



Monetizing Your Value

2016 TRENDS IN PRACTICE MANAGEMENT WHITEPAPER




An Action Plan

MONETIZING YOUR VALUE

Introduction

This is the third in a series of three tactical whitepapers that focus on how you define, operationalize and transfer value. Each of the whitepapers draws on input from financial planners and advisers across the country, part of the on-going research of the FPA Research and Practice Institute™.

A detailed quantitative report was published in February 2016 — **2016 Trends in Practice Management: Understanding and Driving Client Value** — and is available here. The reports were created to help you answer three important questions:

CRITICAL QUESTION	WHITEPAPER PUB DATE
 <u>Defining and Communicating Your Value: An Action Plan</u> How do you define and communicate your value in a way that sets you apart?	February 2016
 <u>Operationalizing the Delivery of Your Value: An Action Plan</u> What internal processes and structures need to be in place to support you in delivering value consistently and profitably?	May 2016
 <u>Monetizing Your Value: An Action Plan</u> How and when are advisers monetizing the value they have created?	June 2016

Each whitepaper incorporates feedback from 706 respondents from across the country and across channels, including both FPA members and nonmembers. Participants responded to an online survey conducted in November 2015. A comprehensive participant profile can be found in the **main quantitative report**.

MONETIZING YOUR VALUE

The Journey

The first two whitepapers examined how advisers define, communicate and deliver value to clients. As we learned about how advisers are delivering value to clients, it also became clear how these same activities contributed to the long-term value of the business.

In this report we look to the future, examine how advisers plan to transfer value, and if/how they are communicating their plans to their clients and their teams. It is the view of the authors that the first two reports form an important part of the discussion on succession because they speak to business value and continuity.

In this whitepaper we'll examine three concepts that relate to monetizing value.



1. The Current State of Succession. Have you created a plan that not only defines how you will create value, but how that value will be monetized and the actions you need to take to maximize long-term value?



2. Communicating Succession Plans to Clients. Have you built a team that can execute on your value proposition and provided them with the tools and accountability to add significant value?



3. Communicating Succession Plans to the Team. Have you communicated your plans to the team, emphasizing the drivers of value and the role of the team in driving value today and once you have retired?



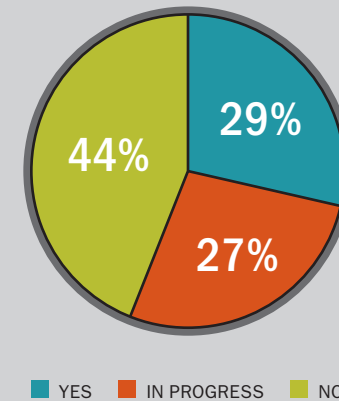
MONETIZING YOUR VALUE

The Current State of Succession

1 OF 10

This is not the first report to point out that a relatively low percentage of advisers have a formal succession plan in place. And while less than a third of advisers say they have a succession plan in place today, a further 27 percent say they are working on it.

QUESTION: Do you have a formal, documented succession plan in place?



Not surprisingly, age plays an important role when it comes to getting a business 'exit-ready'; however, the impact of age is not as significant as one might think. Nearly a third of advisers who are 60 years of age or older do not have a plan, nor are they working on one.

The Current State of Succession

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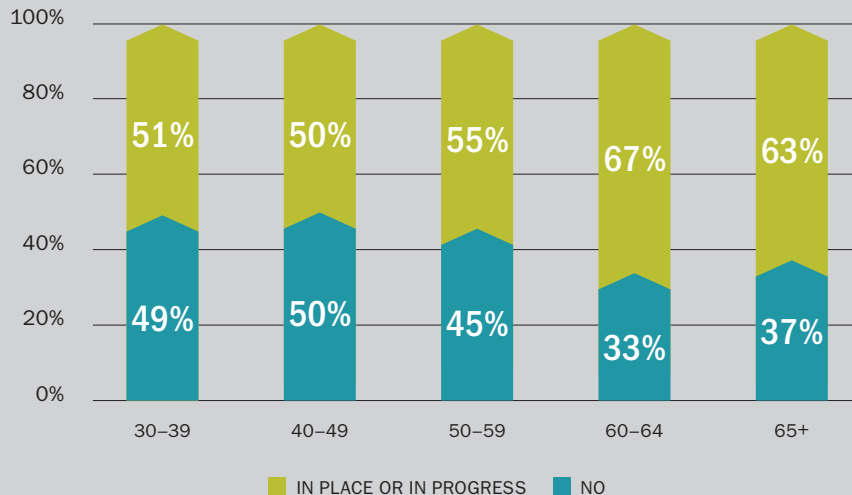


There is some evidence that younger advisers think differently about succession. The percentage of advisers who have (or are working on) a succession plan and who are under the age of 40 is about the same as those between the ages of 40 and 60.

