

Accelerating Growth: The Expansion Option

by Nancy Opiela

Ask planners who have been in business a decade or two about how they built their practices, and you'll hear about direct mail programs, seminars at public libraries, efforts to cultivate client referrals and courses taught at community colleges. Perhaps prompted by forecasts that clients in the future will favor larger firms capable of meeting all their financial needs, today, many planners are looking for ways to grow faster. Rather than compete with a growing field for individual clients, many planners are looking for ways to accelerate growth—from buying a practice to merging with CPA and other professionals firms and partnering with other planners.

Buying a Practice

If you're looking to buy a practice in order to grow your business, activity at firms like the Seattle, Washington-based Moss-Adams suggests that it's a good time to be in the market. "Every day we get a call from someone who wants to sell their practice," says Moss Adams' Dan Cunningham. Cunningham thinks this trend may have less to do with the down market—or the much-reported drive to consolidate—and more to do with the fact that the baby boom generation is looking to move to the next stage of their working careers. "Many practitioners in their forties and fifties are looking to sell their practices rather than renew and do another 10 or 15 years," he says.

Cunningham says the selling trend is just beginning and should stay pretty strong for ten years. He notes, "It used to be when I spoke to an audience and asked—How many of you are interested in buying a practice?—ten people would raise their hands. When I'd ask about selling, I'd get two hands. Now, although it's not a scientific survey, in those situations, we're seeing an almost even match between potential buyers and sellers."

Perhaps fueling the interest in buying practices is the fact that the Internet enables potential buyers and sellers to connect more easily than before. Planners looking to buy a practice will find a list of willing sellers online at FPtransitions.com.

In fact, David Goad, founder and CEO of FPtransitions in Portland, Oregon, reports that in less than two years, there are 1,200 names of buyers and sellers in his firm's system. Most surprising to Goad and his partners is that for every seller listed, FPtransitions.com lists seven to ten buyers.

"For many years, practitioners were told that their practice didn't have value—that there were more sellers than buyers. That may have been true only because there wasn't a forum by which the two could find each other," explains Goad. "We're helping planners do what they haven't been able to do before now—that's find potential buyers or partners."

In Goad's view, the market correction and the increasing competition in the financial services industry have combined to drive more buyers into the marketplace. For planners seeking growth, he says that there is no more efficient way than to buy a practice or to merge. Says Goad, "If you are trying to grow your practice and compete, it is more efficient to find a practitioner with a mature, profitable practice who wants to sell where you can be introduced to clients during a 6- to 12-month transition plan that we can help set up."

While firms like FPtransitions can connect potential buyers and sellers who might otherwise never find each other, perhaps the most traditional model for acquiring another planner's clients is to buy out one's partner. After 20 years in corporate finance and banking, Jill Hollander, CFP, of Financial Connections in Berkeley, California, made the transition into financial planning by becoming the partner of a long-time practitioner. From the start, the plan was that Hollander would buy the practice when her partner retired and position the firm for additional growth.

When Hollander's partner retired, more clients than she anticipated shifted over to her. "That was a nice problem to have. The upshot is that I had not planned on hiring until this year, but I ended up hiring, in May of 2000, a professional who could complement my own skills and start a tax practice," she says.

With a successful tax season behind them, Hollander plans to focus on marketing hourly financial planning and incorporating long-term care into the financial plan. She is talking to someone about possibly buying a bill-paying

service.

Also, to facilitate growth, Hollander plans for her office to go paperless in the next 12 to 18 months. “It’s a fairly significant capital investment, but it’s the way to go,” she says. “Space is an issue. I pay for storage because my files go back to 1987—and that doesn’t make sense long term.”

Like Hollander, Paula Dorion-Gray, CFP, of Dorion-Gray Financial Services in Crystal Lake, Illinois, bought a practice from a planner she knew. Says Dorion-Gray, “An opportunity came along—it wasn’t someone asking, ‘Do you want to buy my practice?’ but a friend, someone I once had worked for, who had been in the business a while, saying she’d like to slow down a little and take the summers off.”

It took a year for the women to come to terms, but the buyout has been incredibly successful. Explains Dorion-Gray, “We have not lost one client. We had an 18-month transition where we met together with all “A” clients. I was not introduced as the buyer of the practice; rather, we positioned the change to clients as a merger. We didn’t want clients to think she was jumping ship. We wanted to give them an opportunity to get to know me before she rode off into the sunset. We were incredibly proactive in getting in touch with our clients. I think they immediately saw a change in service. I think it also helped that it was a woman buying a woman’s practice.”

Dorion-Gray is still looking for ways to grow—both by buying more practices and marketing to her own client base.

