From Founder to Future: Succession Planning in 3 Steps

Cetera®

Continue Your Legacy and Reap the Value You've Built

You've spent years—maybe a lifetime—building your business into what it is today. Your clients trust you. Your team follows your leadership. Your processes get results. Ideally, everything you've built would continue indefinitely. Unfortunately, change is inevitable, and the time will come when you need to exit the business. Whether you exit fully or partially, by choice or chance, your practice will evolve. How that plays out will depend on how much (or little) you've done to prepare.

Over the next decade, more than 106,000 advisors—representing 37.4% of the industry and 41.4% of total assets—plan to retire. Alarmingly, 25% of these advisors have no formal succession plan in place.[1] Beginning succession planning early is crucial, as finding the right successor takes time, effort, and careful consideration.

In the following pages, we'll walk you through the process of finding and training a successor—from the earliest stages of succession planning to a smooth transition. Even if retiring isn't on your mind, thinking about the future is as important for you as it is for your clients.

[1] Cerulli Associates. (2024). "U.S. Advisor Metrics 2024." [Report] Retrieved August 29, 2024 from https://www.cerulli.com/reports/us-advisor-metrics-2023

Figure Out Your Goals

How you approach succession planning depends a great deal on what you hope to happen after you leave the business—and what leaving even looks like for you. To begin putting together a plan, you first need to ask yourself, “What do I want my post-exit life to be like?”

Here are some common scenarios:

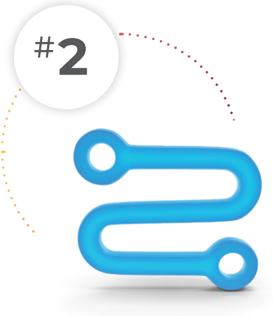
- **Complete handoff**
  In this case, you would give up all stakes in your business, handing complete control over to someone else in a single buyout. With no further involvement once the transaction is completed, you’re free to manage your retirement life in any way you please.

- **Remain as owner emeritus**
  You might choose to disengage entirely from day-to-day running of the business while remaining involved as a high-level decision approver, relationship builder/maintainer, and presence at firm functions. Retired financial professionals in this arrangement often focus on bringing in large accounts. It’s a way to partially oversee your legacy while removing the burden of daily business operations.

- **Long-term buyout**
  You could partner with a successor who slowly buys the business over an extended period, giving you gradually less responsibility as time goes on. This tends to work well for sellers and successors who have a longstanding relationship or have determined compatibility for a longer transition, as it involves a substantial amount of trust and collaboration.

Each of these scenarios is flexible, but it’s helpful to start with an idea of which one you might like to pursue. That way, you can begin to think about a timeline, as some take more planning than others.

Consider your economic goals and what success at the end of the transition means to you, taking into account your involvement throughout the process including post-sale consulting and support.



Determine Your Timeline

In virtually every facet of your succession planning, starting early maximizes your opportunities and benefits. Begin as soon as possible to fully leverage the advantages time can afford, while keeping in mind that a shorter timeframe is still an option if needed.

Succession on a one- to two-year horizon

A shorter timeline imposes constraints that a longer one wouldn't. But it's certainly possible to plan your succession in less than two years.

A recent survey found that nearly 22% of financial advisors with a succession plan had it in place for one to two years.[2]

Identify your desired future

- Consider your long-term goals and time constraints
- Realize that a straight buyout is often the simplest and quickest option
- Decide if you want to stay on in a limited role, but remember that this won't appeal to all buyers

Understand your business valuation

- Make small upgrades (systems, technology) to help increase your valuation, but know that significant changes are limited
- Start the search for a buyer immediately even if valuation is not where you plan to get it

Find the right buyer

- Seek an external buyer unless an internal candidate is already in place
- Search for a seasoned individual capable of immediate takeover
- Use your network or buyer-matching services offered by your broker-dealer

Structure the deal

- Remember that negotiations can be time-consuming and limit your runway to improve valuation
- Begin as soon as a buyer is identified to stay within your timeframe

[2]Stephanie Horan. "Survey reveals details about financial advisor succession planning." (July 27, 2023). Retrieved October 7, 2024 from https://smartasset.com/data-studies/financial-advisor-succession-planning-2022

28% of advisors with a succession plan reported having it in place for the previous three to five years.[3]

Succession on a three- to five-year horizon (or longer)

When you give yourself a longer lead for planning your exit, more opportunities open to you.