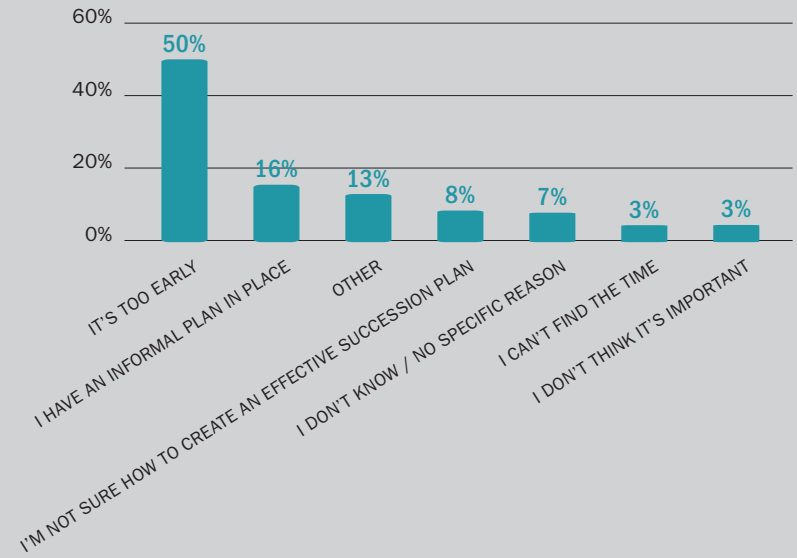
If we look more closely at those advisers with no plan in place, the largest proportion simply feel it's too early to create this kind of plan. For context, nine percent of respondents said they are actively seeking a buyer for the business today and another 22 percent say they will sell their business in the next five to ten years.

QUESTION: Do you have a formal, documented succession plan in place?

SUCCESSION PLAN



QUESTION: You indicated you did not have a formal succession plan in place. Why is that the case?



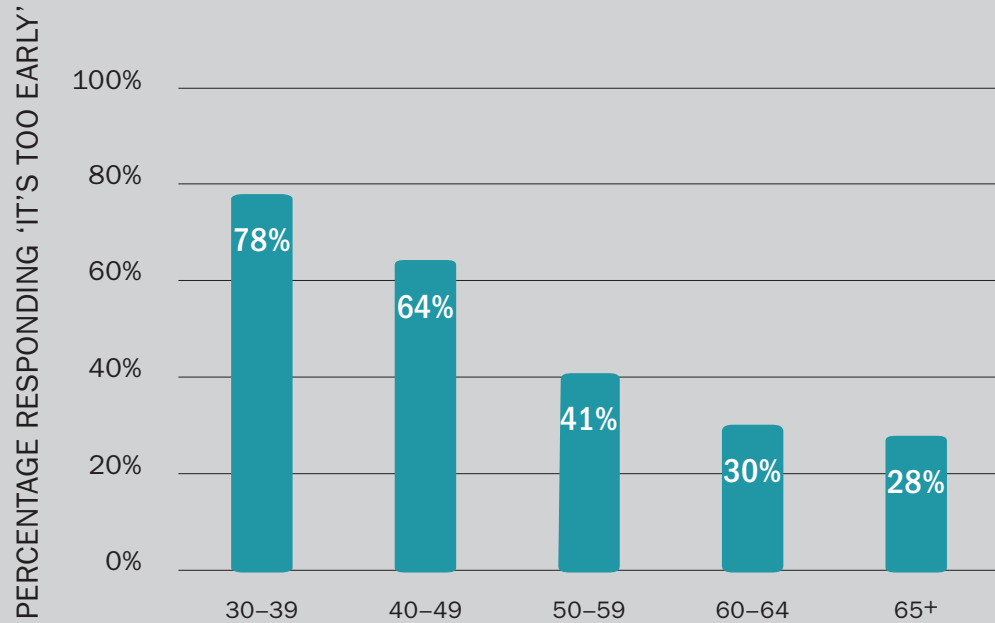
The Current State of Succession

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If we isolate those advisers who don't have a plan and think it's too early to have one, we once again see the impact of age. However, about 30 percent of advisers who are 60 years of age or older say it's too early to start.

QUESTION: You indicated you did not have a formal succession plan in place. Why is that the case? Shows only those responding 'it's too early'.



