



The Deal Room Podcast

Episode 198 – Tips for buying and selling financial planning practices

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Transcript

Joanna:

Hi, it's Joanna Oakey here and welcome back to The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice aspect legal now today we have on the show Steven Fine the Managing Director at Growth Focus. Steve and I today talk all about the top considerations when buying and selling financial planning practices, we discuss who the usual buyers are for financial planning practices, we drill into a few case studies in this area. We touch on the mistakes made when selling a financial planning practice and the impact that we see from the changes in the market. So without further ado, let's get started with our discussion with Steve

Hi, Steve, welcome back to The Deal Room podcast.

Steve:

Thank you, Joanna. Thank you for having me.

Joanna:

Oh, it's a pleasure. It's a pleasure. All right. Well, today we talk all about the specific area of the top considerations when buying and selling financial planning practices. So let's start with maybe your background in financial planning practices because I know this is a type of industry you deal with a lot.

Steve:

Yes. Well, we've been facilitating the sale of financial planning practices for well over a decade now, working with buyers and sellers and completing the transaction. So we've seen all sorts of transactions and structures and bills and how deals are being completed. So yeah, that's basically what we do. And that's our primary segment.

Joanna:

Okay. Well, let's talk about financial planning practices as a whole. So let's start off with Who Who are the usual buyers of financial planning practices because I guess there's a, there's, there's a range isn't that maybe talk to us about the usual buyers,

Steve:

The usual buyers or, you know, got the larger practices who may have made acquisitions in the past or on acquisition failed experienced, buyers, and you're looking to grow that way. You may have, you know, a one-off individual, one-man band as a buyer, they may not have purchased previously,

Joanna:

As in someone who's already a financial planner who's been looking to acquire for, you know, financial planning practice, because it's already set up and it's going and it's proven, you know, you've got clients,

Steve:

Yes, they get, they get enough confidence to say, Okay, it's time to expand things. And acquisition is a good way to go that type of buyer, so they may not have any buying experience, but they've got the planning experience, and they got the experience running and managing a practice. And they're at a stage now where they are ready to take the next step. And then the third type of buyer is perhaps someone who hasn't run a practice, they may have been employed capacity, and they are ready to step up, run their own show. So those are the three types of buyers that we come across.

Joanna:

We also see buyers in this space that might perhaps have financial, might see financial planning as a good addition to their service offerings. So that might be accounting practices, or, you know, those sorts of businesses. Do you see many of those types of buyers around at the moment?

Steve:

Not that many there were in the past where, you know, it was an aligned business who said, Okay, let's, let's have a go at this financial planning thing and see, see how it goes. But we really do not see a lot of that anymore.

Joanna:

And why do you think that is?

Steve:

Well, I think those who have tried it before and really didn't understand the financial planning process, and you know, what's involved? It's not as easy as it sounds, you know, on paper, it's okay, what, let's just buy this practice, and then we'll have to be aligned with what we do. And at the end of the day, there's got to be someone there who's really driving it. And I think

that's the problem with that model. You know, if the vendor exits getting someone employed is different, you know, they don't have the same drive and motivation that an owner would have. Yeah, I think that's really the key to that one. Yeah. So in short, no, we don't get a lot.

Joanna:

So if you're looking at acquisitions, and actually, before I go there, maybe we step back, because I feel like there's probably a few stories there you have of acquisitions that haven't quite gone to plan. Is there any sort of, you know, examples that you've seen of buyers coming in perhaps expecting the wrong thing out of the business? And then it just not turning out the way that they'd expected?

Steve:

Yeah, I mean, I can pick up one, one instance, where a purchaser made an acquisition on the financial planning practice, the vendor was exiting the vendor was actually going overseas. And when we let's get somebody in to take over the business went pear-shaped because they had nominated the person this person had said all the right things that they were going to run the business and, you know, they're working together for three months, and then this employee person decided they wanted to go and do it themselves. And yeah, it wasn't a pretty picture, because it was very unethical what the employee person did

Joanna:

well, and so then left the new buyer with hold the clients and provide the services.

