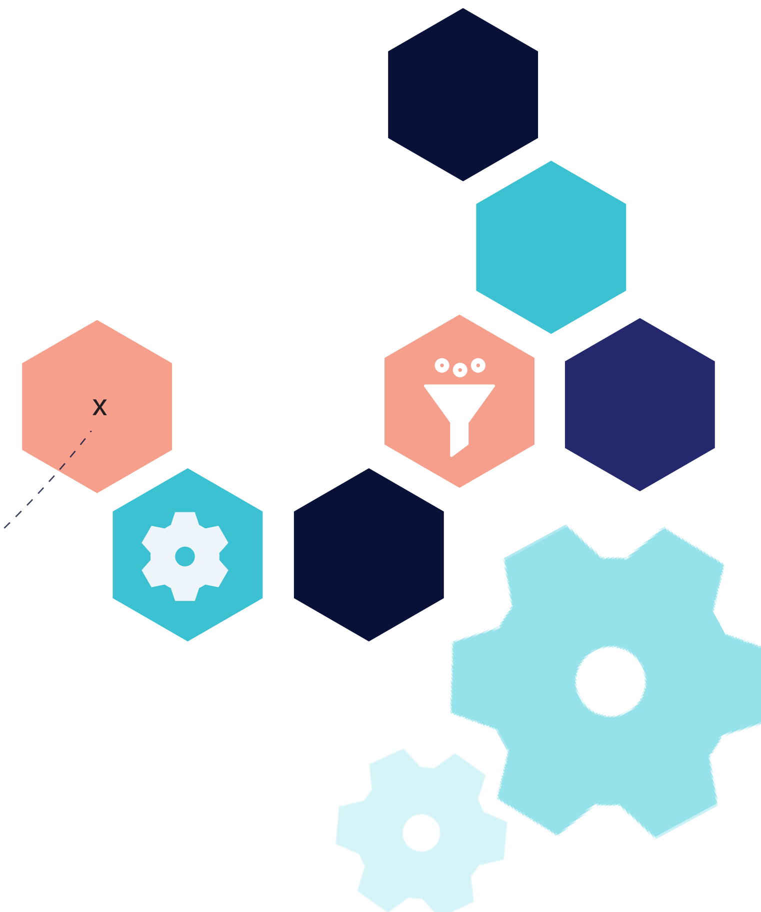
Retention and succession matters are closely connected to comfort. Do people feel at home in the new system? Codifying best practices is one way to build this comfort. Using the right technology is another.

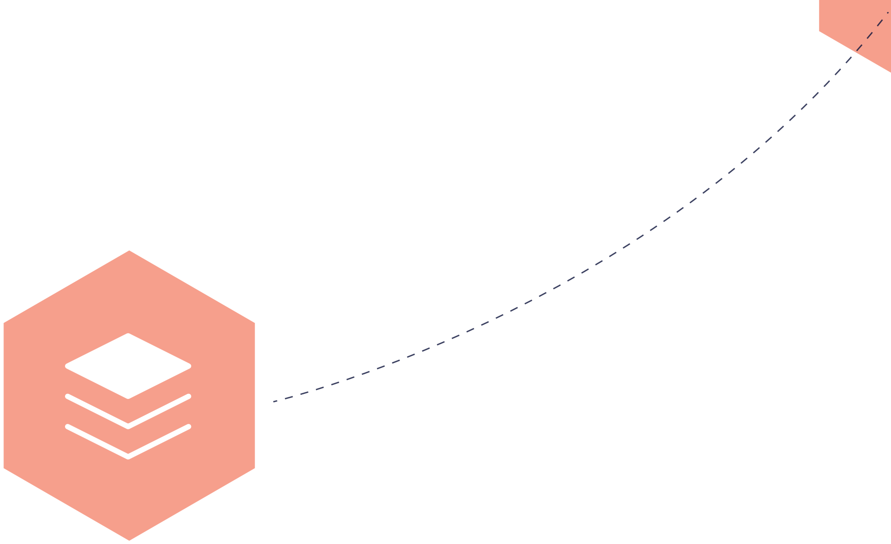
4. Migrate to a single technology platform

To really create this unity and connectivity following M&A activities, leaders should have a plan in place that works toward bringing new firms into a single set of technology tools as quickly as possible.

Having multiple technological systems in place undermines some of the most important benefits of a merger, namely efficiency and scale. Redundant technology tools are inefficient, and they put up unnecessary silos between information that should be shared.

Everything from maintaining compliance to performing data deduplication becomes more complex and time-consuming when internal technology teams have to deal with multiple systems. Uniting everyone around a single tech stack is so important in the overall M&A process that leaders at the acquiring company should think in these terms very early in the transaction.





