

Succession Planning Essentials

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A guide for **financial advisors**



Your clients, your team, your business, and your legacy – done right, succession planning benefits all of these

The big question for financial advisors and portfolio managers is: where do I start?

In this guide, you’ll find:

- Answers to key questions about succession planning
- Tips and best practices for developing your own succession plan

In a world of risk and reward, succession planning provides significant benefits in terms of peace of mind and financial value.

Let’s dive into the essentials.

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Preparing for your departure – whether planned or unplanned

Succession planning refers broadly to two scenarios:

1

An unplanned exit

A catastrophic succession plan (also called a business continuity plan) maps out what happens to your business if you unexpectedly die or are otherwise unable to continue working.

2

A planned exit

An exit plan (also called a living book transition) maps out what happens to your business when you're ready to retire.

NOTE: This guide focuses primarily on succession planning for a planned exit.



Both types of succession plan are important. And you have both an ethical obligation (ensuring continuity of service for your clients) and financial incentive (protecting the value of the business you've built) to ensure both are in place.



You can identify different successors to take over for you in the event of an unplanned exit versus planned exit.

Lacking a catastrophic plan can lead to catastrophe

A catastrophic succession plan is like insurance: you don't need it until you need it.



With a catastrophic plan

- You choose your successor based on the right fit for your clients & your business
- You can negotiate beneficial valuation terms for your business
- Less disruption & uncertainty for your clients



Without a catastrophic plan

- Your firm (not your estate) will quickly find a successor to ensure continued client servicing
- Your estate may receive a minimal payout, or nothing, for your business
- More disruption & uncertainty for your clients
- Increased risk of client attrition



Legally, an estate can't own a book of business because it's not a registrant.

You've built a valuable business, so what's your exit plan?

An early retirement of travel and more time with family and friends? Or continuing to work for as long as your health allows?

Whatever your preference, someday you'll stop working and exit the business. When that day comes, a succession plan gives you control over key decisions:

- When will you retire?
- How will you exit (gradually or in one go)?
- Who will be your successor?
- How will you monetize the business you've spent years building?

These are big decisions with important consequences not only for you, but also for your clients, team, family, and legacy.

Financial considerations aside, clarity and peace of mind are two of the biggest benefits of planning for your retirement and succession.



You generally need a minimum of 6–12 months to plan and execute an orderly exit. The earlier you start, the better.



Control over the succession of my business is vital. My successor must share my values and commitment to my clients' well-being."

Dominique Vincent

Portfolio Manager
3Macs, a division of Raymond James Ltd.

Who is the best choice to take over your business?

Your options include:

- A family member
- A business partner
- An associate advisor or sales assistant
- An outside advisor or group

The best choice for your business will depend on your succession goals and timeline, as well as the specific context of your business.



You can teach someone about financial planning and markets, but you can't easily teach honesty, compassion, empathy, and integrity.



If someone isn't a fit, they are never going to be a fit. You're not going to change them. So the selection process is critical."

John Salisbury

Portfolio Manager
Strong Private Wealth of Raymond James Ltd.

Weigh the pros and cons

To identify the best successor for your business, you need to consider the following factors:

Alignment of values

This is arguably the most important criterion when choosing a successor. If their values don't align with yours, clients are unlikely to stick around.

Professional expertise & capabilities

Does a potential successor have the education, experience, and licensing needed to take over? If not, is there time for them to gain the necessary credentials?

Financial capacity

Can a potential successor afford to buy your business? This may be harder for a family member or associate advisor compared with a business partner or outside group, although external funding sources can help with this.

Alignment of business models

If you're considering selling to an outside advisor or group, there can be extra hurdles to overcome if their business model is different from yours.

Continuity is key

A good successor must be able to maintain – or even better, exceed – the level of service and client experience you currently provide.



Find a team that you would entrust with your personal money. Then check your ego: tell your clients this is a better solution.”

Rob Pollard

Portfolio Manager
The Wyndham Group of Raymond James Ltd.



Considering a new firm? Ask for details about their transition team and how they will support your move.

Keep it in the family?

Many advisors want a family member (often a daughter, son, niece, or nephew) to be their successor and eventually take over the business they've built.

If you fall into this camp, consider the following:

Pros:

- Potential sense of continuity for long-term clients due to family ties
- Strong familiarity with successor helps you assess alignment of values

Cons:

- Perceptions of nepotism can disrupt team dynamics
- Risk of issues spilling over between personal and professional lives



How to get it right:

- ✓ Have your family member earn their spot on the team; don't parachute them into a top spot

- ✓ Encourage your family member to gain professional experience outside the business before joining

- ✓ Establish an organizational chart with clearly defined roles & responsibilities

- ✓ If you have a larger team, have your family member report to someone other than you

- ✓ Keep things professional at work – no “Mom” or “Dad” in the office

Find an in-house successor?

Many advisors prefer to sell their business to an in-house successor, such as a business partner, associate advisor, or sales assistant.

If you fall into this camp, consider the following:

Pros:

- Potential to build familiarity and sense of continuity for your clients over a longer period
- A better sense of how your successor's values align with yours

Cons:

- More lead time required to prepare an associate or assistant for succession
- Can be challenging for associates and assistants to finance buying a business



Many women advisors today started out in the industry as sales assistants. Don't overlook this valuable source of talent.