The Current State: Take Action

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Assess your current position with respect to succession planning by answering the following questions:

1. My transition/succession plan is:

(Choose most applicable)

- Written down and up-to-date
- Written down; requires updating
- In my head and up-to-date
- In my head; requires updating
- Something I wish I had
- Something I don't need



2. I do not have an up-to-date, written transition/succession plan because I am:

(Choose most applicable)

- Too busy
- Too young
- Too important to my business
- Too attached to my business
- Unsure what I would do after I retired
- Concerned clients and staff will react negatively
- Concerned about conflict among potential successors
- Not sure how to develop a plan
- Not concerned about selling my business at a good price when I am ready
- Actually, I don't feel the need for a transition/succession plan
- Actually, I have a written succession plan that gives me confidence

The Current State: Take Action

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3. I think a transition/succession plan should help me:

(Choose all that apply)

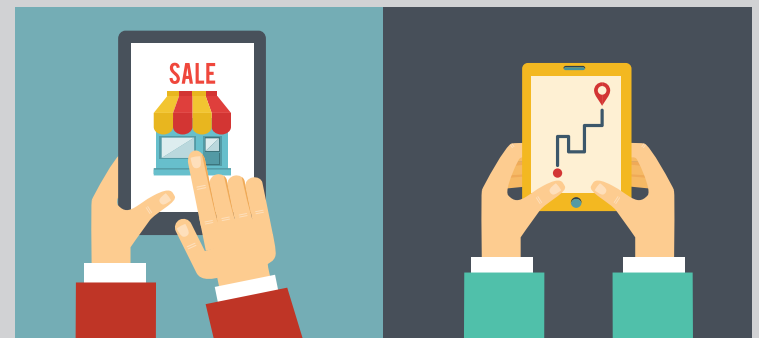
- Take control of my eventual exit from the business
- Maximize the value when I exit/transition
- Ensure I can fund my own retirement
- Give my family, clients and staff confidence and peace of mind
- Ensure my legacy is what I want it to be
- Actually, I don't feel the need for a transition/succession plan



4. Things that might motivate me to consider selling my practice are:

(Choose all that apply)

- Opportunity to cash in at a good price
- Tired of the business
- Want to mentor someone else
- Want different lifestyle e.g. more travel, hobbies, etc.
- Health concerns
- Family issues e.g. caregiver, divorce, death of spouse, etc.
- Other (specify)



The Current State: Transferring Value

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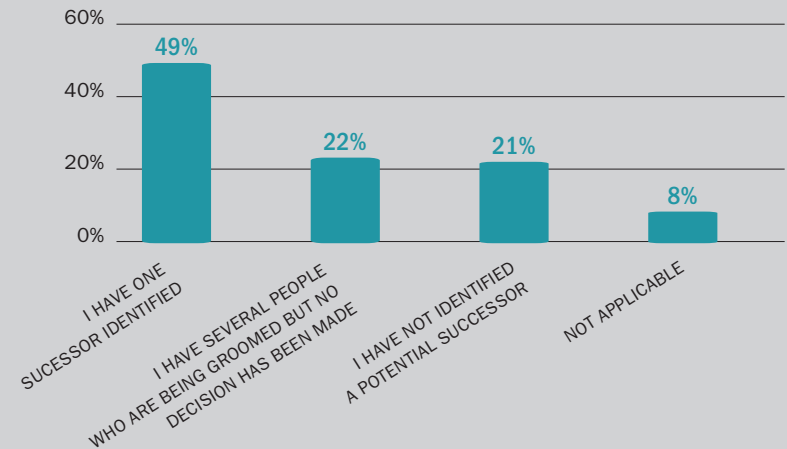
The ways in which advisers plan to monetize the value of their firms varies widely; however, internal succession plans are most popular at 24 percent. The largest proportion of advisers are in the 26 percent who either have no plans (13%) or don't know what they will do with the business (13%).

QUESTION: What do you plan to do with your business/clients when you retire?

Sell to an existing associate/junior adviser	24%
I will sell, but have no clear plan/successor established	14%
I have no plans to sell/transfer the business	13%
I don't know/None of the above	13%
Sell to an existing senior partner	13%
Other	8%
Sell to another adviser (not on my team)	8%
Transfer/sell to a family member who is not currently an adviser in the business	4%
Sell to another firm (consolidator, bank, etc.)	3%

Among those who have identified a clear plan, about 49 percent have a single successor in mind and 22 percent are grooming more than one individual.

QUESTION: Which of the following describes your situation today?