Breaking down the consequences of tech standardization, a few distinct benefits emerge, including:

Cost control: Consolidation is one of the main reasons to launch an M&A process in the first place. Where one of the companies had two sets of operating expenses, now they have one. This effect is blunted if there are two technology stacks operating in tandem and requiring upkeep from IT teams. Businesses should centralize around a single platform as quickly as possible to simplify the cost structure and curb excess spending.

Regulatory compliance: It's harder to stay compliant if there are disparate technologies and multiple locations to store digital information, each of which requires oversight and management. To ease compliance concerns, organizations that merge should eventually migrate all their data and operations to a single platform, making sure to use software purpose-built for the financial sector, so compliance will be baked into the system.

Employee satisfaction: Do employees know how to complete their jobs? Are their everyday workflows natural and seamless rather than complex and disjointed? These are the types of questions that may determine the mood and morale of staff members following M&A activity. By instituting a centralized system that makes work easier for workers at all levels, a financial firm can navigate the challenges of post-merger retention.

Clearing up the potential complexity of multiple tech stacks is a high-priority part of any M&A process, especially in today's digital-first environment where companies and their technologies are synonymous. However, the solution leaders settle on must be up to the demands placed on it.

How does the right technology platform help firms ensure success with M&A?

Standardizing around just any technology platform won't deliver optimal benefits. Financial advisory and wealth management firms must ensure the solution they are using is purpose-built for their industry and equipped with a complete set of features reflecting their needs.

Mergers and acquisition processes are one set of particular needs. Firms that leverage this strategy know that these activities can be long and complex, starting with prospecting potential firms through to the post-acquisition experience. Purpose-built platforms like Practifi can manage the complete M&A lifecycle, allowing firms the ability to standardize, track and report on their efforts. Additionally, once the acquisition is complete, firms can use the same platform to onboard and integrate new firms.

Finding the right technology partner to support growth strategies can provide the following benefits:

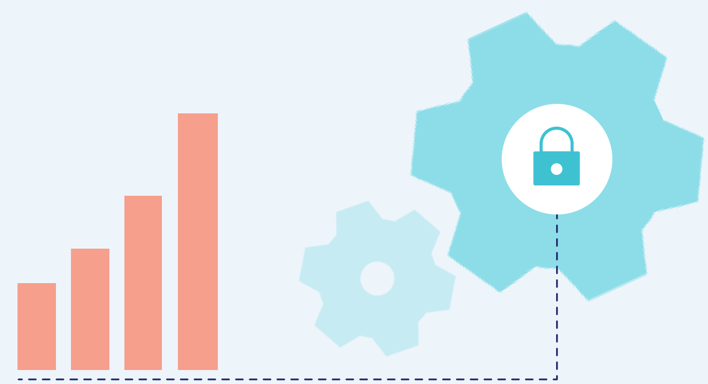
Consistent, repeatable M&A process: Bringing the entire acquisition process into a robust technology platform will only bring greater efficiencies. Follow-ups, tasks, approvals and more can be automated and reflected in comprehensive workflows, so business development teams will always know the next step and be able to provide a consistent acquisition and integration experience.

Identify ideal acquisition targets: With repeatable processes and standardized data collection, acquiring firms will have the information they need to shape their ideal acquisition targets. Knowing these firm profiles means business development teams can be more efficient in their prospecting efforts and ensure greater overall success and ROI.

A unified platform for the full acquisition lifecycle: For most acquiring firms, information and processes involved in prospecting, acquiring and integrating new firms are siloed into different tools and spreadsheets. With platforms like Practifi, different teams can prospect firms, track open deals, facilitate due diligence and onboard new firms all from the same place. Tracking the full lifecycle in one platform allows for greater oversight and seamless integration.

Compliance as a standard feature: Platforms purpose-built for the industry come with features that securely store business and client data, document processes and communicate compliantly. This is not only great for the day-to-day operations of financial firms but also extends to the unique and complex acquisition processes that firms undergo.

Comprehensive performance reporting: An added benefit to tracking the full M&A lifecycle within a singular technology platform is the ability to have complete reporting on newly acquired firms. Acquiring firms will be able to connect the original investment to the firms' performance, tracking key metrics along the way.



M&A is a journey, and its success ultimately comes down to being able to track, manage, report and then repeat the entire lifecycle. Using the right technology can streamline, standardize and even speed up the process, allowing firms to achieve greater growth and returns more quickly. It's a complicated process, but it's not rocket science. A technology partner that deeply understands the industry and its complexities can help firms integrate growth strategies into a unified platform that enables greater success.

Contact Us.

Contact us to find out how the core Practifi platform and our new Business Development app can help your firm excel before, during and after M&A activity.

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