How to get it right:

- ✓ If you work in a group with other advisors, include succession issues (e.g. first right of refusal to buy the business) in your partnership agreement

- ✓ For associate advisors and sales assistants, start early with succession discussions to understand their professional goals and training needs

- ✓ Take advantage of training programs and supports at your firm to prepare your successor



To assess the fit of a potential in-house successor, solicit your clients' feedback on their interactions with your successor candidate.

Shop around for an outside buyer?

Selling to an outside advisor or group can be attractive for advisors with no suitable in-house successor candidates, or those with a short timeline to plan their succession.

If you fall into this camp, consider the following:

Pros:

- More options from which to choose your successor
- A larger external group may have greater capacity to buy a large book of business

Cons:

- Can be harder to assess alignment of values with a potential successor
- If you're in a small community, there may not be a potential outside buyer locally



How to get it right:

- ✓ When selling to an outside buyer, there is typically a two-year transition period during which you focus on transitioning your clients to the new advisor/group

- ✓ If you and the outside buyer have different business styles, structure the deal so you are paid the most when your clients switch to the buyer's style (e.g. fee-based discretionary)

- ✓ To minimize tax complexity, your outside buyer should have the same business model as you (i.e. independent agent or corporate employee)

Should you tell your clients about your succession plan? And if so, how and when?

Effective communication is key to a successful exit, but there's no one-size-fits-all approach - instead, it's a balancing act:

Your plans may change

The further you are from retirement, the greater the possibility that your plans (i.e. chosen successor, exit timeline) could change.

No one likes surprises

If you announce your retirement and successor with no warning, you risk upsetting (and losing) your clients.

Competitors may pounce

If word of your succession plans gets out, this could lead to competitors trying to poach your clients.

Building trust takes time

Your business is built on relationships, so introducing a successor requires time to establish and nurture new relationships.



If you're an older advisor and haven't communicated your exit plan to your clients, they could start looking for alternate options.



If you're leaving and want it to be successful, it takes time. You need to introduce your clients to your successor, build trust, and gain their permission.”

Cindy Boury

Portfolio Manager & Branch Manager
Raymond James Ltd.

What is my book of business worth?

Valuing a book of business is part science, part art, and part negotiation. There is no single industry standard for putting a price tag on your business.

In general, a book valuation aims to assess the net present value of a business' expected future cash flows, which are then risk rated and discounted.



Seek professional advice on the tax consequences of selling your book. Many advisors don't realize their sale may be treated as income and taxed as such.



Your book valuation may take the following factors into account:

- ✓ Net inflow or outflow of assets
- ✓ Fee-based vs. transactional revenues
- ✓ Average age of clients
- ✓ Average household size (AUA)
- ✓ Concentration of clients
- ✓ Concentration of securities
- ✓ Percentage of clients with registered accounts



Gathering and assessing all the information needed for a book valuation can take time depending on the complexity of your business, so factor this into your succession timeline.

How to boost the value of your business ahead of succession?

If you're looking to make your business more valuable before negotiating with a prospective buyer, consider these options:

Transition to a fee-based discretionary model

It's more scalable than a transactional model, so prospective buyers are likely willing to pay more for a fee-based discretionary book of business.

Boost average household size

Books with a higher average household size generally attract more interest and higher valuations.

Focus on boosting recurring revenues

Any prospective buyer will want to see the recurring revenues your book generates – the higher, the better.

Consider changing business model

Your business may be more attractive to buyers financially and tax-wise if you change models (e.g., from employee to independent agent).

Consider changing firms

If you have enough time before retirement, moving to a firm with more independence, flexibility, succession support, and a stronger grid can increase your business's value.



When buying a book, don't be afraid of making changes for incoming clients. They are far more open to change if you believe in your processes and can articulate the value of your approach."

Rob Pollard

Portfolio Manager
The Wyndham Group of Raymond James Ltd.



Avoid using your name in the name of your business, as this can diminish its value when you're ready to sell your business.

Lean on existing resources and available support

While your business and situation are unique, this doesn't mean you need to create your succession plan from scratch. In fact, you probably shouldn't.

Doing so is inefficient when there are templates, expertise, and other resources out there for you to use. Check whether your firm offers any of the following:

- Training support for developing in-house successors
- Book valuation tools and services
- Financing for book buying by in-house or external advisors
- Legal agreement templates

If these resources are not available at your current firm, it may be worthwhile seeing whether other firms can help you optimize your succession plans.

Key takeaways and the future of your business

If you seize the opportunity, succession planning can deliver valuable peace of mind and financial benefits.

Follow these best practices for optimal succession outcomes:



Be clear on your goals. Figure out what you want for your clients, your business, and your retirement, and then pursue those goals.



Start early. Give yourself plenty of time to find the right successor and develop an optimized succession plan.



Leverage existing supports. Speak with others within and outside your firm to learn about your options, opportunities, and best practices.



Ensure everybody wins. Structure any deals to ensure everyone (buyer, seller & clients) benefits and is incentivized to make it a success.

A better future for you and your clients

It's natural to worry about client retention when considering a move, but don't let that hold you back if a new firm is the right fit for you and your clients.

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Ready to move forward with confidence?

Contact us to discuss opportunities at Raymond James, or for more discussion and insights related to advisor opportunities.

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