M&A THROUGH THE OPERATIONAL LENS

A strong foundation is key to success.
Advisory firms need top-tier technology infrastructure to support growth through M&A.

- An M&A boom is being driven by aging advisors and industry consolidation.
- In a seller’s market, buyers need to stand out from the crowd.
- M&A success relies on operational efficiency and an outstanding client experience.
- To play in the M&A space, invest now in workflow automation and document management technology.

The advisory industry is in flux. A consolidation wave has swept through the advisory industry in recent years as firms snap up competitors in a bid for growth. Industry studies report record levels of mergers-and-acquisition activity this year, and forecast even more consolidation to come in future years. A recent survey by WealthManagement.com reports that nearly one in four advisors expects to be part of a merger or acquisition within the next two years. And over the next decade, 55 percent of advisors expect the pace of consolidation to continue — and even grow.
There are several factors driving this wave of consolidation. The WealthManagement.com survey found that a large population of aging advisors and a tighter regulatory environment are two key reasons behind M&A activity in wealth management. The advisory industry skews toward older advisors; nearly four in 10 advisors plan on retiring in the next 10 years. What’s more, advisors have had to contend with a host of new rules governing the ways they can interact with clients, from fee disclosure rules to changes in the fiduciary designation for advisors.

Meanwhile, advisors face competition from new technologies which threaten the role of traditional advisors, including robo-advisor, mega-asset manager and discount broker platforms that aim to provide investment management and financial planning services for fees of just a few basis points. Advisors also are contending with increasing operating costs, from the expense of keeping up with changing regulations to the increasing war for talent as firms work to attract and retain advisors amid rising salaries and stagnant revenues.

A shift in client expectations also is fueling some of the industry’s consolidation. For example, clients may demand more timely reporting on their accounts, or a more holistic digital view of their financial picture through the advisor’s website or planning portal. Some advisors may be reluctant to adapt their practices to keep pace with these changing expectations.
A seller’s market requires buyers to work harder

This frenzy of consolidation has created a seller’s market in the advisory industry, as advisors with practices to sell often have their pick of suitors. “There are 10 buyers for every seller these days,” says Matt Sonnen, CEO of PFI Advisors, a consulting firm that offers M&A support services to the advisory industry.

Those sellers often are focused on more than the price the buyers are willing to pay. Sonnen says sellers are exiting the industry, and want to make sure that the firm acquiring their practice has the infrastructure in place to properly serve the practice’s clients. Indeed, the top M&A fear for more than one in three advisors is that clients will have a poor experience during the transition due to operational delays.

As a result, advisors interested in acquiring or merging with a firm would do well to put their best operational foot forward, highlighting efficiencies such as trading systems, client onboarding or performance reporting. They may also want to provide a well-mapped timeline which lays out when key pieces of the transition will happen. Such a timeline will give sellers more confidence that your firm is up to the task of taking on their clients.

At the same time, advisors should be mindful that sellers will want to get a full look inside the practice — warts and all. “If your firm is still using an Excel spreadsheet to manage client billing, it may take two months after quarter-end to send performance reports,” says Sonnen. “That looks like a disaster to a seller.”

Advisors say an efficient and scalable back office is crucial for a successful integration of two firms during the M&A process: More than two-thirds of advisors said such a back office is extremely important, and nearly a third said it’s very important.

“The most important aspect of this transition is bringing the new clients on board,” says Tim Welsh, president and founder of Nexus Strategy, a wealth management consulting firm. “If you give them a stack of documents to sign and tell them it’ll take three or four weeks to get their account set up, that gives the client a chance to think about going somewhere else. You’ve got to make the process more efficient.”
Growth by M&A

Operational efficiency isn’t just important at the early stages of the M&A process. It’s also critical for firms whose goals are to grow via mergers or acquisition. Just a decade ago, Sonnen notes, it was rare to find an RIA with $1 billion or more in assets under management. “This year, there are more than 600 RIAs over a billion,” he says.

Technology has played a key role in fueling that growth, helping firms ratchet up AUM and more easily integrate new clients. “Now it’s the race to $10 billion,” says Sonnen. “But you can’t get to $10 billion through M&A without the systems in place to onboard those assets and service those clients. You’ll be crushed under your own weight.”

Advisors may be skeptical of some areas of the technology universe — especially automation. One reason: Advisors often equate technology with tools for clients which can effectively take the advisor’s place. But resistance to fully exploring technology such as workflow automation tools can significantly hamper advisors’ efforts to grow and scale their practices. “If they don’t want to deploy the latest technology, they risk the client simply moving on,” says Welsh. “In the past, this was a sleepy corner of the financial industry where advisors could work from 9 to 5 and call it a day. But now, there are no such things as office hours: It’s all virtual, and it’s all happening 24/7. Advisors need to adapt to this new reality.”

Tech Tools for Efficient M&A

Advisors weigh in on the technologies they’d most want during a merger or acquisition.

