5 Keys to Successful M&A

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KEY TAKEAWAYS

• Several trends are driving RIA mergers and acquisitions.

• In a seller’s market, buyers must position themselves as attractive business partners.

• M&A success depends on operational efficiencies.

• Creating a digital capacity for onboarding and workflow automation is fundamental to an outstanding client experience.

• To attract and close deals, buyers must articulate a clear value proposition and message to sellers.
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OVERVIEW
As registered investment advisors (RIAs) grow older, the number of industry mergers and acquisitions is increasing like never before. For opportunistic firms, M&A activity has become a key growth strategy. However, maintaining client loyalty and cultural compatibility are critical for merger success. Professional buyers are looking to technology to improve operational efficiencies, bolster value propositions, and create smooth onboarding processes for acquired clients and staff.

CONTEXT
Tim Welsh, Matt Sonnen, and Linda Ding discussed how buyers can leverage technology to make their firms more attractive to selling advisors.

KEY TAKEAWAYS
Several trends are driving RIA mergers and acquisitions.
According to a recent WealthManagement.com industry survey, RIA mergers and acquisitions are hitting record numbers. Five trends contributing to this surge in M&A activity are:

1. Aging advisors. The average age of RIA owners is approaching 60. With more advisors over 80 than under age 30, it’s not surprising that 40% of owners are looking to retire in the next 10 years.

2. Regulatory pressures. Fiduciary requirements are increasing and the asset management industry is squeezing out of excess basis points.

3. Fee compression. A 2017 Fidelity Benchmarking Study found that 60% of advisors are routinely discounting their fees by 20 to 30 basis points to attract and retain clients.

4. Robot competition. Increasingly, wealth management tasks are being automated. This is affecting advisors’ businesses. The volume of robo assets could grow dramatically by 2024.

5. Client expectations. Client experience (CX) matters. Amazon.com’s service levels have increased customer expectations in all industries, including wealth management. Pershing has found that firms focusing on CX are growing five times faster than those that are not.

Thanks to industry consolidation, growing advisors can turbocharge their assets under management. In addition, M&A provides opportunities for exiting advisors to find a good home for their clients.

Tim Welsh, Nexus Strategy, LLC
In a seller’s market, buyers must position themselves as attractive business partners. Dan Seivert, the CEO of ECHELON Partners, recently noted, “There should be a lot more deals being done. However, there are a lot of bad buyers out there.” In a seller’s market, buyers must work harder. Acquiring firms must evolve from ill-equipped buyers to proven partners.

Characteristics of attractive buyers include:

- A clear value proposition
- Technology and operational expertise
- A multi-disciplined leadership team
- Management capacity for deals
- A transparent compensation structure
- A strong, well-defined culture
- Transition support which includes staff for onboarding new clients

**M&A success depends on operational efficiencies.**

Acquiring firms need a proven infrastructure that selling advisors can confidently plug into. Buyers must convince selling advisors that all of the heavy lifting associated with running a business will be taken care of for them. Sellers want to focus on clients rather than day-to-day operational activities.

In a recent survey by WealthManagement.com, advisors identified the most important technologies and processes for a smooth M&A experience. Their top choices were client communications, workflow management, and new account management processes.

In the same survey, advisors indicated that during a merger or acquisition, they would most want workflow automation or document management technologies.

Creating a digital capacity for onboarding and workflow automation is fundamental to an outstanding client experience.

Firms create a digital capacity by investing in client-facing and onboarding technologies. Better digital capacity translates into smooth and transparent communications with new clients. This generates business value, since high levels of client trust and goodwill are correlated with client retention. The objective for M&A participants is to efficiently transition clients to the new firm.

Five steps required to create a digital capacity are:

1. **Digitize.** Client information must be transformed into digital form.
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2. Organize. In this step, client data is standardized so it can be shared among different systems. Bulk transfer is often a major pain point. The first two steps form the foundation for efficient handling of information assets.

3. Automate. The goal of automation is to minimize the number of manual tasks. Streamlining extends process automation to complex procedures. Laserfiche’s Forms Magic, for example, can tie CRM, digital signature, and forms systems together seamlessly and intuitively.

