



2016 MDRT Annual Meeting e-Handout Material

Title: Building a Sustainable Business

Speaker: Brad Bueermann

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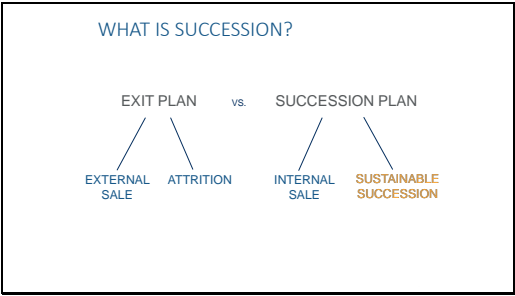
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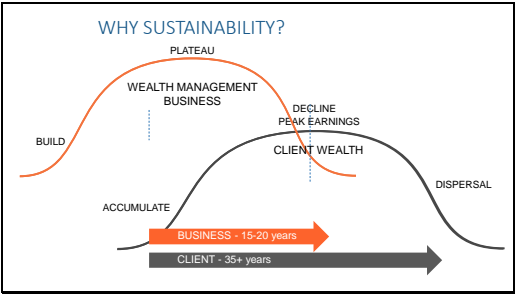
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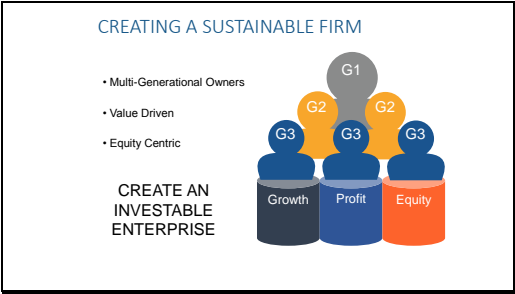
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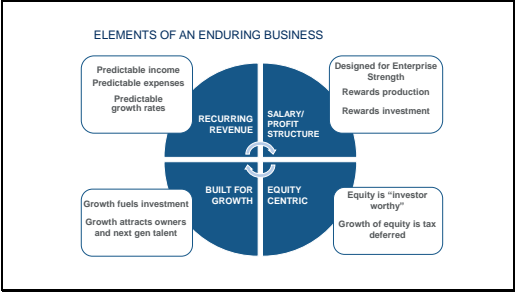
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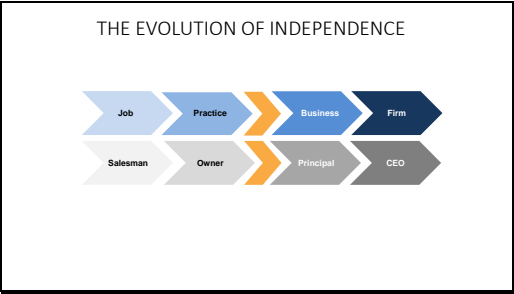
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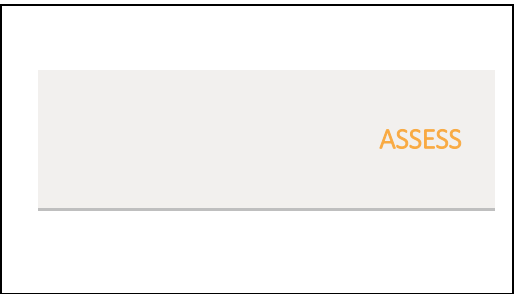
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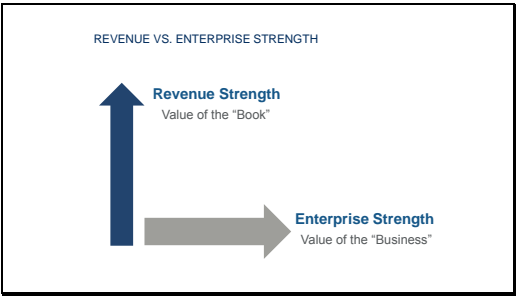
