THE NEXT BIG STEP: WHAT DO YOU DO AFTER YOU'VE 'SURVIVED AND THRIVED'?

SENSE-NETWORK.CO.UK

THE NEXT BIG STEP: WHAT DO YOU DO AFTER YOU'VE 'SURVIVED AND THRIVED'?

As financial advisers, you are used to asking business owners what they want to do next.

As business owners, my bet is that you rarely ask yourselves the same question. Even if you do, there is a temptation to give yourself the answer you think is 'right', rather than the answer you truly want. Freud would have a field day.

If you have a successful advisory business you will arrive at a point where you need to consider The Next Big Step. Finding what that step is can be difficult because the decision is not just rational and business-based, it is emotional too.

More time with the family? More involved working on the business? Buy another business? Never work again?

Some of these things are a one-way ticket.

Take buying another business, a common answer that may sound like the 'right' thing to say. Why do you want to buy another business? Do you have a plan to progress or exit the new business? What's the purpose? It's considered what you 'should' do, but how does it fit into your overall plan?

Helpfully, if you are in this position, you only have limited options. All of those options have been explored by other advisory businesses over the years and the pros and cons are, by now, quite clear, if you pause to take a look.

CASH COW

This is most advisory businesses. You have a good client bank, you are profitable and comfortable, your staff enjoy working with you and may now have done so for some significant time. The immediate future holds few changes and you are not going out of your way to look for them.

If this is you then it's best to be aware and to make your team aware, that this is the deliberate plan. Brett Davidson once said something along the lines of "if you think that you can freewheel for the next 5-10 years till retirement, then you can't; something external will hit you".

It is also worth considering perceptions. When they finally reach sale, cash cow firms will often proudly say to buyers that they've known their clients for 30 years and that staff have been there for 20 years. This can present risk to savvy buyers.

Pros

- Simple
- No significant further investment
- No cultural change
- Lowest risk in short to medium term

Cons

- Business risk remains the same
- Business can become tired
- Lack of external change and challenge
- Limited growth potential
- No premium on the sale
- Can be difficult for buyer to transition

INTERNAL SUCCESSION

Internal succession may be attractive if you like the idea of leaving a legacy or dislike the idea of consolidators. In our guide to recruiting and developing graduate advisors, one of the main drivers is highlighted as business succession. Firms that get it right can grow and transfer effectively.

Ultimately however, the likelihood is that this is the lowest revenue option in terms of your own exit. Once you begin conversations on elements such as an MBO or EMI scheme it can open a can of worms.

Pros

- Continuity of existing staff and management
- Little capital required
- Little cultural change
- Some risk in short to medium term; less long term
- Locks in key personnel in event of a future sale
- You retain control over your proposition

Cons

- Owner retains some risk with less control
- Often lower value than an external sale
- Lack of external change and challenge
- No additional skills, capital or revenue brought in

EXTERNAL SALE TO A FINANCIAL BUYER

A financial buyer, by my estimation, is a purchaser aggregating advisory businesses into their own in order to sell to another buyer further down the road.

This can be a relatively easy sale and you can get a good price.

Be wary though of roll up-type deals. You may get some cash up front, but a lot of these types of sales over the years have gone sour. There are big examples in the market of firms who have done this and then consistently pushed back the date of the second sale. In the meantime their proposition and value seems to have faltered.

Pros

- New resources available as part of a bigger business
- Shares in a bigger business
- Remain involved in the business

Cons

- No real transfer of risk
- Bigger business is often higher risk
- Lack of influence over management decisions
- Often very difficult to deal with

EXTERNAL SALE TO A STRATEGIC BUYER

A strategic buyer wants your business because of something very specific about it. This can make it a very attractive deal for you and likely your highest revenue exit point. If you are the largest advisory firm in the North West, for example, a national IFA builder could well be willing to pay you top dollar. What are their other options?

This is a difficult sale for small and medium businesses to achieve, because the 'significant' thing the purchaser is after may well be size, of some sort.

Pros

- Highest value
- Brings additional skills and resources
- Likely to keep and motivate key staff

Cons

- Complete loss of control and identity
- Business strategy may change

ENTERPRISE BUSINESS

If you do not want to sell or stay as you are then you may proactively decide on a strategy to get very large. This is probably not the aim of most IFA firms.

If this is your aim then you need to be aware of the scale you are aiming for. Enterprise businesses reach a size where an IPO float or interest from private equity are the end goals. It requires a lot of money. You will constantly need to bring in non fee-earning people in operations and finance; people who are relatively expensive to employ.

Your end goal is to reach at least £2m in profit for interest from private equity. IPO may be realistic at £10m. There is a big market for firms achieving around £5m EBITDA.

Pros

- Best chance of long term survival
- Retain control, whilst building value
- Likely to keep and motivate best staff

Cons

- Very difficult to do
- Requires significant investment and constant change
- Outsourcing doesn't work long term
- You need to be more ruthless with staff
- You are now a big corporate