Building Profitable Practices

Developing a succession plan

Your business could be a national firm, or maybe it's just you and your partner making a difference in your local community. Regardless of size, it's important to consider what will happen when you decide to move on.

If you're on the smaller side

According to the FCA, smaller companies remain a significant part of the intermediary sector, with almost 88% of firms having six or fewer advisers.[1] But at this size, figuring out a succession plan could be more difficult.

Our own research shows that a quarter of advisers feel succession planning is one of their main business challenges.[2] And with 45% of sole traders planning to sell their business in the next 3-5 years, compared to just 19% of advisers overall, this issue is likely to be weighing on the minds of smaller firms.[3]

45%

Sole traders planning to sell their business in the next 3-5 years

Although you may not be thinking about moving on anytime soon, it's expected that over the next 10 years more than 50% of financial advisers will look to retire.[4] So, thinking of a game plan could be extremely beneficial.

Why is succession planning important?

Over the course of one month, nearly half of advice firms were approached by a consolidator interested in buying their business. That means that, while only 12% say that they're looking to sell in the next five years, that number may be higher in reality.[5]

Having a plan prepared gives you and your business the flexibility to adapt to changes or even unexpected circumstances – whether that's an early retirement, merger or sale. It should also mean that nothing gets overlooked during the transfer.

Without a plan in place, clients can face unnecessary disruption to their service. Staff, business partners, prospects and family can also be affected, as can your reputation. Planning your transition is crucial for securing a healthy financial future for you and your clients.

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The earlier you start putting together a plan, the better. It may feel premature, but it's something to consider long before you leave the business or retire. That way your successor can get fully immersed in the firm and build a level of trust with clients.

What are your options?

1. **Selling to someone within the company**
   Choosing this option often allows a smooth transition, as the new owner will already have a good understanding of the business and client base. Think about employee share plans or a period of transition, so that your successor can raise the funds.

2. **Selling or merging with another firm**
   This can be seen as an attractive option, especially if the other company has a similar cultural fit and experience running a similar sized firm.

3. **Selling to an external company**
   You could always sell your business to a company with the capital and experience to hit the ground running and keep your business operating smoothly. It may be the company you choose isn't in the finance industry, so this needs careful consideration.

4. **Retaining ownership interest**
   During the transition, having a continued presence could reassure clients (and staff) that you're there to take care of their future. And you could take on as many or as little direct responsibilities as you like.

Important things to think about...

Plan ahead of time
Make sure your successor understands the business and their responsibilities before they have to step up.

Use the tools available to you
Our Reporting Services facility gives you information about your business, such as sales and fee payments, to help you manage your firm more efficiently.

Look after your staff and clients
What impact will the transfer have on them? Give this some thought and make sure they're comfortable with any decisions.

Maximise the value of your firm
Review and maintain the strengths of your business ahead of any acquisition, and work on improving any weaknesses.

Bring everything together
If there are any siloed parts of your business, try and make sure they're minimised so transferring work and information is easier.

Have a plan B
There are a number of variables and potential issues that could pop up. Being prepared for any eventuality will minimise any damage if something does go wrong.

Sort out the accounts, if required
If you're selling your business, it'll make things easier if all the business accounts are in immaculate order.

What to look for in a successor

First and foremost, your successor should be the right fit for clients – they're the bedrock of your business after all.

Ask yourself what kind of personality traits will work with them and your team. You might need someone ambitious, or a great salesperson. Maybe you need someone who's conscientious and diligent. Be sure to consider those characteristics early on, so your search is more focused.

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How to help your clients

Throughout the transition process, your clients will undoubtedly have lots of questions. Be as open and honest as you can. This is paramount if you want to maintain their trust in the company.

To help screen questions, put a client plan in place. Share it with your successor, relevant colleagues at the firm, and the clients themselves. It could even be a good opportunity to introduce both parties, making everyone feel at ease.

An FAQ document is useful too. Not only does it make life easier for your colleagues, but it's reassuring for your clients too – they can see that everyone is aligned, informed and organised with the answers at their fingertips.

If there are any changes, keeping everyone up to date is important. But consistency and timing are key. If there are too many updates, sent at irregular times, it could raise alarm bells.

Sticking with rules and regulations

In February 2017, the FCA released the Supervision Review Report: Acquiring Clients From Other Firms. Their findings have some useful insights into how you can improve your succession planning process. In particular, their research highlighted specific areas that weren't being properly managed. For example, clients weren't told:

- Details of services offered by the new firm.
- The level of charges at the start of the client relationship.
- Any differences between services offered by the new and old firms.
- Any differences to the tax (VAT) status of ongoing service charges.
- That they could opt out of any ongoing services.
- That historic advice responsibility wouldn't be taken over by the new firm.
- How to complain about advice that was given by the original firm.

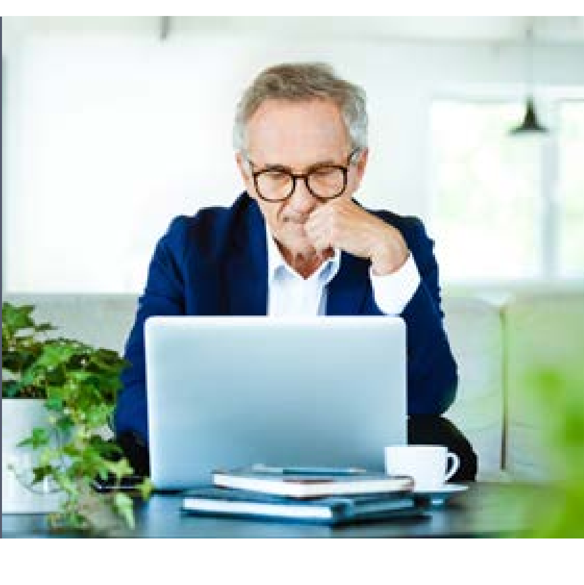
So, whenever there's a change to a firm providing services, or a change to services themselves, you should obviously always act in the client's best interest. Any information you give them should be fair, clear and not misleading – especially in light of your responsibilities under the new Consumer Duty.

Give your business a boost today

Your business is at the heart of ours. So we're always on the lookout for ways to help you improve and grow. That's why we've put together our Building Profitable Practice series.

For more help and support, take a look at the rest of the series and discover other areas that could help you drive greater profitability for your business.

We've also put together a guide to the different phases of your succession plan. Following this could help to make the process easier, and get you started off on the right foot.



1. FCA data for 2021.
2. IFA DNA 2022.
3. IFA DNA 2022.
4. Money Marketing 2022.
5. FT Adviser 2023.

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