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Experiencing Growing Pains?

Use this action plan to decide if the time is right, then follow these steps to reach your growth goals.

by *Pamela Peters*

You've been providing financial planning services for several years. While business is good, you're growing at a rate that is slower than you'd like. Is it time to expand? And if so, how do you go about it? Merge with another planner? Buy another practitioner's book of business? Open a new office somewhere sunnier? We've developed a step-by-step guide that will answer these questions and give you a few more things to consider. Our goal is to help you decide if the time is right for a practice expansion. If it is, we've compiled tools and tips to help you move forward. Here's to your growth!

WHY EXPAND?

Advisors decide to grow for myriad reasons. Perhaps they want to change their business model, acquire new processes and systems or offer their services in a new geographic location. But, says Richard P. Moran CFP®, senior advisor with Financial Network Investment Corp. in Rolling Hills Estates, Calif., the primary reason financial planners decide to expand comes down to the bottom line: Simply put, they want to make more money.

Independent advisors often struggle with slow growth. Portland, Ore.-based David Grau, president of Business Transitions LLC, a marketplace where financial advisors can buy and sell their books of business, says the average financial services practice grows at a rate of 8 percent a year. "That's not real fast if you are an aggressive advisor," says Grau. "When advisors find out that they are stuck with 8 percent, they tend to think about acquiring a book of business."

Grau points out that buying a book of business can also create an easy segue if you want to change your compensation system from commission-based to a fee-only or fee-based program.

"Doing it client by client would take two to five years," says Grau. But when

an advisor acquires \$25 million in assets to manage, 80 clients and a system that has been set up and running for 15 years, the transition is immediate. "You can see how the seller did it and transition your commission clients and integrate them into a running, set-up, fee-only model," says Grau.

IS IT TIME TO GROW?

Only you know if the time is right to expand your practice, but don't rely on gut instinct. Your answers to these questions should give you some indication of whether or not now is a good time to take the next step.

How are revenues? When your business becomes stagnant, it's time to do something different. Moran believes that when revenues stop increasing, even if business seems fine, you should consider talking to a business consultant.

Is there a market? Mindy Ying, president of PacWest Financial Management Inc. in San Marino, Calif. performed thorough market research before she opened a second office, this time in Cupertino, Calif. She wanted to make sure there was at least \$20 million in the marketplace to support the new office. Based on the number of clients already in the Cupertino area, and the referral equity those clients represent, Ying determined she had her \$20 million and opened her second office in 2003.

Are you ready? Matt Chope, CFP®, with the Center for Financial Planning Inc. in Southfield, Mich. suggests doing an honest assessment of your technical proficiency. Do you hold the sound financial planning acumen necessary to take on more? "It could take as much as ten years to learn all facets of the business," Chope says. Make sure you have a handle on your current situation before you think about adding clients and staff.

How does your office look? If your current office could use an update — perhaps new computer systems, more space or a more professional image — take care of these tasks before you add on more business.

Do you have enough cash available? Expanding will require money up front. Whether you purchase a book of business, rent more space in a neighboring town, increase your marketing efforts or enter negotiations with a potential partner, you'll need cash in place to get started.

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Growing your business can take on many different personalities. If you decide to expand, you'll have to explore the best way to go about it. Here are your options, and how to pursue each:

BUY A BOOK OF BUSINESS

This method requires finding a book of business that is similar to your own and purchasing it outright or over time. The transition period can last from several months to a few years, depending on how the acquisition is designed. In order to keep clients happy, you'll find yourself working closely with the seller throughout the transition period.

It may be difficult to find a book of business similar to your own. There are Web sites that serve as marketplaces for these transactions, but these often come with a hefty commission fee. To find a book of business that suits you, start with your own network of peers, even clients. Take out an advertisement in trade publications and announce your interest at community and civic group meetings.

Things to look for include similar investing philosophies, client types and systems. And know what you're getting into: "If you are buying a 401(k) practice, make sure you know all the ins and outs of a 401(k)," Chope says.