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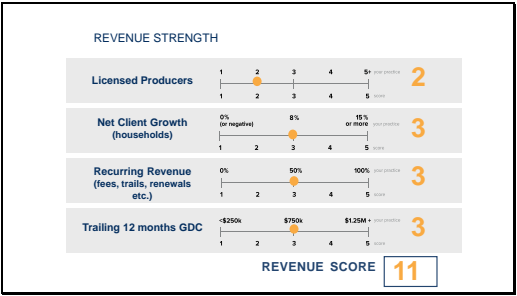
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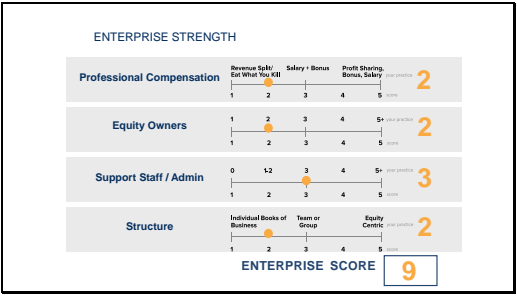
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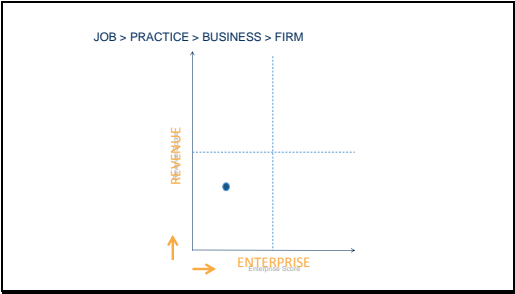
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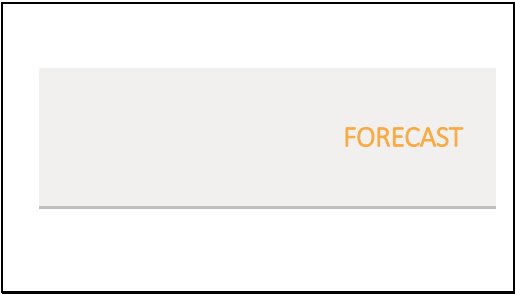
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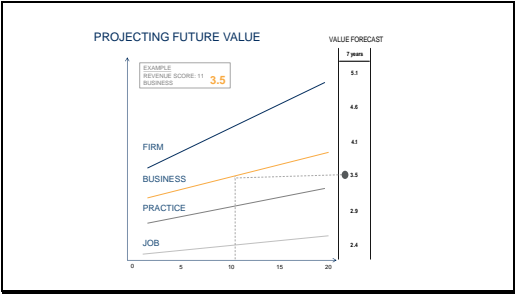
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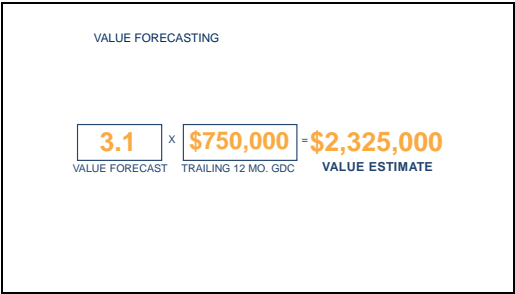
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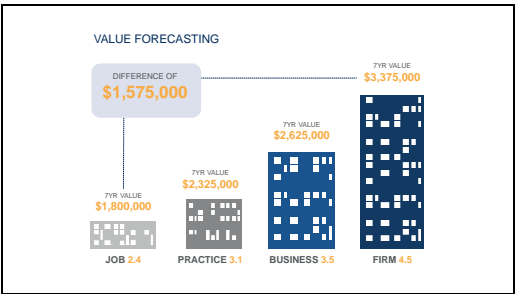
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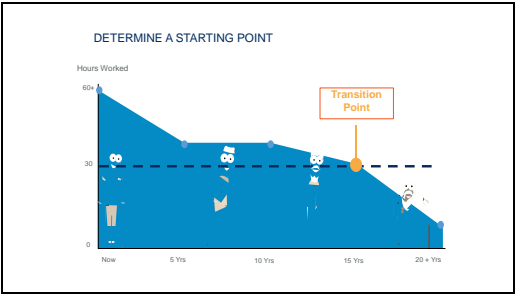
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DETERMINE