Steve:

Exactly, exactly. So, I mean, that's that kind of relates back to the issues of not being on the ground, and not having control of the business.

Joanna:

Well, taking it from a biocide perspective, maybe if you can step out for us the sorts of things that you think buyers should be considering when they looking to buy financial planning practice.

Steve:

Look, I mean, there's the standard, you know, looking at the quality of the business, I think what may be more value is perhaps half now to buy the business and what to consider. I mean, one of the mistakes that I see from buying a practice results in them not making a successful acquisition is not detailing their offer. I'll give you an example of buying a practice like this, there are so many other considerations. It's not like a widget in a store and you say, Look, I'll pay X amount. And thank you very much. Let's wrap it up. and off you go. There are emotions involved, there are questions around post transaction, what's going to happen with the staff is the new acquirer going to gel with the clients? A key thing that I think is really important is when making an offer, detail the offer a lot of buyers think, I'll just put a multiple on there. And you know the terms and that's enough, but you want to really in presenting an offer the board what the plans are for, for the staff put forward, what the plans are for the location, the board how the onboarding processes is going to work, exactly what's required from the buyer to transition the clients across and introduce them to the new buyer, a lack of detail in offers, I think, is one of the biggest mistakes that buyers make.

Joanna:

And that's interesting, because the sorts of things that you're talking about, and you're talking about the discussion that you're having with the potential buyer that you're then you know, feeding back to the seller, are you suggesting that all of this should be in writing

Steve:

I am, we spent a lot of time on the heads of agreement. You could call it heads of agreement,

a terms document, it's not binding, but we encourage fleshing out as much detail as possible, because it's going to come out and you don't want it to come out after the transaction, Oh, I thought I thought this was going to happen, or this was going to happen, edit we'll discuss clarified before or the transaction occurs not to digress. I mean, that's just standard practice for anything I'm talking about for buyers, because a lot of buyers, you know, they come to us, and they missed out on the last one, and they missed out on the next one. And by the way, they go about it, you can actually get a sense of why they missing out and missing out because they're not going into the details in the offer.

Joanna:

It's an interesting approach because usually, we'll see in these, you know, heads of agreement, or commercial terms, or whatever you calling them that, you know, we'll talk about price and payment, and you know, perhaps ancillary documents that sit together with the transaction, the way in which the transaction will happen, and perhaps exclusivity and a bit of confidentiality, but not so much these other areas that you're talking about in terms of location and staff transition plans, and all of those sorts of things. So that's a bit of a different approach, I guess that you're bringing

Steve:

Yeah. I mean, if there's one takeaway, that's it. It's not enough, take extra time in the office, and have all of these factors? Because if you think of it from the sellers perspective, you know, making this decision is not easy. And these questions are going to be in the back of the seller's mind, regardless, address those questions in your offer.

Joanna:

fascinating, you know, a way of approaching it, and how many buyers do you think go into that sort of that you deal with? I mean, we don't see many, as I said, documents that contain all of that sort of information, but you do most of your buyers, then obviously, this is something that you were suggesting to your buyers, as part of the process, do many of them then come back with these this detailed plan? Or is the sort of advice that you're giving to the buyers that are falling on deaf ears.

Steve:

Now, a lot of time we actually pushed for the information, you know, if we move forward, we encourage and bring up, you know, points that may not have been being considered or discussion that helps the buyer actually get a successful result.

Joanna:

Yeah, and I think a lot of buyers, you know, seen from a very financial perspective, obviously, in relation to an acquisition, and many sellers come at it with perhaps a little bit more emotion of you know, they've built this business over the years

Steve:

And definitely more emotion. And if you're looking at stories or just thinking of some examples, where, you know, buy come back and come back to us and said, Well, you know, here's my offer, Why can I not get an answer on this seller cannot make a decision. They just need more.