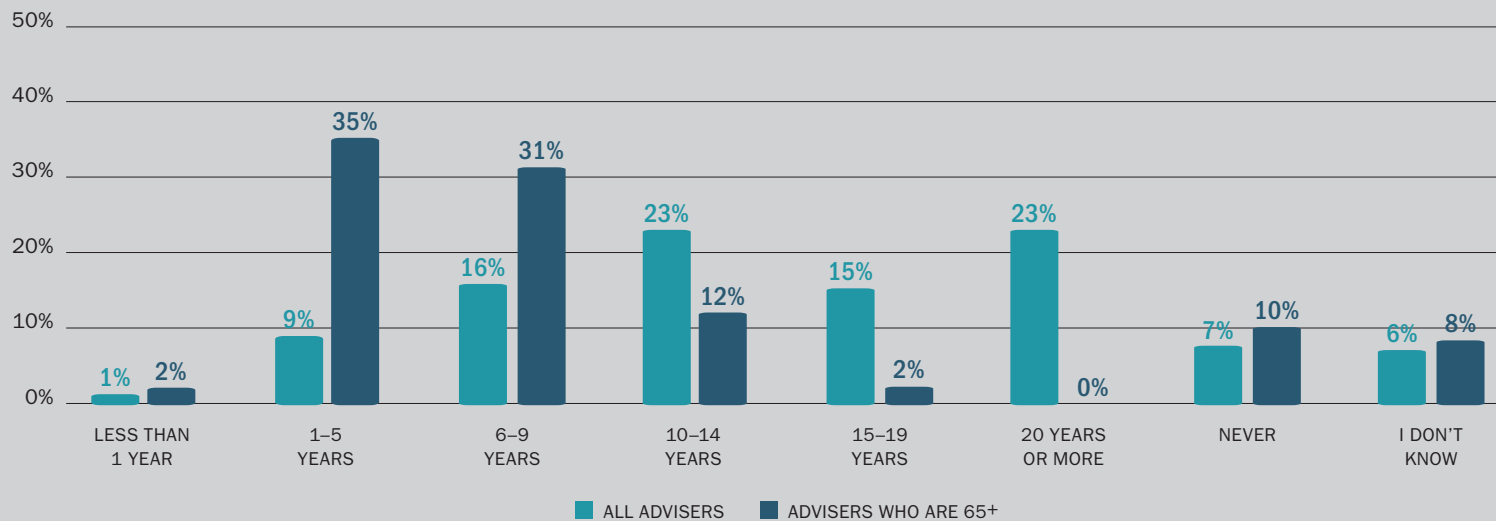
The Current State: Risks

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The advisers who participated in the study represent a range of ages and it's clear that many advisers hope to stay active for a long period of time. Among those advisers who were 65 years of age, just over a third said they planned on retiring in the next five years. Eighteen percent of advisers who are 65 years of age or older say they don't know when they will retire (8%) or don't plan to retire (10%).

QUESTION: When do you plan to retire?



The Current State: Risks

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The data demonstrates that many advisers will work very late in life and many will never create a formal succession plan. This raises the question of whether there are some potential risks to consider. The lack of succession planning leads to obvious comparisons to the shoemaker's children syndrome, but even that requires some explanation. The most common reason cited by advisers is that they won't fully retire, perhaps reducing their workload to a few key clients. This strategy might work unless we think about four key stakeholders in the process:



Your clients.

Your clients agreed to work with you as a going concern. It's reasonable to ask if they should have the protection of knowing that they are taken care of should something happen to you and to work with a team that is energetic and engaged on a full-time basis.



Your team.

Few would argue that the backbone of your business is your team. By hiring them you have created a social contract, perhaps unspoken, that you will always act in their best interests. It is the right of the team to know that they are part of a business continuity plan that is not left to chance.

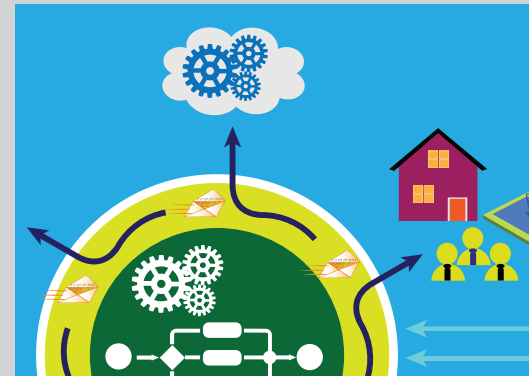
The Current State: Risks

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Your family.

There are too many horror stories of advisers passing away without any form of buy-sell agreement in place that has a devastating financial impact on their families. The agreement is important, but in order to maximize the long-term value of the business, it needs to form the basis of a plan that deals with issues beyond legalities, particularly transition.



You and your legacy.

One of the unsung benefits of a succession plan is that it allows you to take control in defining the legacy you want to leave. The goals you set for your own retirement are tightly linked to the future of the business and should dictate how you structure your business today. A succession plan is a business management tool that helps you make the right decisions today.

For the balance of the report we focus on if and how advisers are communicating their plans to their clients and their teams.



