5 M&A Tips for Financial Advisors: The Good, the Bad and the Ugly

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It's entirely possible to sell or merge a practice and have all parties, including the clients, walk away satisfied. But it's also possible for deals to turn ugly, particularly when the human element gets lost amid all the data. Use these tips to ensure that an M&A deal goes smoothly.

Many of us know *The Good, the Bad and the Ugly* as an epic Spaghetti Western shot in 1966 and made famous by a young Clint Eastwood. But this is a great description of the landscape when it comes to mergers and acquisitions (M&A) for financial advisors—it can be good, bad or even ugly.

First let's consider what is important for a potentially good transaction in M&A. Typically, an M&A scenario starts with the thought, "I need to do something more." It could be you need a succession plan for what you have built, want to roll off the back-office responsibilities, or you need to solve for something else. The good news? There is a process that can help you achieve and provide solutions for your business.

Here's the bottom line: A good outcome depends on how well you have done your due diligence.

Tip 1: Do a 360-degree review

The industry is continually evolving, and consolidation has been accelerating for some time. Are you looking at all the problems that may affect the outcome of your transition?

It is easy to get caught up in conversations (emotions) about the value of your firm. Have you taken the time to consider the vision and character of your firm?

During the self-reflection stage, you will want to accurately describe the firm's value proposition, the age demographics of your clients, and the wealth of your clients.

Are you engaged with the next generation? Have you segmented your business? What and who is the talent of your firm and what is your succession plan? All these items need to be addressed before you can successfully explore the options and opportunities that are available.

Tip 2: Swim (carefully) with the sharks

Look at all the deals happening in the financial services industry today. Many articles are in print describing the M&A scene as manic, frenzied—and even as shark-infested waters.

With the abundance of choices, how do you evaluate what is best for your firm?

By starting your due diligence early, having an advocate, understanding your options and being emotionally prepared, you are setting yourself up for a successful transaction. These steps will be most valuable prior to showing your interests in a transaction.

Tip 3: Create a happy marriage

M&A is like dating and marriage. Once it is known you are looking, there may be many different players in the M&A space showing up at your doorstep. You are now in the dating process, which is generally an enjoyable and even flattering time, as you could have many suitors that want to court you. Doing all your due diligence will help you weed out the ones that will not provide solutions for your business.

After the dating process is complete, you become engaged, sign the letter of intent and prepare for the wedding (the closing transaction). It's an exciting time, but here's where things can go bad.

Problems can start to occur due to lack of open communication, mutual respect and trust—all of which are imperative for a successful partnership.

It is not only important that you have this with the firm you are planning to complete the transaction with, but it's a must for your employees and clients. Your team and clients are depending on you and will want to know what your intentions are. They will likely stay with you if they know they are not going to get any unforeseen surprises. Surprises could come in many forms, such as a change of work environment, culture, technology or any change that is not in the clients' best interest.

Tip 4: Don't get lost in the deal

Here's where it can get ugly—when firms get lost in the deal. How long can this be a sustainable business? Who will survive? When it becomes more about the numbers than about the clients, deals can begin to turn ugly. Due diligence is imperative, but it's not just what's on paper; it's much larger.

There is an emotional process that the seller, the employees and mostly the clients will go through. If you do not address this early on, you could lose professionals and clients before the transaction has closed or soon thereafter.

This is not new information. There are white papers on this, but how many firms are actively managing this significant issue? Aligning cultures and building trust needs to be continuously addressed during a merger. Are you starting this transaction with open communication, mutual respect and trust? This is not just for the transaction; it is for the best outcome and will bolster the confidence of your clients and employees about moving forward.

Tip 5: Ensure the client wins

M&A can involve outright purchases, a merger of firms, and back-office roll-offs to allow more time for the advisor. Regardless of the purchase strategy, for it to be successful it must provide better solutions for the clients.

For a transaction to be good, it is essential to focus on the clients. If you are not putting the needs of the clients first, beware what you may ultimately lose.

Make this your mantra throughout the entire process: *The client must always win!*

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