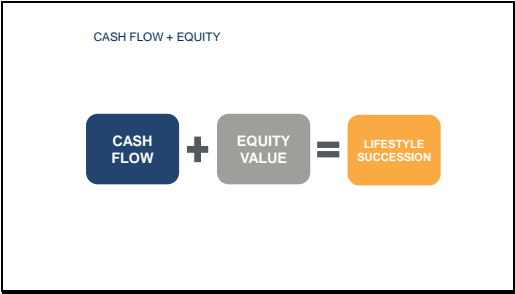
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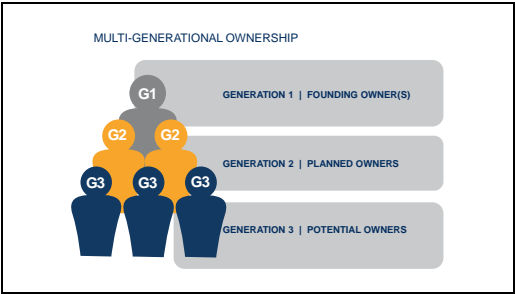
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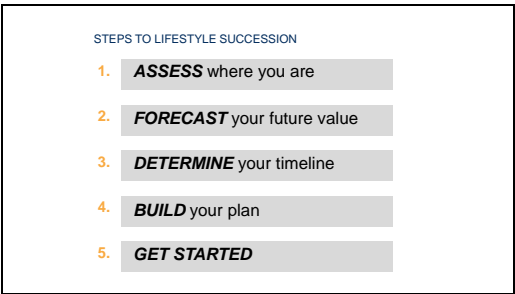
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FP TRANSITIONS[®]
WORKSHOPS

