



SUCCESSION PLAN

Maximize the Value
Of Your Practice



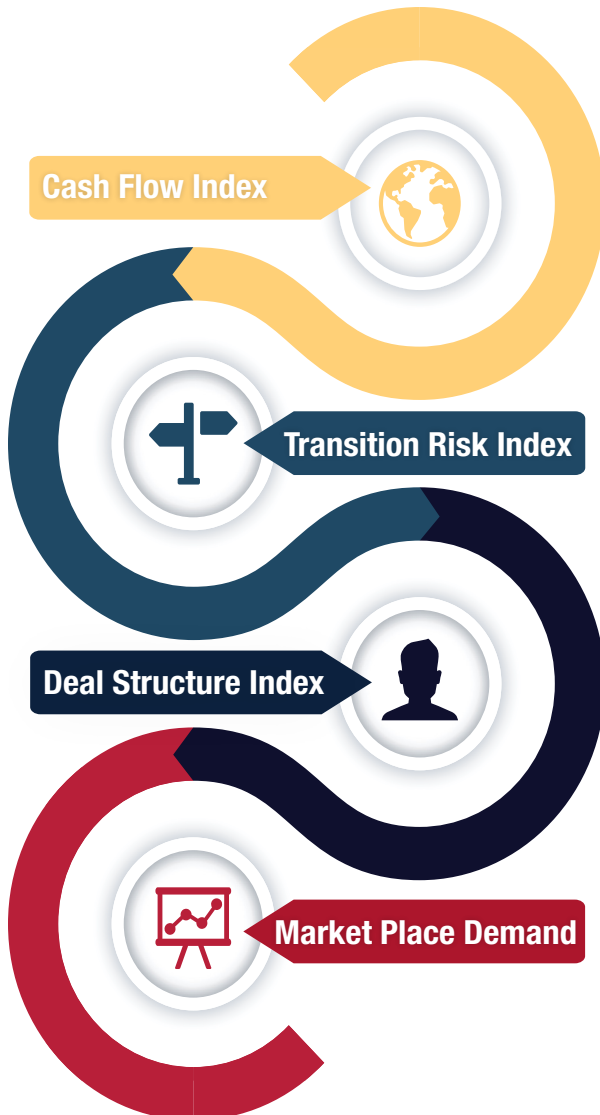
Part of Securities America's Business Mastery Series

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Current State Of the Business

Remember the 4 Tenets:



Cash Flow Index:

- Revenue
 - Fee only
 - Fee-based
 - Combination fee and commission
 - Commission only
- Other income
- Marketing System
- Clear financial records

Transition Risk Index:

- Client service system
- Client centered philosophy
- Client survey
- Contact management system
- Niche expertise
- Comprehensive Financial Planning
- Team based client relationships
- Partner based client relationships
- Competencies

Deal Structure Index:

- Seller financing
- Contingent deal structures
- Contingency plan in place
- Contractual Loose-Ends
- Partner in place / Successor groomed
- Internal vs. External sale
- Continued involvement of seller
- Succession plan in place

Market Place Demand

- How many potential buyers in your area
- How many with same Broker-Dealer
- How many competitors
- What's your position among competitors (size, image, offering,...)
- What's your curb appeal

Value Benchmark Exercise

For open market valuation purposes, use gross income unless operating costs are to be transferred. Gross is used because operating costs are different across broker dealers. Calculations can be more precise when succession remains within same BD.

Transferring operating costs are those that will need to be incurred to service client base (CPA referrals, client acquisition network agreements, staff, special client servicing needs, office space).

Trailing 12 month recurring income:	_____ X _____	=	_____
Trailing 12 month one-time income:	_____ X _____	=	_____
+			
		=	=====
Cash Flow Index	_____ X		
Transaction Risk Index	_____ X		
Deal Structure Index	_____ X		
Market Place Demand Index	_____ X		
		=	=====

(This serves as a benchmark only and is not a binding valuation)

To have a third party - comprehensive valuation done, contact FP Transitions at (800) 934-3303 or through their website www.fptransitions.com/go/sai. Cost: \$895

Contingency Plan

If you have a successor in-mind: create a Continuity Plan.

If you suddenly faced a long-term illness or permanent disability, who will take care of your clients and your staff? A continuity plan answers the specifics of “what if” to ensure your business remains viable until you can return or the business can be sold.



Future State Of the Business

Your Personal Vision

Review these questions to see if your business goals are in-line with your personal goals. Answer these questions to help you understand the kind of business that you need to create in light of your life after your business.

1. What do you want your life to look like?

2. How much time will you be working? How will you spend the rest of your time?

Number of weeks off / year?

3. What do you really enjoy doing most? What things excite and challenge you?

4. What do you like doing least?

5. What is important about working to you? Does it keep you sharp?

Do you want it to provide more flexibility, more money? Do like control? Is it a hobby?