Merger Mania

In his 1999 report, *The Future of the Financial Advisory Business and the Delivery of Advice to the Semi-Affluent Investor*, Mark Hurley, president of Undiscovered Managers in Dallas, Texas, predicted that mounting competition would, in the next five to seven years, prompt many firms to merge in order to survive in a consolidating industry.

A recent report from the Boston, Massachusetts-based Cerulli Associates echoes some of Hurley’s findings. It stated that planners should develop a team-oriented approach to attract high net worth clients. Cerulli researchers found that high net worth investors are attracted to a “financial planning team” that offers them expertise from professionals such as CPAs, estate planning and tax attorneys, trust officers and investment managers.

Accordingly, just as CPA firms are attempting to get into the financial planning business, there are planners looking to merge their practices with a CPA firm to better serve existing client and more easily attract new ones. For example, Barry Kohler, CFP, J.D., CLU, of NorthStar/BDMP Wealth Management in Portland, Maine, recently saw his firm become an affiliate of a large, regional accounting firm. Kohler notes that in May 2000, after the company’s founder left and he and his partner acquired the firm, offers to “merge, form an alliance, or somehow join forces with another organization flooded in.”

Continues Kohler, “It seemed likely to us that we would join forces, even be acquired in the near future, so we chose to take an active role in choosing the suitor who had values that best fit our own. We wanted to grow our practice so we could deliver the very best service we could to clients. To do that requires both a commitment to personal attention and infrastructure. We could jump-start the process through a successful strategic merger.”

Through a series of personal connections, the pair began talking with management of a large regional accounting firm that wanted to expand into financial planning and had decided that the best way to do that was to buy a firm that was already up and running.

With the deal done, Kohler feels a great deal of satisfaction. “We never have to worry about where our next client will come from,” he says. “The other thing that attracted us was the infrastructure support of a big organization. For example, the planning software we were using was about \$2,000 a year. To get to the next level of client service, we were looking at a significant jump in costs. A two-planner shop thinks a long time about that, but when you say to this firm, ‘This is what we need to give the best service to our clients,’ they say, ‘Fine.’”

Another benefit Kohler notes is that, although his firm was well-established, people were concerned with their lack of institutional history—and the merger has changed all that. He explains, “We had a number of large accounts say, ‘Okay, you’ve been in business for four years, but how do I know when I call next week I won’t get a message that the

number has been disconnected?’ For people deciding what to do with their \$3 million, I understand that. By linking up with this accounting firm that has been in business forever, we can leverage that institutional history—and that has helped us overcome this kind of resistance.”

Sean M. Bennett, CFP, of Asset Integration Consultants in Somerville, South Carolina, recently merged with a small CPA firm for similar reasons. “We are a small firm—three advisors and an administrative person,” he explains. “We have always put ourselves out to clients as a team that could take care of any financial issue they might have—whether it’s retirement planning, life insurance needs, or going to the bank for a loan package to grow your own small business.”

Bennett had been working with an accountant on an ancillary basis, referring clients who needed tax work. A year ago, the two firms began to talk about a more formal arrangement. “As a small firm, we were probably doing all we could do at the level we were producing to grow the business. We needed to create synergies and this merger has worked,” says Bennett. “The merger adds another level of expertise to our firm, another level of professionalism, and allows us to work even more closely with our client. If we are working with them on accounting, retirement planning, and the business side, we are confident that we have all of the financial information.”

Cunningham notes that, as compared with acquiring a business, mergers like these are “harder, but a more effective and less costly way to grow your business. In the case of a merger, the planners understand that they will be ongoing partners, so they tend to research the potential partner more thoroughly—the current strengths and what the relationship might look like in ten years. They each have something on the line and no money is exchanged.”

Dave Abbs, CFP, CFS, of Abbs Retirement Planning Advisors in Saginaw, Michigan, is in the middle of just such an evaluation, contemplating an offer to form an exclusive relationship with a CPA firm. “The decision is not easy because of the number of variables involved—compensation, philosophy on how the business should be managed, separation of existing clients and compensation from new business,” he says.

What’s prompting Abbs to consider the proposal is that referrals from CPA firms are not as plentiful as they once were. Explains Abbs, “Since 1985, I have used a marketing plan aimed at getting referrals from the CPA and non-CPA community. I provided continuing education credit workshops and developed relationships. The system worked pretty well. In 1985, our mailing list was about 250 accountants. Today it is about 50. So many of these folks are now our competitors. They perceive financial planning as a great profit center and decided to get into the business.”