Joanna:

Yeah, and often what's driving you know, we've had a few deals recently where our sellers have become really concerned about deals on the basis of how their staff will be treated and how that continuity will happen and you know, the approaches that will be used for their clients and it's interesting because sometimes these are very difficult for us to communicate to buyers to adjust, you know, who perhaps aren't tuned in to some of those concerns that might be playing in the mind of sellers. So it's such a good point, isn't it?

Steve:

Yeah. I can think of a recent example, where, look, you're a lawyer. And some of these, you know, the intention of the parties, it's hard to actually put into a document. And that's why it's missed, in a lot of documents. But this recent example was, we had to actually articulate what the intentions are, and what the view of the by of you know, what it looked like, in six months, what it looked like, in 12 months, that was really critical. You know, it was a situation where the vendor was actually staying on in an employed capacity. But we had to talk about what the vision was so that the vendor could take comfort and say, Okay, well, there's alignment there. And it's hard. I mean, how do you put that into the contract?

Joanna:

No, that's right. No, no, exactly. And it's all of this soft side that I think, can be missed. And that is actually so critical, and sometimes can be the reason behind roadblocks that are occurring deals. And, you know, when advisors aren't tuned into it, it can be perplexing, that they suddenly fall over. And yet they've been red flags along the way, because of the communication issue between the buyer and seller, in terms of this vision, or the treatment of elements that are of particular concern to the sellers, or indeed, you know, on the flip side, the buyers, it's that EQ, the emotional intelligence, that's part of this game as well. Right. So moving on to talk about the market a little bit in financial planning practices, obviously, a lot has changed over recent years, in the industry itself, the financial planning industry. So what impact has this had on the value of financial planning practices and the saleability of financial planning practices?

Steve:

The good news is the demand is still strong. As you know, there's more buyers and sellers, the multiples have been under pressure in the last couple of years, compliance costs have gone up, insurance costs have gone up. So multiples have come down a little bit, if we compare it to transactions that were doing three, four or five years ago, but the demand is still strong.

Joanna:

Okay, great to hear, I guess, you know, from your side of the fence as well. And what sort of tips do you have for sellers, then, in the financial planning space,

Steve:

We've got a, an e-book, which, which covers all the mistakes that vendors make when selling their practices, you know, happy to make that available to anybody, we've got a link on our website, you can download it, you know, talks about five key mistakes, but there's a lot of other considerations. And one of the mistakes one can make, you know, the whole premise makes, learn from other people's mistakes rather than from yourself.

Joanna:

And that, of course, is the whole reason for The Deal Room podcast itself. And just as a quick snapshot, then, for our listeners, what are those five key mistakes?

Steve:

Not having good data is the key one. Absolutely.

Joanna:

As in not being prepared with their data to hand over during due diligence is that what you mean?

Steve:

No, before due diligence, you know, we have a whole lot of templates that we work with

vendors on, you know, a master Excel sheet, and the more data we've got there, the better it adds value to the practice? Absolutely. It speeds up the process considerably, you know, reduces the backward toward q&a is good data is absolutely critical. I'm not talking about at the due diligence stage, I'm talking before you actually take the business to market. So that's the key one. A second one is knowing exactly what you want. And a lot of vendors will go into a discussion and you know, they have an approach. Well, let's see how it goes. We think that's a mistake. We spent a lot of time with vendors articulating what their ideal outcome is, you know, what's the ideal scenario in a perfect world. And you know, just like the buyers, being very specific about detail, encouraging vendors to be as specific as they can, doesn't mean it's going to turn out that way. But at least you've got an aspiration, an outcome to shoot for. Because if you don't, you're kind of just blowing in the wind, and oftentimes, you'll just go in a direction that the buyer wants to take you in. So yeah, being clear on what you want is pretty important. I mean, we've got a whole lot of exercises as well, we've got a questionnaire, where we ask vendors a whole lot of questions, you know, some are factual questions. Some are kind of emotional. How would you feel in a situation like this? Or how would you feel having to report to someone in a transition, you know, we get the data, the data from that and go back to them and say, look, you've said this is your aspiration, but your questions. There are a few little conflicts here. We're going to just discuss this before we finalize what you're shooting for and you know what outcome you're aiming for.