Do you love the relationships / contacts that it brings?

6. When do you want to retire?

7. What do you want to happen to your business when you retire?

Do want to pass it on to your children? Will they ever retire? Can you turn it over to an outsider?

8. What does your ideal home look like? Where do you want to live? _____

9. How do you want to be remembered by your family, friends, business associates, clients? _____

10. How important is your family to you? How much time do you want to spend with them? What special things do you want to do for / with them? How about friends? _____

11. How do you wish to spend your personal time? Hobbies, spiritual, exercise, etc. _____

12. How much money will you need to do the things you wish to do? _____

13. How much do you need to save? _____

14. What have you always wanted to do but never gotten around to? _____

The answers to these questions should help you understand the kind of business that you need to create in light of your life after your business. Someone who wants to pass on a business to a child must think of different issues than if that business is to be sold for optimal value at retirement. Know what you are trying to achieve, and then go about creating the means to do so.

In this section, write down the main “after business life” goals that would not be met in your current state:

1	
2	
3	
4	
5	

Think of these goals when working through the rest of the workbook.

A. Improving the Quality of Cash Flow

In this section, focus on what you need to do to improve the quality of your business's cash flow to maximize its value.

What general **strategies** will you implement to reach your goals?

(e.g. Increase percentage of fee-based business. Start charging retainer fees. Make Financial Plans Mandatory. Increase percentage of insurance premiums, have financial statements that show growth.)

A.1	
A.2	
A.3	

In order to implement those strategies, what specific **activities** will you need to employ?

(e.g. Interview three money managers, have retainer fee discussion with five loyal customers, research financial planning software or outsource options)

A.1.1	
A.1.2	
A.1.3	
A.2.1	
A.2.2	
A.3.1	
A.3.2	
A.3.3	
A.3.4	

Express these activities as time-specific assignments for you or for an individual on your team. Consolidate your activities in the Activity list on pages 15-16.

B. Reducing Transition Risk

In this section, focus on what you need to do to increase the chances of your clients continuing to do business with your successor, a key component of value.

What general **strategies** will you implement to reach your goals?
(e.g. Operate from a client service matrix. Send quality gift to all top clients who have provided referrals. Run a 'thank-you' campaign for all clients who have helped build the business, remember clients for more than business matters, increase use of financial plans)

B.1	
B.2	
B.3	

In order to implement those strategies, what specific **activities** will you need to employ?
(e.g. Start sending clients birthday cards, make unrelated touch-base calls with clients, make it a point to show value, research financial planning software or outsource options)

B.1.1	
B.1.2	
B.2.1	
B.2.2	
B.2.3	

Express these activities as time-specific assignments for you or for an individual on your team. Consolidate your activities in the Activity list on pages 15-16.

C. Deal Structure

In this section, focus on how to position yourself to be able to offer practice sale terms that will both increase the value of your business to you and make the deal more attractive to your successor.

What general **strategies** will you implement to reach your goals?

(e.g. willingness to take a lower down payment and a longer earn-out, being available for a year to transition clients in a consultants role, eliminate unnecessary dependencies, have agreements / documents in draft form)

C.1	
C.2	
C.3	

In order to implement those strategies, what specific **activities** will you need to employ?

(e.g. build-up sufficient savings to weather a lower payment, schedule work load for first 12 months after sale to accommodate consulting, have attorneys and CPAs lined-up for a smooth deal)

C.1.1	

Express these activities as time-specific assignments for you or for an individual on your team. Consolidate your activities in the Activity list on pages 15-16.

E. Changes to Book Structure

Focus on the composition of your book. Concentrate on what a successor would value in terms of client, asset and service mix. Determine who your ideal client is and then develop strategies to “phase out” service to non-ideal clients. Look at the assets you use in your client portfolios; are they easily transferable, are they linked to lengthy surrender periods, are they complicated in nature. What services are you performing that might be less desirable? Do you maintain a “same-service to all” practice; do you create your own portfolios? Do you do your own research? You may enjoy doing business this way but others may not. Clients may also be worried that a successor will totally change the make-up of their portfolio that has worked well in the past increasing transition risk.

In this section, focus on what will make your business a more attractive business to buy compared to another financial planning practice in your general area.

What general **strategies** will you implement to reach your goals?
(e.g. using 3rd party money managers, having a clear client segmentation and service model, convert VA contracts with X to Y, phase out use of revertibles)

E.1	
E.2	
E.3	

In order to implement those strategies, what specific **activities** will you need to employ?
(e.g. research money managers, segment clients, discover substitute for revertibles)

E.1.1	

Express these activities as time-specific assignments for you or for an individual on your team. Consolidate your activities in the Activity list on pages 15-16.