Succession Planning

Building a Sustainable Business

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SUCCESSION PLANNING

In this industry, a Succession Plan is best defined as a professional, written plan designed to build on top of an existing practice or business, and to seamlessly and gradually transition ownership internally to the next generation of advisors. To accomplish these goals, the business has to get stronger—it has to grow—and that is why conquering the succession problem is such a tremendous opportunity.

As you consider how to shift gears from a one-generational practice to an enduring and valuable business or firm, you need to think about the first step in the process – PLANNING. Planning is about taking stock of your circumstances. To help you assess your current position and to more accurately set your goals for the future, consider a simple and intuitive shift in terminology.



JOB

As an independent advisor, you have “a job” for as long as you do it. A job is about production; in fact, it is about nothing else. You work under someone else’s roof, you own none of the infrastructure, you have no real obligations other than to produce revenue and get paid while taking care of your clients. There is no need for a succession plan or a continuity plan at this level. You don’t sell a job, you leave it.

PRACTICE

A practice is more than just a job, often involving support staff and basic infrastructure (phone system, computers, CRM, payroll, etc.) owned by the practitioner. But like a job, a practice exists only as long as the practitioner can individually provide the services and expertise. Practices are limited to one generation of ownership, then the practice is either sold or dissolved and the clients find their way to another advisor. Practices have one owner, whether formally in an entity structure, or informally in terms of control over the client relationships (a book). The value of a practice typically is limited to about \$1 million.

BUSINESS

A business must have certain foundational elements in place—an entity structure, a proper organizational structure, and a compensation structure that gives it the ability to attract and retain additional advisors who enable this model to outlive its founder. A business is built to be enduring and transferable from one generation to the next and, as a result, is more likely than not to have an internal succession plan. It operates from a bottom-line approach, and earnings (for the first time) begin to reward ownership and investment in the business. The value of an independent financial services or advisory business ranges from at least \$1 million up to about \$10 million. A business gains its momentum and cash flow from revenue strength; its durability and staying power by developing enterprise strength.

FIRM

A firm is an established business that has built a strong foundation of ownership and leadership by recruiting and retaining the very best people in the industry. A firm has multiple generations of ownership with key staff members vying for an opportunity to earn the right to become a partner and invest in the firm. It operates primarily from a bottom-line approach, and earnings are the measure of success—at least as important as production and growth rates. A firm emphasizes company-wide coordination of decision making, a group identity, teamwork and an institutional commitment.

REVENUE STRENGTH

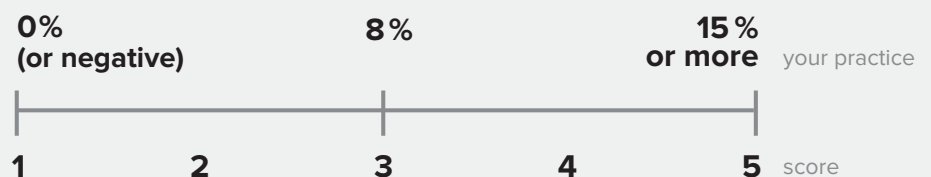
For purposes of creating and supporting a Lifestyle Succession Plan, the enterprise needs to grow its revenue strength. Doing so means allocating and optimizing resources so that your business has the potential to multiply its revenue with minimal incremental cost. Operating the business at scale is about optimization, not duplication, of efforts. Are you building a strong team to take yourself out of the critical path? Is your revenue strength growing at a steady and predictable rate? Is your revenue strength balanced with a level of operational and organizational sophistication that supports a durable business model?