One advantage of buying another advisor's book of business is that in addition to clients, you'll acquire established systems and processes. If you find a well-run book of business you can probably count on efficient systems, procedures and employees.

As an added bonus, a new book of business will provide access to a new referral network. If you're trying to reduce marketing costs or grow solely on a referral basis, this new network could be a tremendous asset.

There is a benefit for the business seller's clients as well: In most cases, the seller is phased out slowly. During the 12 to 36 month transition period, these clients will essentially have access to two advisors.

But don't be too worried about client attrition, Grau says. While there is usually some drop-off, "typically in a fee-only practice, the number of clients that are still in place a year later is about 98 percent." With a commission-based practice, Grau says, about 89 percent remain.

There are disadvantages to buying a book of business, however. If you plan to finance your expansion through a bank, you may run into obstacles.

"First of all there has to be hard collateral to back up the deal," says Grau. "Secondly, these are service-based practices." He explains that while they frequently extend loans to professionals like dentists and CPAs, banks tend to be leery of service-based business like financial planning practices.

Small Business Administration loans are available but they can take six or seven months to establish and fees can cost up to \$20,000. If you think you'll need an SBA loan, Grau suggests applying for one before you shop for the book of business, as the loan process may take longer than your search.

As another means to raise cash, some buyers sell off a part of their own client base to free up the space and time they need to properly pursue a newly purchased book of business that better fits their model. "They'll sell off the bottom 20 percent to someone just starting out," Grau says. "It's evolution."

The Transaction

The transaction process is often compared to dating. Once you have identified a business, go on a few "dates" to get to know the firm. Meet with as many people within the organization as possible, including principals and staff. Meet both on-site and off. Meeting on-site will give you a better feel for the culture, while meeting off-site sometimes allows people to talk more honestly and openly.

During these meetings, you'll find out how the business operates. Is the office culture formal or informal? Do employees take Friday afternoons off in the summer? How are employees recruited? What type of investment strategies are recommended? Is the organization amenable to change? What is the tenure of the staff?

Once you have found "the one," it is time to "get engaged" says Steve Wevodau, Managing Principal at WFG Capital Advisors LP based in Charlotte, N.C. and Harrisburg Pa. This engagement comes in the form of a

letter of intent. Although non-binding, this letter will outline the terms of the deal. "This is when lawyers begin to get involved," Wevodau says. "Everything takes on a more formal tone."

After the letter of intent is signed, it's time to kick the tires and embark on the due diligence process. If you're buying a book of business identical to your own, you are probably uniquely qualified to determine that the book for sale is worthwhile and legitimate. However, Wevodau recommends getting a third party involved, as the process can become cumbersome and distract you from day-to-day responsibilities.

If everything turns out OK during due diligence, prepare yourself for final paperwork. There are several agreements that could come into play at this point, including the purchase agreement, a non-compete agreement, a non-solicitation agreement, a bill of sale and a promissory note. Your attorney would be involved at this point to oversee the details. Once the paperwork is complete, the ownership transfers to the buyer and the transition plan kicks in.

The Transition

The transition plan spells out the details of how the seller will physically transfer clients to you, the buyer. This generally takes place over an agreed number of months. Since both parties are motivated to make this deal, you will work closely with the seller to learn everything possible about the book of business.

Chope recommends that you and the buyer set up a detailed database to track client information. This information should include everything from current contact information, investment style, birth dates of everyone in the family, service level codes, asset allocation, risk parameters, goals, goal timelines, activities performed for clients over the past year or two, questions the clients has, special interests and political references. This information will give you a head start as you acquaint yourself with each client, saving everyone time during your initial meeting.

JOINT VENTURES

Although true mergers are rare in the financial planning world, explains Wevodau, joint-ventures are fairly common. This can include sharing space, overhead expenses and a name with a group of advisors, attorneys, CPAs or other professionals. By strategically selecting a partner, you can build a comprehensive planning business that provides added value for your clients. For example, Chope's firm joined forces with a partner who carries a CPA designation, something that the firm sought to round out its services.

