Closing The Gap: Bridging Generational Differences for Effective Succession Planning
When you think about selling your practice, it’s easy to focus solely on its valuation because it’s the most tangible aspect of the succession planning process. While this is certainly an important factor, it’s also critical to find a good match between the buyer and seller.

There are many factors that contribute to a good buyer/seller fit, including similar approaches to business planning and client service models. When the transaction is occurring between advisors from different generations, additional consideration must be given to how the age gap between the buyer and seller may influence their compatibility. After all, a lot has changed in the industry over the past decade – let alone the past 30 years.

**Generational differences between advisors**

Generational differences you may encounter when looking to buy or sell a practice are a result of cultural trends shaping America (especially in regard to technology), as well as from changes in the financial planning industry, such as the complexity and breadth of products, client expectations and business development processes. Understanding the differences that may exist between you and the buyer/seller will help you align on key elements that may smooth the transition and help ensure a successful outcome for both parties.

Whether you are the potential buyer or seller, there are things you should consider in order to better understand the dynamics involved in the sale/acquisition of a practice. Begin by answering the following questions.

1. **Are you a generalist or a specialist?**
   If you joined the industry in the past few years, you probably followed a different recruitment and career path than advisors who joined the industry 30 years ago. At that time, it was common for larger firms to grow their advisor base through novice hiring and proprietary training programs. The recruitment path of today is focused almost entirely on individuals who have experience in other industries and are changing career paths.

   Chip Roame, Managing Partner at Tiburon Strategic Advisors, adds, “Now that training programs have largely disappeared, advisors brought in today are teamed up with more senior advisors or are hired into independent small advisory businesses as analysts.”

   Within these firms, junior advisors often develop specialized areas of expertise, compared with those who entered the industry several years ago and were expected to be experts at everything. This tactic can be an asset if filling a specific need at a firm, but may result in difficulties for an incoming advisor if they do not share the experience of their generalist counterpart. A buyer with specialized expertise may be beneficial to a seller by offering new services and attracting new clientele. Alternatively, this could lead to friction if they do not agree on the services being provided to clients.
2. How do you grow your practice?
“The biggest difference among generations of advisors is their approach to building the business,” says David Grau, Jr., President of Succession Resource Group in Oregon. “Methods have dramatically shifted over time – from making house calls and cold calling to an office model where clients come in for their appointments.”

Cerulli research has found that advisors entering the industry are more interested in the consultative piece of the business, rather than the business development piece. “Younger advisors are interested in working side by side with clients. Their expertise is in crafting financial plans and doing research on investment managers,” notes Bing Waldert, Director at Cerulli.

If you’re looking to sell your practice, you should note that though younger advisors may not solicit new business similarly to you, they may be more adept at integrating technology into their growth model.

3. How, when and where do you work?
Younger advisors may also be more likely to leverage technology to communicate with clients virtually at any time of the day. While older advisors may be accustomed to regularly scheduled business hours and visiting clients at their homes, younger advisors may be more likely to telecommute or provide flexible work arrangements to better accommodate busy clients.

“Different age groups use different delivery methods to communicate with clients. These methods ultimately have an impact on the ability of an advisor to successfully convert a client of a different generation into their practice,” says Timothy Crain, Franchise Field Vice President Ameriprise Financial Services. According to Crain, older advisors generally value face-to-face contact more than their younger counterparts who are more likely to use email, text messaging and social media communications.

4. What kind of clients do you serve?
Advisors tend to serve clients similar to themselves. This is true in terms of age, with the younger generation of clients favoring younger advisors. “Typically there is a close correlation between the age of a client and the age of their advisor,” says Tyler Cloherty, Associate Director at Cerulli Associates.

If you’re looking to purchase a practice, you should embrace the fact that you may be working with new clients that belong to a different generation and have different service expectations. Conversely, if you’re selling your practice, you should be open to the new methods and ideas that the buyer will bring to the table.

### Advisor Age by Channel, 2012

<table>
<thead>
<tr>
<th>Age Range (Years)</th>
<th>Bank</th>
<th>Wirehouse</th>
<th>Regional</th>
<th>Insurance</th>
<th>IBD</th>
<th>Dually Registered</th>
<th>RIA</th>
<th>All Advisors</th>
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<tr>
<td>&lt;35</td>
<td>8%</td>
<td>6%</td>
<td>12%</td>
<td>20%</td>
<td>10%</td>
<td>5%</td>
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<tr>
<td>35 to 44</td>
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<td>23%</td>
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<td>17%</td>
<td>17%</td>
<td>18%</td>
<td>20%</td>
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<tr>
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<td>34%</td>
<td>30%</td>
<td>25%</td>
<td>28%</td>
<td>3%</td>
<td>28%</td>
<td>32%</td>
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<td>55 to 64</td>
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<td>29%</td>
</tr>
<tr>
<td>≥65</td>
<td>4%</td>
<td>11%</td>
<td>6.6%</td>
<td>14%</td>
<td>11%</td>
<td>14%</td>
<td>10%</td>
<td>10%</td>
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<tr>
<td>Average age</td>
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<td>46.1</td>
<td>51.8</td>
<td>51.7</td>
<td>51.5</td>
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**Key Implication:** The average advisor age is 51.5 years, but there is significant dispersion from the mean. The age bracket of advisors younger than 35 contains only 10% of the advisor population, which is alarming as it is unlikely to adequately replace those advisors leaving the industry annually. The state of the wirehouse channel is particularly weak in this aspect, as the percentage of advisors near retirement (11%) is nearly double that of the youngest segment (6%). Broker/dealers (B/Ds) need to place a higher emphasis on attracting and training new, younger talent if they value their longevity in the advice industry.