The purpose of this section is to help you better understand your revenue strength and some of the more important points necessary to assess your current position and future trajectory.

A. Licensed Producers



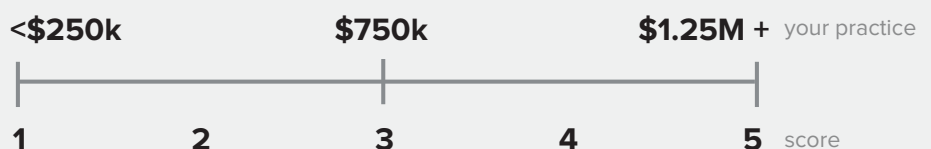
B. Net Client Growth (households)



C. Recurring Revenue (fees, trails, renewals etc.)



D. Trailing 12 months GDC



REVENUE SCORE

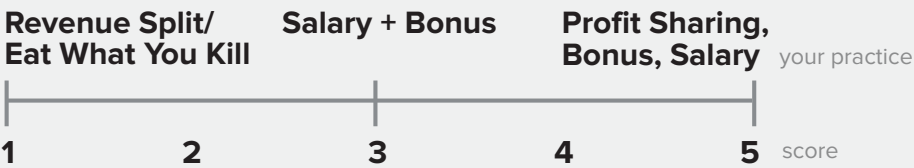
Add your results from each of the above areas to determine your Revenue Score

ENTERPRISE STRENGTH

There is a difference between owning a practice and owning a business. A business is about more than just you; it's about more than just production; and it's about more than just making money for as long as you can work. It's about building something greater than the number of producers you can gather and share revenue streams with. Building a business is about empowering those around you to achieve more, as a collaborative group, than any one of you could ever achieve as a single entrepreneur.

The basic goal of most succession plans is to build an enduring and transferable business. Building a foundation for success means that you will need to address three issues: (1) cash flow / profitability; (2) entity structure, and; (3) compensation structure. The purpose of this section is to help you assess the enterprise strength of your operational structure using a few basic, but critical, assessments.

A. Professional Compensation



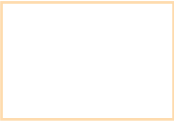
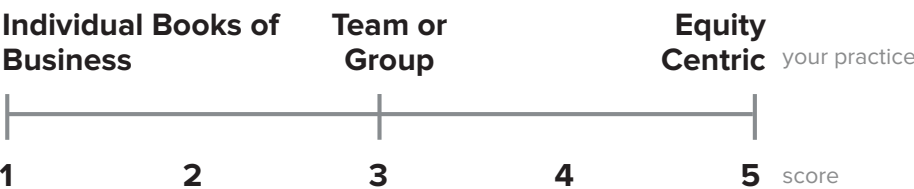
B. Equity Owners



C. Support Staff / Admin



D. Structure



ENTERPRISE SCORE

Add your results from each of the above areas to determine your Enterprise Score

JOB, PRACTICE, BUSINESS OR FIRM ?

The goal of most succession plans is to make the business work for you, instead of the other way around. One of the most important steps in the process of building an enduring and transferable business (or firm) is to build an investor-worthy enterprise designed to attract, retain and empower next generation talent.

The purpose of assessing your position on the following chart is to help you understand your current level of independent ownership based on your Revenue and Enterprise Scores. Note that as an industry, estimates indicate that 95% of independent financial professionals own a “job” or a “practice”, so either of these levels is merely a starting point. Building a “business” or even a “firm” requires planning, execution and a strong organizational and operational structure—a level that only 5% of independent financial professionals currently have attained.

For many advisors, succession planning has provided the foundational elements of growth and stability necessary to attract and retain next generation talent. Creating a multi-generational ownership structure is the first step towards building a business that can work for you, and provide a lifetime of income and benefits.