Train an internal successor

- Develop current staff or recruit new talent
- Identify and mentor the right person to lead your business
- Ensure your successor meets the needs of your clients and team

Enhance your business value

- Partner with consultants for concrete valuation and improvement strategies
- Budget time to implement recommendations, such as attracting younger clients, reducing concentration risk, upgrading systems, and boosting recurring revenue

Broaden the search for a buyer

- Utilize recruiters, networking, and buyer matching services
- Determine key attributes to help identify the ideal candidate

Structure deal negotiations

- Allow negotiations to evolve naturally without rushing
- Ensure all stakeholders, including your team, are comfortable with the terms
- Increase business value by retaining key individuals and securing favorable terms

[3]Ibid.

Choose Your Successor

When it comes to where you find a successor, there's no right answer. Sometimes an external buyer is the exact fit you need, but more often than not, your best bet for realizing the full value of your business is finding and developing an internal successor.

Benefits of an internal successor

- Train someone in the methods and processes your clients and staff are familiar with
- Familiarize stakeholders with your replacement
- Reduce retention risk, which increases valuation
- Ensure buyer familiarity with clients and holistic perspective of the value of your book
- Offer a wide array of structuring options, including phantom equity (buyer doesn't have to generate capital immediately to begin receiving equity)

External buyers will limit your degree of flexibility and familiarity. It's not out of reach, just more difficult to achieve.

Identifying your successor

While it may be tempting to choose a successor based on age or experience, it will be more useful to find someone who embodies leadership qualities, possesses an entrepreneurial spirit, and cares deeply about the business, just as you do.

- Focus on character traits and mindset instead of demographic profile
- Look for core competencies like business acumen and tech savvy
- Find someone whose service ethos matches your own so clients remain happy and cared for

Training your successor

As long as you're willing to be transparent and embrace change, you'll be able to help your successor, clients, and staff find success with the next generation of leadership.

- → Share key client relationships and provide opportunities for the new leader to show their face and build client trust
- → Involve your successor in management decisions, gradually coaching and shifting control to them (internal successor only)

Building Your Bench Strength

In a perfect world, you have a junior financial professional ready to take over your business. For most, this isn't the reality. Enhance your team through diverse recruiting strategies, pursuing multiple avenues and starting early.

- → Create an internship program and path for advancement
- → Partner with local colleges, high schools, and veteran training programs
- → Network among peer groups
- → Seek career changers within the financial services industry or your own firm

Your Ideal Succession Partner Could Be Closer Than You Think

Ready to pass the reins but can't find a successor? Cetera's solutions offer a guided journey to succession, helping you secure your legacy and reap the value you've built for your next chapter.

Cetera as a continuity partner

Without a continuity plan, you're leaving a critical gap in your firm's and family's financial security. Count on Cetera to step in and purchase your practice at an agreed-upon valuation in the face of an unexpected exit through its unique **Legacy Builder** program. Plus, you're not boxed in—feel empowered to explore alternatives and exit Legacy Builder at any time.

Cetera as a succession partner

Craft your exit strategy with confidence by selling to Cetera, where you'll find a partner to guide you through a proven process, maximizing your business' value and safeguarding your legacy for a smooth transition. With flexible options and timelines, you have the freedom to decide how long you want to stay in the game.

Creating the Future You Want Doesn't Have to Be a Challenge

For more than 40 years, Cetera has made it easier for independent financial professionals, financial institutions, large enterprises, and tax professionals to create scalable business growth while helping their clients turn dreams into reality. As a premier wealth hub, Cetera's leading-edge technology, award-winning platforms, and team-driven solutions can empower you to grow your business' value, enhance client engagement—and increase your satisfaction while doing it.

> **Looking to partner with a firm that will smooth the path to building and protecting your legacy? Visit cetera.com and set up a consultation today.**

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