Joanna:

And I guess those two areas that you talked about so far those top two mistakes, the preparation of data, and then, you know, being clear on outcomes. Is that do you think that's particular to the financial planning industry?

Steve:

I think it's common across all sectors.

Joanna:

And is there anything that you see in the financial planning industry itself that you feel is, you know, a particular nuisance that perhaps sellers or even buyers in the industry, miss, and just don't realize that is quite different to other business sales?

Steve:

There's nothing specific that jumps out for financial planning, you know, it's going to be similar to any service transaction, where you're you're not selling, the asset you're selling is really the relationships of the clients? It is?

Joanna:

That's right, it's the relationship, isn't it? And I guess it's a bit like an accounting practice, in the firm thing, you know, there can be very, very strong relationships between and whilst it might be the same in any professional services business, I think there is the sort of element when finances are involved. So your financial planning practices, your accounting practices, where that relationship between the advisor and the end client is very, can be very close. And I guess, then in those situations, the particular issue that we have to manage is how is it that we ensure that when there's a transmission of business, there are clients stay, and you know, quite often will have the retention to deal with that, but retention is only a component of the sale price, you know, sometimes 10-20%. And so you've still got the balance that's exposed if you haven't from a biocide perspective if you haven't found a way to properly transition the client. And then from the sell-side perspective, of course, you've got their attention. You've got the retention at risk. So what are some examples that you've seen of how you know-how, from a practical perspective, we can help to ensure that that value properly transfers between the seller and the buyer, in this tricky situation of dealing with human relationships?

Steve:

Again, it just comes back to detail and discussing and scenarios, you know, we often find, you know, being in the middle two parties agree and I say let's, let's go, everyone's excited. And we sitting there on the sidelines, we go, there are a few more things we actually need to discuss, you know, what's going to happen on such and such a date? How's it? What is your role going to be? Like, we can actually see it, where the buyer and seller may not see it, they just, you know, too quick to conclude the transaction, not realize that there's actually going to be some issues that come up afterwards. Yeah. So both buyers and sellers, we were really strong on talking scenarios, do you realize that you know, by month two, it's going to look like this, you're going to be doing this, the seller is going to be doing this, the buyer is going to be doing that? Is that how you see it? And just revisit all of that, just keep asking us questions that we found ourselves actually bringing these things up quite regularly.

Joanna:

And so what's an example that you've seen? Do you recall an instance where some this transition had been done really, really well? Like? Do you recall any instances where you thought, oh, gosh, they nailed it?

Steve:

Yes. This one transition, that was both smoothly, you know, the buyer and the seller were very, very similar when that when they did the transition that, you know, they had, I would beautifully they had the same interests did the same hobbies. And, you know, it was almost, like, from the clients perspective, that I was similar so that transition was particularly smooth, very seamless.

Joanna:

So So you're saying that the end clients sort of had this, you know, the replacement advisor to them felt so similar to the first that there was this smoothness in the transition?

Steve:

Yeah, it doesn't mean don't do transactions, if you're not similar to the seller.

Joanna:

fascinating. We have to go in, you know, personality profile all our buyers now and our sellers and match them up. And maybe that's an approach maybe that's not a bad thing to add to the way you look at this. We're innovating as we go here, Steve. Okay, and then so than on the flip side, and just to give us a little bit more context, okay, so this works really smoothly because there's a lot of similarity between the vendor and the buyer was this practice where there were, you know, not many other staff or what was sort of the size of the practice he and were there other, you know, elements, I guess, was it an individual buying in You need to replace a job or what were the other elements.

Steve:

It was an individual buying in this, who had an existing business, which was the same size as the vendors business. I mean, it was fairly sizable, because these were high net worth clients. The relationships were the key individuals.

Joanna:

Okay. And then so on the flip side, you probably know where I'm about to go. But if you've got, you know, in mind, any examples of where this was done really badly, and you look back and you go, Oh, gosh, that was an example of how not to do it.