4. Transform. The final stage of the process is to achieve the necessary levels of digital transformation. By investing in client-facing and onboarding technologies, buyers can efficiently transition clients to the new firm during an M&A deal.

Linda Ding, Laserfiche

To attract and close deals, buyers must articulate a clear value proposition and message to sellers.

Professional buyers convey a powerful benefit message that is easily understandable to selling advisors and that appeals to their long-term future and continuity goals. Further actions to strengthen a buyer’s value proposition are:

1. Differentiate your “advisor pitch” from your “client pitch.” Selling advisors must feel that their clients will receive better service, better technology, and access to more investment opportunities after the merger.

2. Map out your digital strategy. Evaluate what tools are available.

3. Audit your IT system. Bring in an objective firm that can identify gaps and opportunities in the existing IT infrastructure. It may be possible to retrofit some systems, rather than buying all new ones.

4. Plan ahead. Consider whether the firm has the infrastructure and people in place to simplify life for a selling advisor. Key capabilities include onboarding, HR, compliance, technology, marketing, and trading.

One of the biggest mistakes buyers make is expecting the seller to impress them. There are 10 to 15 buyers vying for every seller. In this environment, it’s up to the buyers to impress the selling advisors.

Matt Sonnen, PFI Advisors

OTHER IMPORTANT POINTS

• Wirehouse acquisitions. When making a wirehouse acquisition, firms must address real estate issues, such as finding office space for new staff. In addition, wirehouse advisors typically focus on production credits, while RIAs focus on revenues. The “exchange rate” between production credits and RIA revenue is rarely one-to-one. New clients acquired from a wirehouse deal will also require “repapering” (i.e., signing new paperwork) after the transition.

• Additional resources. Additional information about successful M&A deals can be found in two white papers: M&A Through the Operational Lens and How to Harness RIA M&A Strategies for Growth.
EXECUTIVE SUMMARY

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BIOGRAPHIES

Matt Sonnen
Founder & CEO, PFI Advisors

Matt Sonnen has 20 years of experience in the financial services industry. Prior to founding PFI Advisors, he learned the ins and outs of the wirehouse model at Merrill Lynch in the late 1990s. After leaving Merrill in 2005, he was introduced to the RIA marketplace a few years later when he helped build the infrastructure for Luminous Capital prior to its founding in 2008. As COO and CCO at Luminous, he navigated the technology and compliance challenges as the firm grew from $1.7 billion in assets to nearly $6 billion in less than five years. Luminous Capital sold to First Republic Bank for more than $100 million in 2012, after which Matt headed to Focus Financial Partners in New York City. There, he helped breakaway teams and recently-formed RIAs develop strategic initiatives to benefit from best practices, streamline operations, and improve efficiency before heading back to California to launch PFI Advisors with his wife and business partner.

Linda Ding
Director of Strategic Marketing, Laserfiche

Linda Ding is Director of Strategic Marketing for Laserfiche. In her role, she leads the vertical marketing team in conducting industry research, driving thought leadership, and supporting reseller partners’ professional services and marketing efforts. She frequently speaks at and attends industry conferences, and contributes to discussions on the technology trends affecting highly regulated sectors, including workflow automation, digital customer service delivery and data analytics.

Ding holds B.A. degrees in Economics and Cognitive Science from the University of California, Berkeley and an M.A. degree in Program Evaluation from Claremont Graduate University. In 2017, she was named among the “Ten to Watch” by WealthManagement.com and received the “Fintech PR Rising Star” award from PRNews.

Tim Welsh, CFP
President, Nexus Strategy, LLC

Tim Welsh is President and Founder of Nexus Strategy, LLC, a consulting firm to the wealth management industry. Nexus Strategy works with investment advisors on growth strategies and partners with financial services and technology firms to distribute products and services through the advisor channel. Tim has worked for Schwab Advisor Services and Merrill Lynch and was a member of the Financial Planning Association’s National Board of Directors.