MONETIZING YOUR VALUE

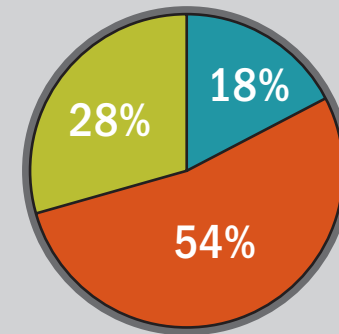
Communicating Succession Plans to Clients

1 OF 6

When it comes to their clients, more advisers are willing to share the details of a succession plan with clients (31%) than to tell those clients when they plan to retire (18%). While it is difficult to know exactly why there is such a difference, there are two possible reasons. One is simply that some advisers don't know when they will retire, suggesting a timeline isn't an integral part of the succession plan. Another is that advisers may be concerned that specifics of the timing would create some negative response on the part of the client.

QUESTION: Have you shared the details of your retirement or succession plan with your clients?

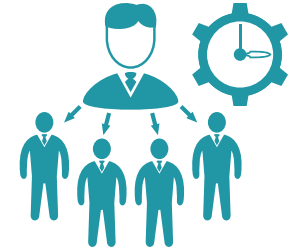
I have told clients when I want to retire.



■ YES ■ NO ■ NOT APPLICABLE

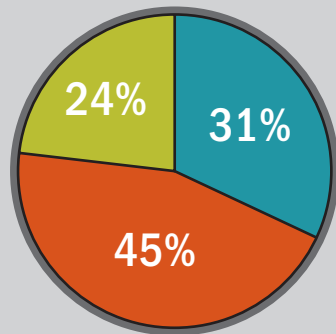
Communicating Succession Plans to Clients

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QUESTION: Have you shared the details of your retirement or succession plan with your clients?

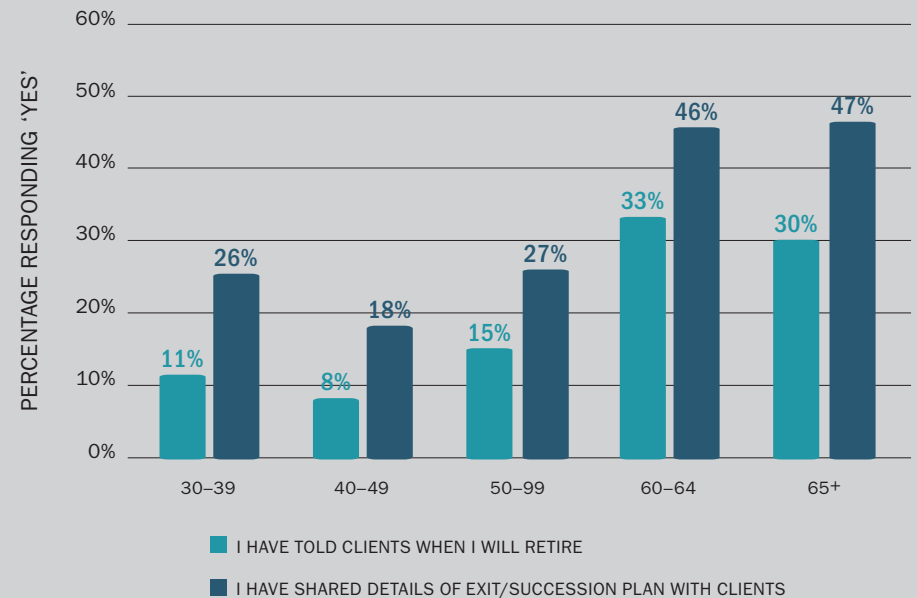
I have shared the details of my exit/succession plan with clients.



■ YES ■ NO ■ NOT APPLICABLE

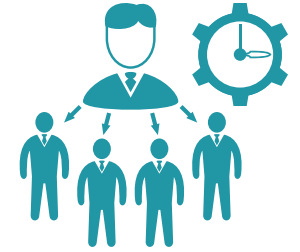
A stunning 70 percent of advisers who are 65 years of age or older say they have not told clients when they plan to retire and over half have not shared the details of their succession plan.

QUESTION: Have you shared the details of your retirement or succession plan with your clients?