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<th>Technology</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Workflow automation</td>
<td>51%</td>
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<tr>
<td>Document management</td>
<td>49%</td>
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<tr>
<td>Client communications</td>
<td>40%</td>
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<td>Electronic signature</td>
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<tr>
<td>Compliance</td>
<td>34%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
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Keys to M&A Success

Advisors choose the most important technologies and processes for a smooth M&A experience.

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<th>Technology</th>
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<tr>
<td>Client communications</td>
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<tr>
<td>Workflow management</td>
<td>64%</td>
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<tr>
<td>New account management process</td>
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<tr>
<td>Document management</td>
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<tr>
<td>Compliance</td>
<td>56%</td>
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<td>Other</td>
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The good news, says Welsh, is that many advisors have adapted, and know firsthand the power of these tools. Indeed, survey respondents noted that workflow automation and document management tools are most important for boosting efficiency in mergers or acquisitions. Electronic signatures can greatly reduce the time advisors and their clients spend sending documents back and forth, and workflow automation tools can help streamline the process for clients. “It’s good for the advisor, too,” says Welsh. “When you’re faced with the monstrous task of transferring hundreds of accounts, you need every automation tool available to you.”

**Understanding infrastructure**

Advisors must have efficient systems in place to handle the specific tasks of integrating an acquired or merged firm. Take client onboarding: Firms acquiring or merging with another firm may be overwhelmed by the sheer volume of data created by new clients. That’s especially true if a firm needs to move a client to the new firm’s custodian — a process that can be labor- and paperwork-intensive. A fully digital office can help manage that process more efficiently, and deliver clients a more streamlined experience which minimizes the time they have to spend signing paperwork or chasing down information.

Automated workflow management tools and platforms can streamline the account transfer process in several ways. First, these tools and platforms can end one of the most time-consuming parts of this process: clients and advisors sending physical copies of documents back and forth for reviews and signatures. In the past, clients may have waited several days before receiving important documents in the mail, and it may have taken another few days for that signed document to reach the advisor. Digital tools can whittle that process down to just a few minutes: Documents can be securely sent to the client, who can sign them electronically before uploading them to the advisor’s secure portal.

Workflow management tools also can provide much-needed transparency. “Dealing with paper means it’s harder to tell where you are in the account transfer process,” says Linda Ding, director of strategic marketing at Laserfiche. “It could be sitting on someone’s desk, in transit or lost somewhere in the system. Automated workflow platforms can help track where each of these sub-processes are so you can know exactly how far along each account transfer is.”

Ding notes that automated platforms also offer advisors access to a wealth of performance data. That data can be analyzed to, say, identify areas of the account transfer process that are taking too much time or could be improved. These records also offer comprehensive archives for compliance purposes.

Client relationship management systems also are critical to an advisor’s efficiency during the M&A process. CRM systems help advisors keep track of individual
clients — from contact info to detailed records of client meetings. These systems work best when they’re integrated into an open architecture document management system. Digitized records help reduce the human error that can occur when client information has to be entered manually. And an integrated system allows the CRM system to exchange data with other key back-office systems and applications. “If you don’t have a comprehensive and integrated CRM system, you’re really behind the curve,” says Welsh.

Advisors pursue mergers and acquisitions for different reasons. Some are looking for a way to gracefully exit the practice they’ve spent years building, while others are aiming to grow their practice by acquiring another advisor’s book of business. But whether they’re buyers or sellers, advisors understand that a critical part of the M&A process is making sure clients successfully make the transition to the new firm. Having the right systems and infrastructure in place — including workflow automation and document management tools and platforms — can help ensure that the process is as smooth as possible for clients. “Client loyalty is really put to the test during these transitions,” says Welsh. “If you can make the client experience easy and efficient, you greatly improve the chances of keeping these clients through the M&A process.”

Be Prepared
Take these pre-M&A steps to strengthen your practice’s tech infrastructure.
You need strong systems in place to successfully go through the M&A process and transition new clients to your firm. But how do you figure out if your systems are up to par? And if you need to overhaul those systems, when should you start that process? Here are some tips for evaluating and strengthening your tech strategy in advance of a merger or acquisition.

1. Map out a digital strategy. Fuel your M&A successes with a strong digital capability. Rethink your processes today in excruciating details and look for opportunities for digital transformation both ins and outs of the deal. Identify redundant steps and labor intensive tasks where they should be eliminated and changed. Develop a digital strategy is the foundation for driving rapid and effective M&A. It’s a first step that business leaders need to consider today.

2. Audit your IT system. An audit of your IT and operational systems can help identify areas of weakness, and uncover opportunities to improve your firm’s workflow. Start by hiring a consultant who can take the reins of this audit. Custodians also may be able to provide checklists or other practice management resources to help you better understand the state of your systems.

3. Plan ahead. If you need to overhaul your firm’s technology, remember that this work can’t happen overnight. Make sure you leave yourself plenty of time to make any upgrades before launching into a merger or acquisition.

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