Michael Black, CFP, of Michael Phillips Black and Associates in Phoenix, Arizona, also has experienced a change in his referral relationship with his old CPA firm. “After referring business back and forth for 15 years, they started talking to me about acquiring my firm or joint venturing,” explains Black. “Then they got into the financial planning business themselves. They kept telling me we could still maintain our referral relationship, but that didn’t work.”

Accordingly, Black started looking for another CPA firm with which to establish a joint venture. He interviewed dozens, but never closed a deal. However, Black did not give up on his idea of creating synergies with another professional firm. He explains, “It seemed getting together with another professional firm would allow us to grow in a way that was consistent with the way I’ve worked for 20 years. That is, I prefer to work with someone who has been referred by another professional. The last thing I want to do is contact a person and convince them to hire me. That is not the gig I want to be in—so affiliating with another professional who could provide referrals made all the sense in the world.”

After having no luck with CPAs, Black widened his net to include estate planning attorneys. “We found a small firm that thought we were doing it right and they want to partner with us. They will get securities and insurance licenses. If they refer clients to us, they will participate in fees. However, if I refer clients to them, I can’t participate in legal fees. It’s not a complete relationship, but I perceive they will fulfill a marketing objective of ours—that is, introducing us to qualified clients.”

Planner Partnerships

With all the industry buzz about acquisitions, there is still room for good old-fashioned partnering with another planner. From the planners we spoke with, however, that’s not as easy as it sounds. Planners seem to fall into two camps—either looking for the “mini-me” or someone with a background different than their own to complement their skills.

Looking to grow his relationships with current clients, Michael B. Salmon, CFP, American Express Financial Advisors in New York, New York, took on a partner to specialize in the trust area. It's a move that will provide a new service to clients, but also positions his firm for future growth.

Says Salmon, "We're making the transition for growth into more of a service business. As you cultivate the client relationship, you start to discover the family tree—and that is when you have to be able to bring in the trust services. I'm interested in a relationship I can start with my client and extend to their families. The growth of my practice depends on getting involved with the next generation."

Salmon's partner will work with his clients on different types of trust services. "He has a banking background and that's a key part of trust services—not only the investments, but the day-to-day cash reserve and cash balances," notes Salmon.

Jeffrey M. Franklin, CFP, of Life and Wealth Planning, LLC in New York, New York, started in the business 19 years ago and until a few years ago had been a sole practitioner. The motivation for his looking for a partner is that he's noticed the industry changing and "in the talk of succession, it seemed the sole practitioner would be left behind."

Says Franklin, "I worry that my practice will not have any value at the end of my career because the value is the personal relationship. A couple of years ago, I went looking for a partner. First was to find someone who specialized in what I did not specialize in. I found someone who specialized in insurance. We created a partnership, hired another administrative person and within six months dissolved the partnership. The resources he needed to build his business were not the same as the resources I needed to build my business, so there was not this synergy we were hoping for."

Franklin is now considering a junior partner, "someone with more than five years' experience, with a book of business, who is looking to bring his business to the next level, but doesn't quite know how to do it."

Continues Franklin, "Ten years down the road, this person will have a nice business when I'm trying to work fewer hours. Alternatively, if I am successful in hiring a partner, we could then both hire a junior partner and offload some of our 'B' clients. That's really the model I expect to morph into."

Franklin's search has been tough. "People who are sole practitioners have not yet gotten the message that, at the back end of their working life, they have zero equity. They ask, 'Why would I give up my independence and take on your overhead?' I have an office in a high-rent building in midtown Manhattan because I believe the clients I have are comforted by that."

Franklin continues to seek a "homegrown buyout" so that his clients can continue to be serviced by people they know. "As far as I'm concerned, my clients are my business. My clients have made me very comfortable—and very happy because they have allowed me to do what I love to do. So I will not walk out on them," he says.

Across the country in Novato, California, Greg Friedman, CFP, finds his firm, Friedman & Associates, at a crossroads and is also looking to add a partner. Friedman's motivation to grow is not based on fear of competition from bigger brokerages, but rather that he has spent a lot of money on technology and wants to leverage his investment.

Explains Friedman, "The issue I'm wrestling with is that it's your reputation when you build the firm. It's also an issue of trying to transition away from yourself and find someone who can, in addition to the analytical work, do the consulting work at the same level at which you do it. I've been around 12 years and have wealthy clients come in the door. It's extremely difficult for a person just starting out to deal effectively with that type of client."

The other issue for Friedman is philosophy. He explains, "I have a very strong philosophy. I have trouble talking with people who are concerned first and foremost with their own career path—putting their own needs ahead of clients' needs. I tend to be somewhat evangelistic about that, but I keep telling people if we continue to do things a certain way—work for and serve the client in this way, the rest takes care of itself. I know everyone has to make a living and I want them to make a good living, but I want them to be clear, day in and day out, that we work for the clients."