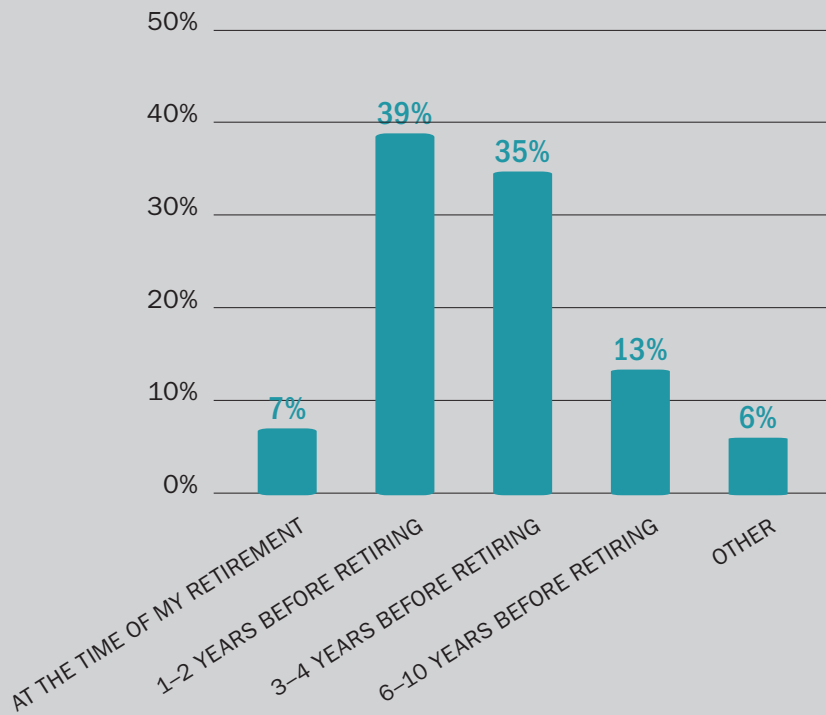
Communicating Succession Plans to Clients

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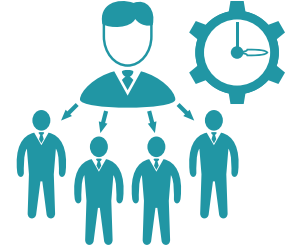
Advisers are split on when the time is right; however, nearly half say it is less than three years from retirement.

QUESTION: When do you think is the best time to tell clients when you plan to retire?



Communicating to Clients: Take Action

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Outline the “communication strategy” you will use to advise clients of your succession plan to reassure them that their needs will continue to be well served. Consider the following:

Timing:

When will you begin to advise clients of your succession plan? Generally, the more time clients have to adjust to the idea of your succession, the more comfortable they become with it.

Complete the following statement: *I intend to begin advising my clients of my succession plan...*

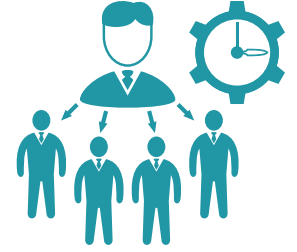
Messaging:

What message do you want to convey? Positioning your intended retirement as an event to be celebrated, rather than mourned, will create a positive impression.

Complete the following statement: *I will be specifically address potential client concerns by reassuring them that...*

Communicating to Clients: Take Action

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Clients Concerns:

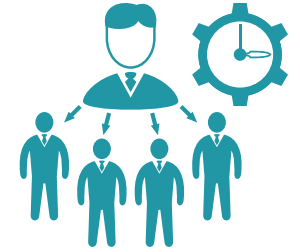
What concerns will clients likely have and how will you respond to them? Clients will wonder about your timing, whom you intend to appoint to look after them, what impact your retirement might have on the service they receive and whether they will have to make any changes in their personal financial plan because of the transition to another adviser.

Complete the following statement: *I will be specifically address potential client concerns by reassuring them that...*



Communicating to Clients: Take Action

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Communication Plan:

How and when will you advise clients of your intentions?

Many advisers adopt a “tiered” approach to communicating their succession plans to clients. Here’s an example:

Describe your communication plan by completing the following table:

Activity	Tier 1 Clients	Tier 2 Clients	Tier 3 Clients	Tier 4 Clients
Face-to-face meeting with you and your successor, specifically for the purpose of introduction	✓			
Face-to-face meeting with you and your successor, as part of regular review process	✓	✓		
Face-to-face or telephone meetings with your successor as per service standard	✓	✓	✓	
Email or newsletter announcement	✓	✓	✓	✓
Open house or introduction event (optional)	✓	✓	✓	✓

Activity	Tier 1	Tier 2	Tier 3	Tier 4



MONETIZING YOUR VALUE

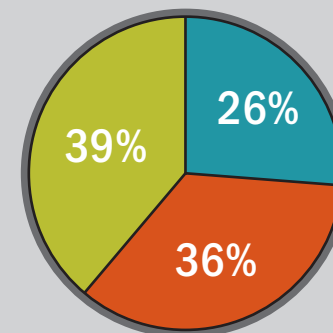
Communicating Succession Plan with the Team

1 OF 6

When compared to their approach with clients, advisers are more likely to tell their teams when they plan on retiring (26%), along with the details of the succession plan (40%).

QUESTION: Have you shared the details of your retirement or succession plan with your team?

I have told the team when I plan to retire.