CHALLENGES AND STRATEGIES

Owning a job or a practice requires a focus on production or revenue generation. Building an enduring business requires past and future leadership to create scalability, and to make the connection between a growing cash flow stream and the costs of such growth—in other words, a focus on the bottom line, or profitability. In the independent sector, if the goal is to build a valuable and enduring business (or firm), the focus needs to shift towards a team of advisors working together. A team of advisors who are appropriately and properly compensated for contributing to and supporting a single enterprise, rather than building individual books of business and then leaving with them—and the cash flows they generate—when the time is right. Proper organizational and operational structuring are keys to building a foundation for a successful succession plan, and making the transition from one level of ownership to the next.

Consider these challenges and strategies for the level of ownership you're currently at, and the level you want to achieve in the future:

JOB:

Challenge: Sustainable, predictable income stream

Internal Strategy: Maintaining strong and durable client relationships

External Strategy: Creating a value proposition to support an end-of-career sale or continuity solution

PRACTICE:

Challenge: Scale - growth is constrained by personnel, compensation issues

Internal Strategy: Attract, reward and retain next generation talent in a profitable manner

External Strategy: Create viable end-of-career options through either sale, merger or attrition

Successfully making the leap from a practice to a business is challenging. Specifically, if the engine of production—the means of making money—rests solely, or primarily, in your hands and you cannot or will not change that dynamic, you cannot build an enduring business that will outlive you. If that is the case, you “own” a job or a practice. A business (or a firm), if that is your goal, is designed to make the founder replaceable at some point, even as the business continues on, especially if it is to grow in a sustainable manner. The result is often a lifetime of income and benefits, and a legacy to your staff and clients.

BUSINESS:

Challenge: Scale

Internal Strategy: Improve infrastructure; add advisory talent; focus on appropriate compensation

External Strategy: Strategic acquisitions of talent and/or clients and AUM

FIRM:

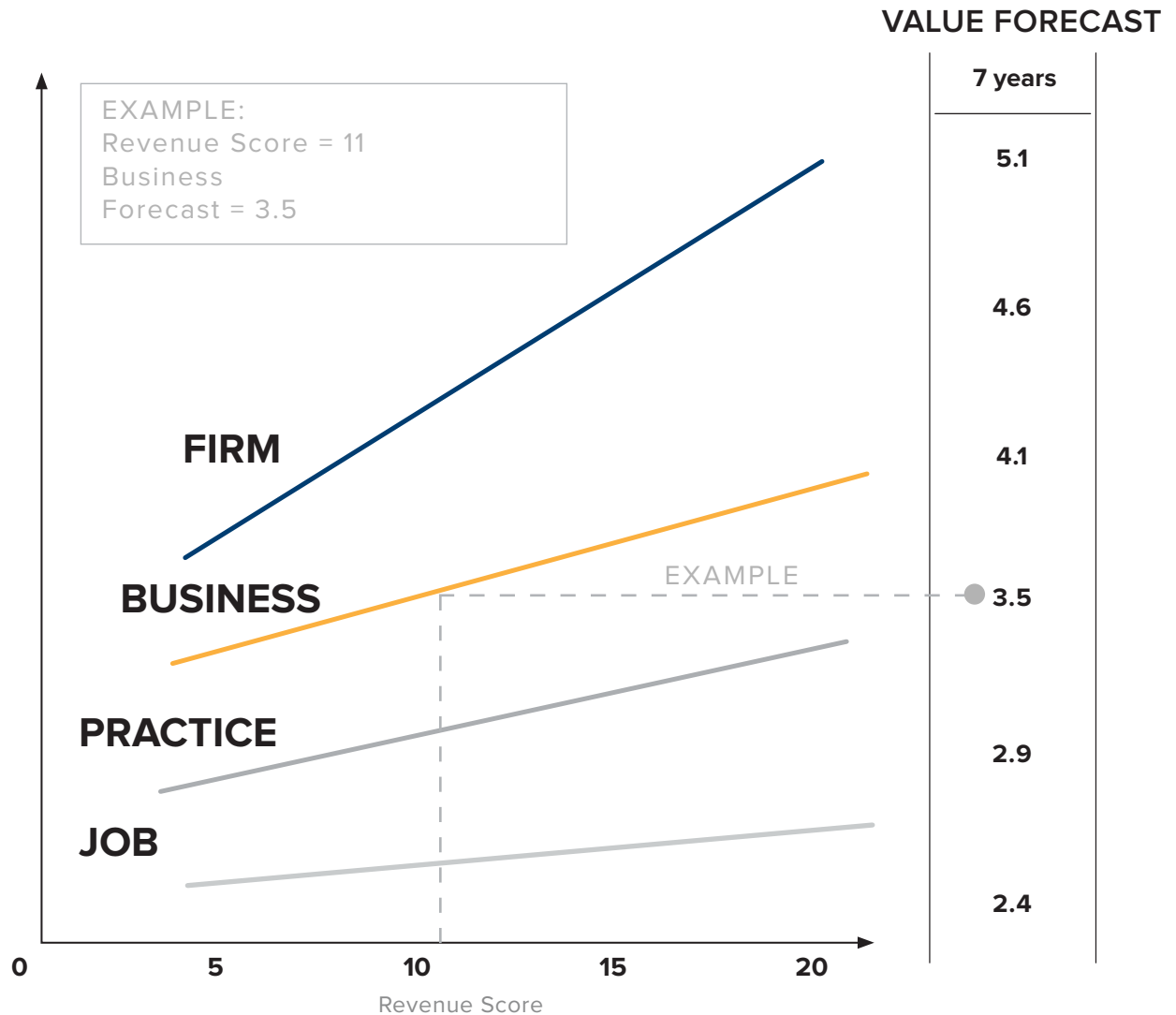
Challenge: Perpetuate growth and cash flow, maintain profitability at appropriate level