Concludes Friedman, "I am reasonably hopeful that I will find first one, and then more, of these kinds of people. Eventually, I'll explore equity and partnership and all of those things, but I am not going to start there. I view

partnership like a marriage and I want a long courtship before I tie the knot.”

The Joys of Building

When you talk to planners who are actively growing their practices, whether by mergers and acquisitions or employing the latest technology, one thing is clear: there are planners out there who get great satisfaction from building things.

Lloyd Painter, CPA/PFS, CFP, CLU, ChFC, and founder of Painter Financial in Greenville, Kentucky, personifies that type of planner. After years of meeting the challenges of growing his practice in Greenville, his daughter Elizabeth agreed to come on board and open a new office in Louisville, Kentucky.

Says Painter, “We targeted Louisville because we had some clients there already. It’s a dynamic town with a lot of industry and my daughter had previously worked there, so she had some contacts. With her CFA, Elizabeth will concentrate on portfolio work for the entire client base. My background is in financial planning, so I’ll be involved with retirement plans and estate planning for the entire client base.”

Painter notes that for other planners interested in growth, it’s important to realize that to grow your practice, you will constantly be faced with hurdles. One of the biggest challenges for him remains constant—Greenville is a small town where it is difficult to attract and retain qualified staff. Says Painter, “We’ve found that technology has helped us in terms of maybe not being able to find and hire all the people we’d like to have.”

Being “early innovators” with technology also helps. Explains Painter, “In 1996, the practice was growing so quickly that I wasn’t able to keep proper track of clients and what work I had to do. That was our first exploration into technology. We bought a system to keep track of client work. We also added a full-time service assistant to focus on marketing.”

Three years later, Painter hired another service assistant and a full-time computer operator—and his daughter joined the firm. Continues Painter, “At that point, we had a problem with communication between the two offices. I bought a program called Citrix Metaframe so the two offices can communicate. Now, anywhere I have an Internet connection, I can connect to my office in Greenville and have access to all the programs on my server.”

Down the road, Painter wants to bring portfolio management in-house and move to a paperless office. In addition, he says “getting to the next level” will require that he work on his public speaking. He’s planning to market more by giving seminars for small groups on topics ranging from long-term care insurance to Section 529 plans.

Timothy Smith, CFP, of The Comprehensive Group in Parsippany, New Jersey, is another planner who enjoys building the infrastructure. Smith started as a financial planner right out of college in 1985 and in 1995 started his own company. After buying out two financial planning practices, he started a broker/dealer and an outsourcing company to help other planners grow their practices.

Says Smith, “The stumbling block for some planners in growing their practice is building the infrastructure. I’ll build that infrastructure for them because I enjoy the sense of creating and building. The classic model is to start with an administrative assistant—and whether you focus on planning or investment dictates your next hire. I try to reengineer the process and question the traditional models. Do you have to have a paraplanner on staff? Do you have to be responsible for bookkeeping and compliance?”

Smith’s major emphasis with planners is on getting referrals in “smarter, more strategic ways.” He explains, “Eighty percent of one’s business tends to come from 20 percent of customers. So you need to get your best clients to replicate themselves. I figure we need 10 to 20 referrals to get one good replication client.”

Continues Smith, “We get planners to focus on top clients and play a chess game with them. If they are unhappy about something, you have to work with them. If they are happy, then you will need to get them to give you more referrals.

“Most of the time when planners try to get referrals they ask a client—Do you know anyone who could use my services? For the sake of argument, let’s say a top client is a writer for a financial publication. I would get ten

magazines and get names of all the people I could who write for those magazines, put them on a list and ask the client, 'Do you know anyone on this list?' So, rather than asking clients to come up with names out of their mental Rolodex, I'm asking them to respond to a list of people. I want them to tell me whom they know personally, about whom they'd feel comfortable if I use their name by way of introduction, and whom they know well enough to write a letter of introduction for me."

Smith reports that in one situation, one client generated more than 100 referrals—every one of them at a vice president level, or above, in a Fortune 500 company.

While those numbers are impressive and give Smith great satisfaction, both he and Painter agree that growth is about more than the numbers. Concludes Painter, "Building the practice is fun. If it ever becomes work, I'll do something else. The big thing I noticed when I transitioned away from accounting was the fact that people really appreciate what you do for them. As a financial planner, I can have a big impact on someone's life. There are so many people out there I can help. I'm on a mission—we're going to help as many people as we can help and solve as many problems as we can solve."

Nancy Opiela is a freelance writer and associate editor of the Journal of Financial Planning, and is based in Medfield, Massachusetts.