Steve:

I can think of an example where the vendor wanted to get out a lot earlier, and the seller wanted the vendor to stay a lot longer. And there was conflict, it was very frustrating for the vendor they felt locked in. They felt as if they were locked in. Because if the purchaser after

the purchase wasn't under pressure to relieve them so that they could access and that could be very, very frustrating for the seller as time went by.

Joanna:

Oh, boy, I tell I think you're hitting on, you know that that is a classic example of where issues tend to creep up where the seller is just staying on board just for too long. And I think ultimately, it comes back to a couple of things. Really, once someone has run their own business, they find it very hard to continue to operate under someone else's reign.

Steve:

Absolutely. Taking instruction. There's always going to be new systems introduced, once you when you've sold your business, the last thing you really want to do is learn a new system. Yeah, yeah, probably thinking about the beach and the golf course.

Joanna:

That's right.

Steve:

Thinking of retirement. And now you've got to learn a new system like hmmm I did not anticipate this.

Joanna:

this, I've heard people describe that period, you know, the period of staying on after the sale of their business is one of the most horrible things they've ever had to do. You know, for the boss, so you just have to, you have to be aware of this. And if you think that part of the value to you is dependent on the seller staying on board, you just need to be aware that that might not be a happy place for them. And if it's not a happy place for them, that may not end up being a happy place for you either. So you know, I think it's you know, having a complete, at least understanding that is a very common outcome helps you work out whether there are alternatives, or what to put in place to try and avoid those sorts of issues from appearing. And I think, you know, in particular, so when there's earn outs, or where there's money on the line, for sellers, it can seem like a great idea to a buyer, and it can be a great idea. But if there's not enough there in terms of motivation for the seller, or the seller is already out the door in terms of from an emotional perspective, or you know, what they want to be doing handcuffing them to the business can be, you know, can just create friction. So I think it's really important to be aware of that. So it's fascinating that you brought that up.

Steve:

Yeah. Another example was when a vendor actually disagreed with the strategies that were being presented to the client. That doesn't mean the strategies were wrong, or just the vendor didn't agree with them.

Joanna:

I've seen that as well.

Steve:

Take instruction or go in the direction of business wanted to go in? Because fundamentally, they were, you know, they didn't have faith in that direction. And that advice? Yeah.

Joanna:

What do you suggest then to avoid that sort of issue from occurring?

Steve:

You tell beforehand. Yeah. Scenarios and asking more questions.

Joanna:

We'll get them out of the business quickly, I guess.

Steve:

Yes.

Joanna:

But that doesn't always work. Sometimes. You know, it's really important for the transition of devaluing. We talked about, you know, the elements of financial planning practice that mean, in some instances, you know, it really makes sense for there to be this proper transition. But I guess it's just making sure you're coming at it from a perspective where you're understanding the human psychology of the seller, and you've found a way you know when it might even be about getting the right advisors on board to help with that direction. Well, look, I just want to say a huge thank you, Steve, for coming on to The Deal Room podcast. Is there anything else about the financial planning, you know, sale and acquisition world you feel like we haven't touched on that we should dig into?

Steve:

Look, it is actually changing. There's a lot of consolidation happening at the moment. It's interesting to see how various parties value the businesses look, we enjoy it. It keeps us on our toes. Meet some really interesting characters along the way. Make some good friends along the way. So we're enjoying we're in for the long haul.

Joanna:

Brilliant. Well, look, Steve, I just want to say a massive thank you for coming on to The Deal Room podcast today. And if any of our listeners want to reach out to you and if they want to get a copy of these some files Mistakes ebook for selling financial planning practice. How did they go about doing it?

Steve:

You can download it on our website growthfocus.com.au. You and you'll find a little link with a couple of other ebooks available as well. There's one if you're looking at a lot longer horizon five, six years. That's a separate ebook with a whole lot of separate considerations.

Joanna:

Fabulous. Okay, wonderful. Well, look thank you once again, Steve, for joining The Deal Room podcast.

Steve:

Thank you.