■ YES ■ NO ■ NOT APPLICABLE

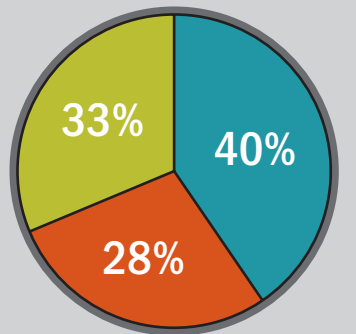
Communicating Succession Plan with the Team

2 OF 6



QUESTION: Have you shared the details of your retirement or succession plan with your team?

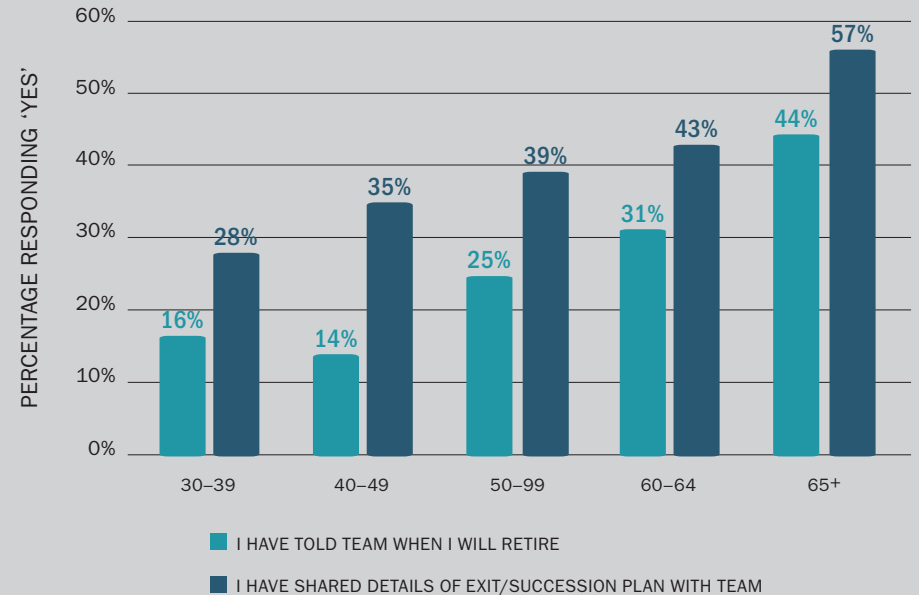
I have shared the details of my exit/succession plan with team.



■ YES ■ NO ■ NOT APPLICABLE

As would be expected, advisers are more likely to share information as they get older and succession becomes a reality.

QUESTION: Have you shared the details of your retirement or succession plan with your team?



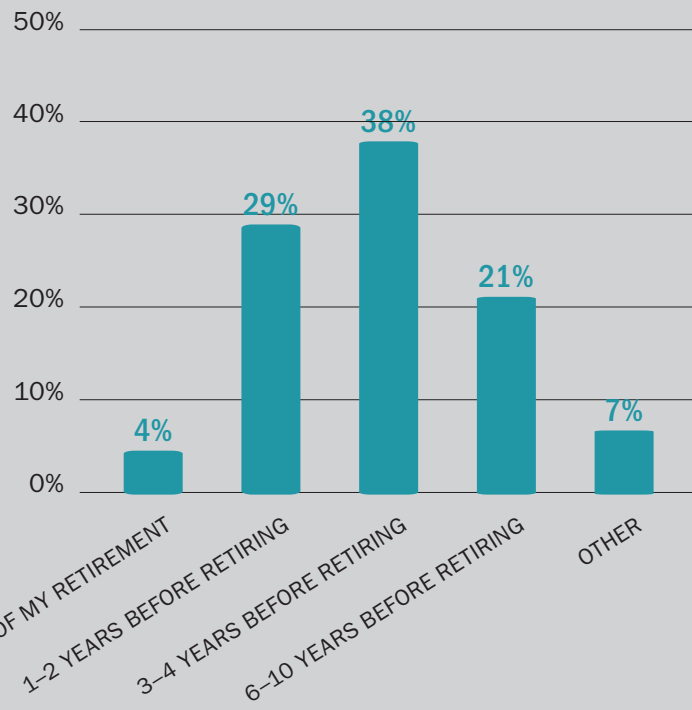
Communicating Succession Plan with the Team

3 OF 6



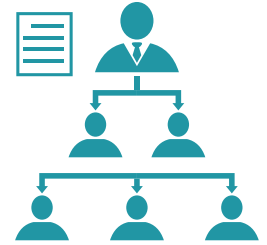
As was the case with client communication, advisers are split on when they share their retirement details with the team. About a third of advisers say that the discussion should happen within three years of retirement.