In addition to sharing overhead expenses and eliminating redundant staffing and systems expenses, there are cross-sell opportunities you can pursue with your partner or partners. Another plus, if you are thinking about leaving the business in 10 to 15 years, partnering makes it easy to build a succession plan, since you're no longer a one-man band.

The key to a joint venture is knowing the people you're about to partner with, but don't take it to an extreme. Moran warns against two or three people partnering simply because they like each other, have fun and share similar opinions. Too often, Moran explains, advisors learn the details of their new partners' business after the partnership agreement and realize their discordant methods aren't conducive to a joint practice.

Moran recommends seeking out partners slowly. His partnership evolved out of a study group he organized with some colleagues to share ideas on

various aspects of the financial planning business.

Once you've determined that your potential partners run their business in a manner that is cohesive with yours, you can develop plans to merge. One of the first steps Chope's firm took was investing in a new computer system that would allow all partners to share client information. Chope's new partner still runs his own offices but attends vital company meetings at the home office.

After combining systems, merging office space and deciding on a name, new partners should put together buy-sell agreements and succession plans for everyone involved.

OPENING A BRANCH OFFICE

If your market is saturated and you enjoy marketing and start-up activities, opening an office in a new location might be the best bet for your expansion.

One of the obvious benefits to this is that you can open an office in your favorite vacation spot, if the market warrants.

Thanks to technology like cell phones and the Internet, you can stay in close contact with clients no matter where you are.

Rick Zurbriggen, principal and owner of Zurbriggen Financial in Tinley Park, Ill. and Ft. Myers, Fla., took it slowly. Two years ago, after he determined he could maintain his original office in Illinois and run a branch in of Ft. Myers, he took the plunge. Today, he spends seven months out of the year working from his Florida office.

Opening a new office does require additional marketing to increase your business. The good news is, if you find the right location with the same target market, the same tactics that work in your first office location should also work in the second.

Since you'll be in two places at once, staffing becomes key. "You must be able to trust people when you are gone," Zurbriggen says.

There is a certain amount of uncertainty with opening a new office. You are starting from scratch, without the benefit of a pre-established book of business. This requires extensive market research.

Determine whether the region can support your business. Contact chambers of commerce about the demographics. Zurbriggen used local direct mail houses to test direct mail response before he decided to open his Florida office.

If the new office is far away and you plan to manage both locations, a temporary solution may work best in the short-term.

Zurbriggen took a stair-step approach to opening his extension office in Florida. He started by working out of his living space. After a year, he rented. A year later purchased an office condo.

If you hire someone to manage your satellite offices, Ying says to expect to spend three to six months of intensive training with this new employee. While the office manager serves an administrative role, remember that your new hire will play a part in representing your practice and must be well versed in the firm's business development and your investment philosophies. To help bridge the knowledge gap, Ying's entire staff is

responsible for attending and presenting informational seminars.

Expanding your practice, by whatever means, shouldn't be taken lightly. But by slowly and methodically implementing your plan, the end result will certainly justify the time and money invested. Good luck!

SHUTTING DOWN THE "HOME" OFFICE

What to do when it's time to move into office space that isn't 20 feet from your kitchen

Working out of your home has its definite advantages, but your business may reach a point where professional office space becomes necessary.

Making the transition from home office to an outside space can be easier and less expensive than you might think. What was once costly — adding the expense of additional office equipment, furniture and a receptionist — is now affordable, as executive office suites become commonplace.

While office suites have reduced the cost of leasing space, maintaining an office still costs more than operating out of your home. In addition to the lease, you will need to address new tax and liability issues. In a CNNMoney article, Gene Fairbrother of the National Association of the Self-Employed provides this rule-of-thumb to determine how much a new office will affect your business: After evaluating new office costs, recalculate your profit margin. If the profit margin is 50 percent, your revenue needs to double. If your new profit margin is 20 percent, you will need to multiply your revenue by five.

If these new revenue goals feel daunting, keep in mind that moving into an office creates networking opportunities — you will be sharing space, parking lots, elevators and break rooms with other professionals. Use this exposure to your advantage by introducing yourself to everyone you meet as you move in. As soon as you're settled, host an open house for current clients and your new neighbors.

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