**Sources:** Cerulli Quantitative Update, AdvisorMetrics2012: Behaviors, Preferences, and Channel Movement
Charting a Course of Action for the Seller

If you’re an advisor planning for your succession, practice valuation is without a doubt extremely important. However, don’t lose sight of the intangibles that you can prepare for in advance to make the future transaction a lot less painful. Consider these three simple tips:

1. Create a practice that includes multiple generations
   The simplest technique for succession planning that bridges generational differences is to build a multigenerational practice, allowing older advisors to mentor and train younger advisors. A succession plan that slowly transitions a practice to a new advisor helps address differing generational styles.

2. Identify what you’re looking for in a successor
   Begin by identifying what your core values are, and determine if they’re aligned with the potential buyer.
   “Ameriprise offers tools to help determine if you make a good team in terms of visions and values,” offers John Turner, Director, Business Management Programs at Ameriprise. The tools include an exercise to formulate your value proposition, define your ideal client and outline the services or service tiers you provide. Advisors can use these exercises to recognize where practice culture and values align.

3. Craft a client communications plan
   Start talking to your clients well in advance of a sale to identify what they value most in your relationship. Not only will this help you find attributes in a buyer that match what your clients are looking for, it will help you lay the groundwork with clients for their expectations in a change of service. Once you’ve determined a path of succession, e.g. if you’ll sell outright or continue working with select clients, announce the change with clients in your ongoing communications and in person. Your clients may appreciate a formal or informal meet and greet with you and your successor to answer questions and reduce any anxiety that may exist around the change.

Case study

An advisor decided to sell his practice after open-heart surgery and five bypasses. Though he fully recovered, the 65-year-old financial planner realized “it was time to go ahead and start to put the pieces on the table to see what I had to do” for succession planning. His first steps were to talk to different people in the industry and to gather as much knowledge as possible.

“My overall number one goal was to have a group of people or singular person come in and take my clients and treat them the way that I had treated them for the last 30 years,” says the advisor, adding, “that’s something you just can’t quantify. I didn’t want someone coming in who was just buying them to see how fast they can get a buck.”

He was approached by many suitors, including an advisor from Ameriprise Financial. His initial reaction was, “Wow, he’s younger than my son. In fact, he wasn’t much older than my grandson, and I thought: ‘No, this isn’t going to work.’” Though they naturally had their differences, they talked through their issues and found they shared the same basic core values.

“I could see [Ameriprise as a] firm I would be willing to turn my 30 years of hard work and my dearest clients over to … and I felt they could live up to the expectations that I had for them and that my clients would have for them.” He decided to sell to Ameriprise and its team of advisors. As he points out, financial planning is about more than money, it is dealing with people’s lives.

When it came to selling to Ameriprise, he says, “I just found what I thought was as close to perfect match as I could find and so that’s why we went ahead and pursued it.”
Charting a Course of Action for the Buyer

If you’re an advisor looking to purchase a practice, you have a lot to think about – financing, increased workload and responsibilities, and the transition from the seller – just to name a few. Making sure there’s alignment with the seller can help make the process run more smoothly. Consider these three simple tips:

1. Target practices with similar culture and values
Practices that have similar culture and values are a natural fit – client events, communication frequency, service methodology, product offerings, growth model – and more. You may not align on all aspects, but talking through these factors will help a buyer understand what they will face when assuming the practice.

2. Respect the legacy of the seller and the clients
Finding ways to meet the needs of legacy clients is critical to fostering a good advisor/client relationship. Bear in mind, that the existing advisor – and likely legacy clients – came into the industry at a time when advisors served the function of brokers, rather than planners, and that some clients may expect this role to be maintained. It’s important to make the clients feel comfortable and confident with the change, while incorporating your personal style and building the new relationship at the same time.

3. Be willing to adjust the client service model
“Become a master of different communication styles, even if these may not be your norm,” says Tim Crain, Franchise Field Vice President with Ameriprise Financial. “Learn to adapt and create a style that is both conducive to business and well-received in the market, while retaining your authenticity.”

Also, understand that legacy clients may be used to working with an advisor at a different place and time than your existing model. Be open to adjusting your schedule in the beginning to accommodate these clients.

In summary
Planning is key, as you no doubt tell your clients. In terms of your own succession, start planning long before it’s time to exit the industry. In addition to determining how to leave the business, value the practice and communicate with clients, you need to find a successor that you’re confident can build upon your success and honor your legacy.

Furthermore, you must recognize that there’s a chance you’ll be selling to an advisor from a different generation – and that these advisors bring different experiences and approaches – but that’s a good thing. If you’re cognizant about identifying what you’re looking for in the other party and actively working to find the best buyer/seller match, it can be a positive experience for all parties involved.

Instead of focusing exclusively on practice valuation as the major determinate to a successful sale, your focus should be on finding the right fit with a successor. The valuation process can go more smoothly if there’s trust in the relationship and confidence in the future direction of the practice.