Internal Strategy: Evolve organizational and operational elements to add and retain advisory talent

External Strategy: Acquire a single advisor, practice or business to add advisory talent, clients, AUM

VALUE FORECASTING CHART

The purpose of the Value Forecasting Chart is to help you plan for the transition of value at a point in the future (a point 7 years from today has been selected for illustration purposes). The point is to plan not where you are today (unless an immediate sale is your preference), but to consider what the value of your practice, business or firm will be in the future when your transition point is imminent. The common goal of a Lifestyle Succession Plan is to gradually transfer ownership and leadership to a team of next generation advisors. This means that most founders realize far more value over time from an internal transition or succession plan (benefited by a stream of income, profits, and growing equity value for the future) compared to an external sale or merger.



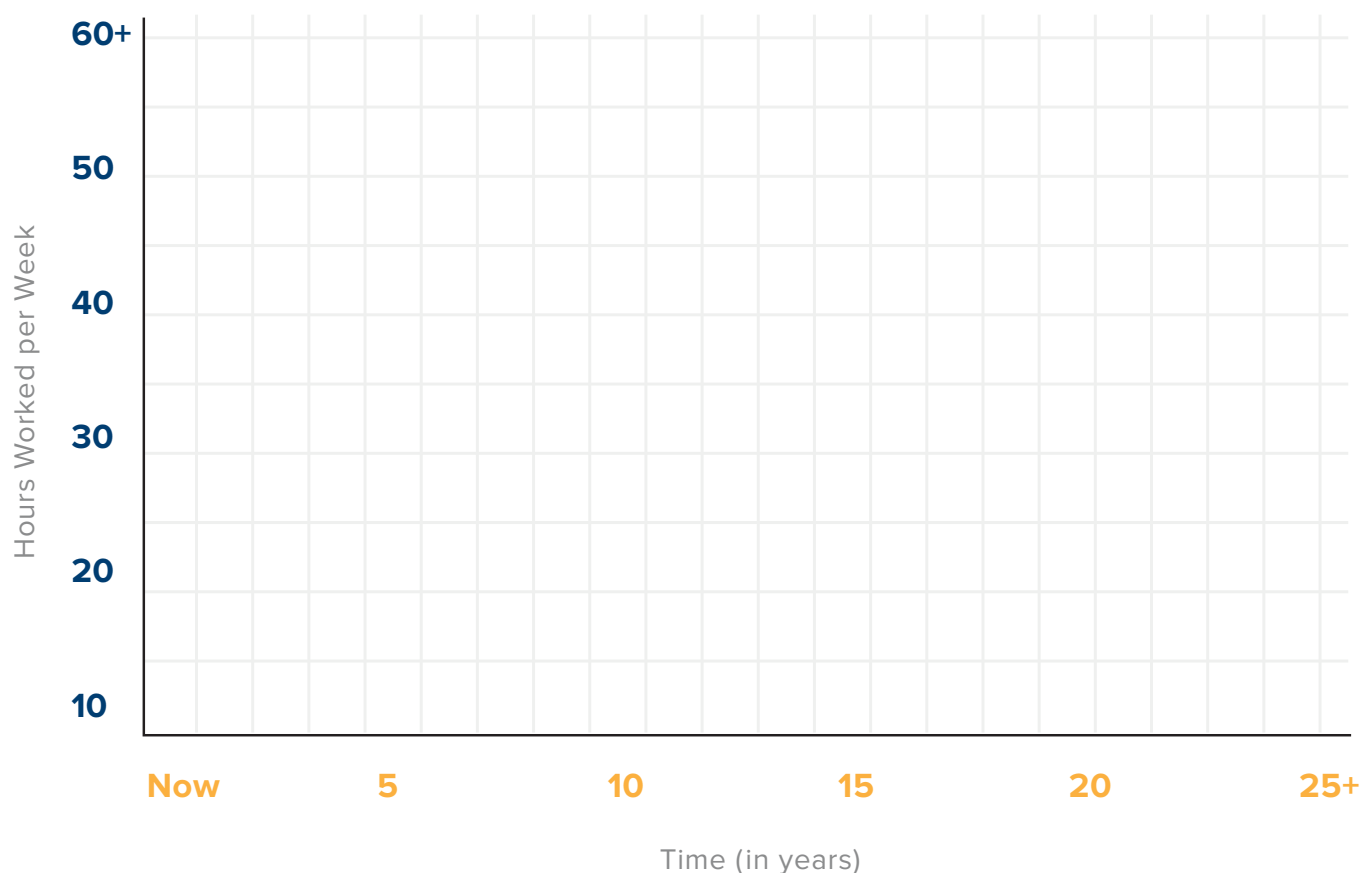
	VALUE FORECAST		TRAILING 12 MONTHS GDC		VALUE ESTIMATE
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PRACTICE :	<input type="text"/>	X	<input type="text"/>	=	<input type="text"/>
BUSINESS :	<input type="text"/>	X	<input type="text"/>	=	<input type="text"/>
FIRM :	<input type="text"/>	X	<input type="text"/>	=	<input type="text"/>

DETERMINE A PRECISE STARTING POINT

One of the best ways to determine when to start your succession planning process is to first plan your “Work Week Trajectory.” Instead of focusing on how much money you need from the business, who might possibly comprise your succession team of next generation talent, or how much ownership you’re willing to part with during the initial stages of your plan, look instead to something much simpler and more practical—forecast the amount of time you would like to spend in the business in the years to come.

Every plan is different, but many advisors plot a gradually descending work week plan that levels out at about half time based on what they’re used to as full time. One of the benefits from a well-structured succession plan is the ability to elongate your career by reducing the hours, the stress, and by shifting the things you don’t like to do to your up-and-coming succession team. Extending the length of your career and your succession plan means a longer period of income and profit distributions along the way—in other words, a more lucrative retirement whenever, and however, that event might unfold, while working fewer hours.

Use the following chart to map out your work week preferences for the years to come, and as a starting point to design a business that can support your goals and those of your clients.



GETTING STARTED

One of the most efficient and potentially lucrative methods of building an enduring business model, and accomplishing a succession of ownership and leadership, is to help the next generation build on the success and value created by the preceding generation—to turn producers or advisors into investors in a founding owner’s legacy. A Lifestyle Succession Plan refers to a specific type of internal ownership planning process that reflects the way most advisors work, live, and eventually retire as independent financial service practice owners.

When considering your succession plan, your actual starting point depends on what you want or need your business to do for you, your family, your staff, and your clients. Remember that the goal of most succession plans is NOT to remove you as the founder and put you out to pasture. The goal is to build an enduring business around you that can provide an income stream for life while providing leadership and mentorship as you gradually hand off the reins to a team of internal successors over a period of 5, 10, 15, even 20 years, if the planning process starts early enough.

To help you get started, here is a list of the 5 things you need to do to create your own Lifestyle Succession Plan:

TO DO LIST:

1.

2.

3.

4.

5.

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