QUESTION: When do you think is the best time to tell clients when you plan to retire?



Communicating with the Team: Take Action

4 OF 6



Outline the “communication strategy” you will use to advise clients of your succession plan to reassure them that their needs will continue to be well served. Consider the following:

Timing:

When will you advise your team of your succession plan? Generally, the more time team members have to adjust to the idea of your succession, the more comfortable they become with it.

Complete the following statement: *I intend to advise my team of my succession plan...*

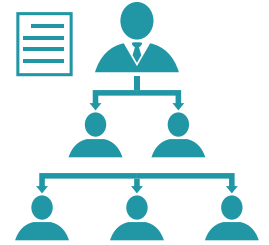
Messaging:

What message do you want to convey? Positioning your intended retirement as an event to be celebrated, rather than mourned, will create a positive impression.

Complete the following statement: *The message I would like my team to receive is...*

Communicating with the Team: Take Action

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Team Members' Concerns:

What concerns will team members likely have and how will you respond to them? They will wonder about your timing, your potential successor, the security of their jobs and income, the length of the transition period and how their responsibilities might change through the transition.

Complete the following statement: *I will be specifically address potential team member concerns by reassuring them that...*

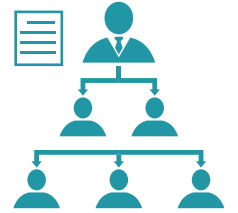
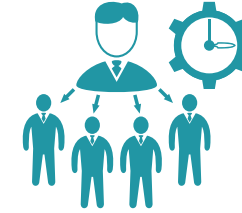
Communication Plan:




How and when will you advise the team of your intentions? How you communicate your planned succession to your team will have an impact on how they react. A “good news” approach, enthusiastically delivered, will generate a more favorable reaction than a formal written announcement.

Complete the following statement: *I intend to advise my team of my succession plan by...*

The Action Plan

BRINGING IT ALL TOGETHER



STRATEGY	TACTIC	NOTES	DEADLINE
ASSESSING YOUR PLAN 	Assess your current position		
	Identify clear next steps for your transition/succession plan		
COMMUNICATING YOUR PLAN TO CLIENTS 	Define your timing		
	Define your messaging		
	Identify potential concerns		
	Create a communications plan and timeline		
COMMUNICATING YOUR PLAN TO THE TEAM 	Define your timing		
	Define your messaging		
	Identify potential concerns		
	Identify how you will communicate your plan to the team		

MONETIZING YOUR VALUE

Final Comment

This whitepaper focused on the tactical issues of transferring value and the way in which those plans are shared with clients and the team. However, it should be pointed out that the information and actions shared in the first whitepapers are as much about succession as the data shared here because they speak to the process of creating a sustainable business. That is the process that creates value, which has a significant impact on your success in transferring that value.

Additional Resources

The Financial Planning Association (FPA) has several other resources for you to use as you work to understand and communicate your value.

FPA Practice Management Resources – a terrific vault of content on all areas of practice management, including marketing and brand development.

10 Questions: Dan Candura on Succession Planning, the Workplace Market, and Ethical Challenges
(from the Journal of Financial Planning)

7 Things That Make or Break a Succession
(from the Journal of Financial Planning)

Should You Keep a Hand in the Business When You Retire?
(from the FPA Practice Management Blog)

Succession Planning: Advisor Needs, Priorities, and Perceptions
(On-Demand Webinar from the FPA Virtual Learning Center)

Succession: Unlocking Value, Power, and Potential in Wealth Management Firms
(On-Demand Webinar from the FPA Virtual Learning Center)

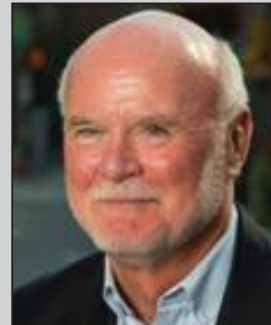
Have questions about how other financial planners are operationalizing value in their businesses? Pose a question on **FPA Connect**, your virtual community of thousands of FPA members, and find out today.

DEFINING AND COMMUNICATING YOUR VALUE

About the Authors



Julie Littlechild is the Founder of AbsoluteEngagement.com and has worked with and studied top-producing financial professionals, their clients and their teams for twenty years. She is a respected researcher, a recognized expert on driving deeper engagement and popular speaker. For more industry insights, Julie's blog is at www.absoluteengagement.com/blog.



George Hartman is CEO of Market Logics Inc., a firm dedicated to helping individuals and organizations in the financial services industry achieve their full potential. He is the author of four best-selling books, including *EXIT is NOT a Four Letter Word – How to Transition Your Practice Profitably and Proudly*. For more details of George's consulting, coaching and conference speaking visit www.marketlogics.ca.



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