



## Growth by Acquisition

Most Advisors would say that they primarily grow their business through referrals. But how pleased are you with the quantity, quality, and frequency of those referrals? Could you thrive in an environment that doubled, tripled, or even quadrupled the amount of referrals you receive each year? That's wishful thinking on your part...

The reality is that Advisors today are scrambling to gain access to new Clients and the reliance on referrals is simply not enough. And it's surely not a reliable component in a business plan. So the question becomes – what can you do to ensure robust growth? Not surprisingly, the most aggressive and immediate path to growth can be accomplished through acquisition.

When you take a step back and study the framework of the industry, it's easy to see that our space is only in its nascent stage and the field is wide open for a large number of industry-shaping trends to occur. Since the industry is dominated by smaller, fiercely independent Practices that are typically run by one Advisor (with the assistance of a support individual), there is a prevalence of thinking that there is no reason to change the way business has been conducted. These Advisors typically rely on referrals for modest growth which will, in turn, provide an enviable lifestyle for the Principal.

However, as industries progress through their lifestyle from infancy to maturity, an inflection point typically occurs that, more often than not, leads to consolidation. The ability to pool resources and talent, along with the opportunity to share expenses and leverage economies of scale, provides a boost to the effectiveness of any business, regardless of industry. Size does matter, especially during times of change – the wealth management space is no different.

The most common objection to combining with another Practice is the perceived loss of brand identity (this is typically an ego-driven response) and the undesirable prospect of having to answer to someone else. Remember, type-A individuals are the ones who start companies; it's often a challenge to encourage or persuade an entrepreneur to join forces with another. It's even harder to convince them that another entrepreneur's style, process, or platform is superior to their own (after all, only one name can be on the door).



Because of this, the concept of combining doesn't usually sit well with a potential seller. However, if designed and deployed correctly, an acquisition strategy can be very rewarding for both parties. To be successful, the objective must be to identify and integrate the talents of each Practice and to recognize and eliminate any inefficiencies in order to become a more productive, stable, and profitable entity going forward.

This is the primary reason that some acquirers are more successful than others. The simple notion of a buyer willing to respect the integrity of the acquired Practice lends itself to open and constructive dialogue. As a result, the seller has a stronger desire to be much more engaged in the process – translating to a successful business combination. The real objective should be to acquire talent (not just AUM) while shedding overlapping expenses like compliance, marketing, and accounting functions. As long as the acquiring Practice has a well-rounded and durable infrastructure and the Principal has a defined vision for the future (*Extra: Find out how to create this within your own Practice*), an acquisition strategy can be a viable growth tactic. The real challenge is to not lose the personal and boutique approach to Client service that can only be delivered by seasoned and knowledgeable professionals (after all, the industry is indeed a relationship business).

When approached in this manner, the buyer is not the only benefactor in an acquisition. For many, the idea of selling their Practice is believed to be the “end”, which is certainly understandable, but oftentimes a misconception. If presented as an opportunity to enhance Client experience, alleviate non-revenue producing activities, protect the Practice from competition, establish a succession plan, and provide an *eventual* exit, conversations with potential buyers will be more appealing to a seller.

The real trick to communication between buyer and seller is to establish a conversation that is free from ego and fear. This allows all parties to identify and examine the objectives and creates more productive conversations. When initiating an acquisition strategy, you will be best served by looking for partners that compliment your own Practice. Spend your time wisely by exploring the reasons to work together, rather than reasons to say “no”. Finally, look beyond the immediate impact of additional AUM. Successful acquirers understand that the sum of the parts is greater than the whole.

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