



Six Steps to Succession Planning

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A woman with short, light-colored hair and glasses is leaning over a desk, writing in a notebook. She is wearing a dark jacket over a light-colored shirt. The background is a blurred office setting. The entire image has a blue tint.

DECISION MAKING

Life is made up of the decisions we make, some proving much more challenging than others. During discussions on succession planning, we often ask financial professionals how many have spent at least three months planning their dream vacation and about 75 percent of the room usually raise their hand. When asked how many of them have spent three months planning the sale of their business, only a few hands remain. Maybe we don't want to admit our own mortality or that the work remains too engaging, but the facts are that most independent financial professionals do not have a plan or know how to begin the process of selling their business. Let's look at six key steps to take when planning your succession.

1 DEFINE THE PLAN

When we write something down, we become more committed. Writing down your goals is the first step in creating a successful succession plan. Take the time to clearly define your vision of retirement. Write down the answers to the following questions and be purposeful in committing to the plan.

Do I already have the seller identified or do I need to begin a search?

What does this buyer look like in terms of age, values, and business model?

Will I sell all at once or in stages?

If in stages, how much in each stage am I selling?

How involved will I be post-sale?

If I have long term staff in place, will I offer them an opportunity to buy in?

If yes, will I offer a discount for their years of service? If no, how and when will I communicate a sale to the staff, and will I request or require a buyer to retain staff?

How will I communicate this to my long term clients?

Where will I focus my energy after the sale?

Philanthropy? A new business venture? My spouse or grandchildren?

How do I want the proceeds paid to me?

A large or small down payment? Receive proceeds as fast or as slow as possible?



2 VALUE THE BUSINESS

At its core, the value of a business is made up of the demographics of your client base coupled with past results, free cash flow, and the predictability of future revenues. Client data, such as the total number of clients, average age, and asset concentrations play a major role in valuations. Similarly, the makeup of your revenue and expenses, and the likelihood that those revenues will continue into the future are areas that a potential successor will focus on when analyzing your business. Due to the complex nature of valuation, it is important that you work with a knowledgeable and trusted third party to value the practice. Working from industry standards or suggestions from your successor may be doing you a disservice in terms of recognizing the full value of your business.

Once your valuation is completed, fold the results into your personal financial plan and retirement planning. This may ultimately drive how you wish to shape the sale of the business. Determine if you have a need for a large cash down payment or would rather extend the payments and annuitize the receipt of income.

3 IDENTIFY YOUR SUCCESSOR

The large majority of independent financial professionals are just as much a business owner as they are a financial professional. They wear many hats, and responsibilities can add up quickly. It may seem overwhelming when contemplating how someone can prove as successful in all those professional roles. However, proper planning can reduce or even eliminate that stress.

It is important to take the time to identify who your successor will be. Depending on the needs of your practice, it may make sense to bring in more than one successor. Consider taking the many hats you wear and placing them on multiple heads. If your goal is to identify your successor and quickly exit the business, having more than one may allow a faster transition of clients and responsibilities. If you plan to take many years to prepare your successor, they may take over the many roles in gradual stages. There are no set rules on how a successful succession plan must function, only that it is right for you, the clients, and the successor(s).



The overall goal should be to create an agreement that leaves each side feeling they have received fair consideration but also wishing they could have gotten one more thing.

4 STRUCTURE THE TRANSACTION

While a continuity plan is created to cover the events of death or disability, a succession plan is period specific and is built around a particular closing date. Work with a professional experienced in the negotiation and creation of an asset purchase agreement. This legal document outlines the terms surrounding the purchase price and addresses the representations, responsibilities, and protections for both the buyer and the seller.

Remember, almost all things are negotiable. Knowing the value of your business, what affects tax treatment may have on your net proceeds, and your level of involvement post-sale are a few of the many points to consider when crafting the agreement. Similarly, prior to entering negotiations, know which areas you are willing to negotiate and where you are not. The overall goal should be to create an agreement that leaves each side feeling they have received fair consideration but also wishing they could have gotten one more thing.

5 ORGANIZE THE PLAN

Buyers and sellers tend to place the majority of their focus on negotiating the purchase price and terms of sale. While these items are vitally important to the transaction, far too often the parties forget that without the clients, there is no transaction to complete. Coming up with a detailed and organized plan of how you will communicate this change to clients is just as important.

Develop a detailed communication plan surrounding how you will communicate with your highest value clients, when you will schedule meetings, and how the last meeting prior to the sale and the first meeting after the sale are conducted. These clients are critical to the ongoing success of the business and for your successor to continue to compensate you for the business.

Similarly, develop a communication plan for the remainder of the client base. Consider an open house, a letter, or a series of phone calls to announce your transition. Having an agreed upon plan and following through to execution will allow both parties to achieve a beneficial outcome.

Lastly, have a plan in place for the paperwork. Prior to the transition, work with your custodian and/or broker-dealer, and product sponsors to identify the exact paperwork needed to transfer the clients. Much like the communication plan, have a detailed plan surrounding how and when clients will complete all necessary paperwork.



6 IMPLEMENT THE PLAN

The culmination of your career as an entrepreneurial business owner and financial professional is the result of a great deal of hard work, determination, and execution of your vision. This is why taking the time to focus as much energy as it took to create the business is needed to create your succession plan. Focusing on these key steps and their proper implementation can provide you with the greatest likelihood of success:

Define the plan.

Key in on your top priorities and commit them to paper.

Value the business.

Know what drives the value of your business and how you want to be paid.

Identify your successor(s).

Should the many roles you serve be covered by one or more people?

Structure the transaction.

Create the asset purchase agreement to outline the terms and conditions of sale.

Organize the plan.

Have a well-defined plan surrounding the communication and paperwork with clients.

Implement the plan.

A good plan, flawlessly executed, far exceeds a great plan with no implementation.

The art of deal making is knowing when to stand firm and when to be flexible. Bringing on a sell side consultant to assist through the steps of succession planning can help with making those tough decisions. Financial professionals at Cambridge have access to the dedicated staff of the Succession and Acquisition Solutions Team, specializing in the art of succession planning as well as acting as a potential financing source for your succession plan.



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Kris Emick joined Cambridge in 2014 and has more than 20 years of experience in the financial services industry. As first vice president at Cambridge, Emick leads a consulting team dedicated to assisting advisors in planning and executing their succession plan or in growing their businesses through acquisitions, organically leveraging the intellectual capital and finances required to achieve their goals. He previously worked as a financial advisor, successfully starting the investment program for a privately held bank. Additionally, he worked in commercial and retail banking with Wells Fargo Financial and US Bank in the areas of relationship management, product development, and management. Emick earned a Bachelor of Science degree in information systems with an emphasis in accounting from Drake University. He holds the FINRA Series 6, 7, and 66 licenses.

About Succession and Acquisition Solutions

The Cambridge Succession and Acquisition Solutions Team provides end-to-end consulting through all phases of a business acquisition, merger, or sale. Whether you are looking to acquire a business, sell your business, merge with a fellow Cambridge professional, or develop a continuity or succession plan, our in-house team can help guide you through the entire process.

The Succession and Acquisition Solutions Team provides support in the following areas:

- Business valuations
- Deal consulting and financing with flexible options¹
- Post-transaction client retention strategies
- Customized document creation
- Education, pre-planning, and consulting

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¹Subject to separate underwriting process

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