F. Infrastructure Changes

This section looks at the following key areas:

- Client Service
- Technology
- Team
- Time

Client Service

A core component of the value of your business is the ability to clearly articulate the service that your clients get and what your successor will be expected to deliver.

Segment Name	# of Plan Reviews	# of Client Appreciation Activities	# of Proactive Client Calls	# of Client Lunch/Dinners	# of Seminars

Given your current model, what activities might be considered excessive? What activities could you add to increase client loyalty? (e.g. Send all clients a service agreement outlining what they can expect. Launch family-oriented client appreciation event.)

F.1	
F.2	
F.3	
F.4	
F.5	

Express these activities as time-specific assignments for you or for an individual on your team. Consolidate your activities in the Activity list on pages 15-16.

Technology

Streamlining your business benefits you right now but also increases the value of your practice as it becomes easier to operate (think about the franchise model). This may result in some investments of time and money in technology and infrastructure. Given your goals, what changes will you need to make with respect to technology?

In the next 12 months, we will implement the following technology initiatives:

F.6	
F.7	

Express these activities as time-specific assignments for you or for an individual on your team. Consolidate your activities in the Activity list on pages 15-16.

Team

Do you have the resources that you need in order to implement your plan? Is your existing team involved enough in client interfacing activities to make them indispensable to your clients?

How can staff interface with clients more? Do you need more staff? What is cost break-even point for a new hire?

F.1	

If you plan to hire more staff, then break that goal into specific activities and add to your list on pages 15-16.

Training

You may find that you need to upgrade team training to support your vision. What new skills need to be developed? Those skill development activities might be as simple as reading the paper on a daily basis, or focus more on financial planning or technology.

F.9	

Express these activities as time-specific assignments for you or for an individual on your team. Consolidate your activities in the Activity list on pages 15-16.

Financials (sample FPA standard income statement)

ABC Financial			Income Statement - MO/YR			April / 2007		
Revenue			\$		%			
Subtotal Rep Personal Transaction Income (SAI)			\$28,000.00		8.13%			
Subtotal Rep Override Transaction Income (SAI)			\$0.00		0.00%			
Total Advisor Personal Fees (SAA)			\$175,000.00		50.80%			
Total Advisor Override/Comm Split Fees (SAA)			\$0.00		0.00%			
I-RIA Fee Income (Planning, retainer fees, ...)			\$7,500.00		2.18%			
Insurance Commissions-New or 1st Year			\$22,000.00		6.39%			
Insurance Renewals / Trails			\$112,000.00		32.51%			
Other Core Business Income			\$0.00		0.00%			
Total Revenue			\$344,500.00		100.00%			
Direct Expenses								
Professional Salaries and Bonuses			\$55,000.00		15.97%			
Commissions Paid			\$0.00		0.00%			
Owner's Draw or Base Compensation			\$150,000.00		43.54%			
Other Direct Expense			\$0.00		0.00%			
Total Direct Expense			\$205,000.00		59.51%			
Gross Profit			\$139,500.00		40.49%			
Overhead Expenses								
Advertising/Public Relations/Marketing			\$2,500.00		0.73%			
Auto Expenses			\$1,500.00		0.44%			
Charitable Contributions			\$1,000.00		0.29%			
Client Appreciation			\$5,000.00		1.45%			
Depreciation/Amortization			\$750.00		0.22%			
Dues - Clubs			\$350.00		0.10%			
Dues - Professional			\$475.00		0.14%			
Employee Benefits			\$21,000.00		6.10%			
Equipment Leases/Purchases			\$0.00		0.00%			
Insurance			\$550.00		0.16%			
Office Expenses			\$6,600.00		1.92%			
Other Salaries			\$45,000.00		13.06%			
Payroll Taxes			\$12,000.00		3.48%			
Professional Services			\$1,800.00		0.52%			
Rent / Mortgage			\$1,200.00		66.67%			
Program Development / Fees			\$495.00		0.14%			
Repair & Maintenance			\$660.00		0.19%			
Software/Hardware Expense			\$1,760.00		0.51%			
Tax & Licenses			\$2,300.00		0.67%			
Training & Continuing Education			\$600.00		0.17%			
Travel & Entertainment			\$2,000.00		0.58%			
Utilities/Phone/Fax/On-line service			\$2,200.00		0.64%			
All Other Expenses			\$1,350.00		0.39%			
Total Overhead Expenses			\$111,090.00		32.25%			
Operating Profit			\$28,410.00		8.25%			
Other Income/Expenses								
Other Income (+)			\$0.00		0.00%			
Other Expenses (-)			\$0.00		0.00%			
Total Other Income/Expenses			\$0.00		0.00%			
Profit Before Tax			\$28,410.00		8.25%			
Income Taxes (-)			\$26,578.00		7.71%			
Net Profit After Tax			\$1,832.00		0.53%			



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