
Succession, Scale, Capabilities, or a Combination?

Evaluating Succession Opportunities

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Executive Summary

Advisors spend their career cultivating client relationships. It's no surprise, then, that many express apprehension about retiring and transferring ownership to someone else. A misalignment in successor personality, method or outlook can cause friction between buyers and sellers. This underscores the need to develop and proactively manage a succession plan. With a clear perspective, advisory owners can be more strategic and increase the likelihood of a successful transition.

As financial advisors approach retirement, a substantial portion of assets is poised for transition in the coming decade. Nearly 40% of advisors anticipate retiring in the next 10 years.¹ This puts roughly \$12T in assets under management in motion. Advisors retiring in five or fewer years represent \$2.8T, accounting for nearly 9% of industry assets.² Yet, one in three advisors planning to retire or take a major step back from day-to-day operations within 10 years remain uncertain of their succession plan.³ While many advisors are aware of the need for succession planning, evaluating options and prioritizing the scope of this task poses a significant challenge. This presents both an opportunity to win dislodged assets and a major concern for attrition within the industry.

Succession planning, however, is not a standalone event. It is an essential part of the firm's business plan — vision, strategy, and tactics — and elements of the process are likely to evolve over time. A business continuity plan is part of the succession planning process. The continuity plan accounts for how a firm will continue to operate during an unplanned disruptive incident. This includes the protocol to address the sustainability and viability of the business and minimize any potential harm to clients due to any service interruptions.

Evaluating Business Transition Models

Simply stated, a succession plan outlines the process of transferring ownership, clients, and management of a business from one generation to the next. Advisory owners may choose to plan for internal succession, merge with another firm, sell their business, or develop a plan that combines elements of all three.

Today's market offers advisors many choices for transitioning a practice — a variety of economic models offering varying degrees of control (Figure 1). When evaluating transition models, advisors should take an intentional approach supported by a flexible process with a long-term view.

Figure 1
Business Transition
Models

Transition Strategy	Description	Considerations
Internal Succession		
<ul style="list-style-type: none"> Organic growth Business continuity 	A transition of equity to an individual within the advisory owner's organization: another partner, a junior advisor, other employee, or a family member.	<ul style="list-style-type: none"> + High degree of continuity for clients and staff. + Advisory owner can retire from the job and maintain a limited role if desired. ✓ Best leader for the business may not exist internally; hiring (and training) may be required. ✓ Internal buyers often lack capital; longer-term financing or earn-out proviso structure may be required.
Merger or Acquisition of Another Practice		
<ul style="list-style-type: none"> Inorganic growth Strategic partnership for business growth and succession 	<p>Merger: Combination of two previously separate firms into a single economic entity. Allows some portion of monetization, while allowing the advisory owner to stay involved over an agreed-upon period with select business and/or client relationship responsibilities remaining in place.</p> <p>Acquisition: Buy/sell agreement structure where the acquirer purchases a stake in the practice while receiving a contractual right to become the eventual successor when the advisory owner exits.</p>	<ul style="list-style-type: none"> + Medium to high degree of continuity for clients and staff. + Offers opportunities to access new markets, expand practice expertise and realize economies of scale. + Merger: May provide a route for strengthening both firms and set the stage for a de facto acquisition when founders and/or other leaders move on. + Acquisition: Option offers the possibility of merging the founding generation with the next generation. — Composition of payments tends to vary and include cash payments, exchange of equity and/or bank loan. ✓ Finding the right advisory firm match can be challenging. ✓ Integration may be more complex.
Direct Sale		
<ul style="list-style-type: none"> Divestment of the practice 	A sale of all equity to a buyer and transition of client relationships after the deal has closed. Buyers can include practice aggregator firms, banks or trust companies.	<ul style="list-style-type: none"> + Provides a more immediate liquidity event and performance/retention criteria may be part of the agreement. — Deal structures typically involve earnouts (44%) with down payments (28%) and promissory notes (27%).⁴ ✓ High potential of disruption for clients and staff.

Source: State Street Global Advisors Practice Management.

Risk Mitigation: Protecting the Business You've Worked So Hard to Build

A business continuity plan is an essential part of succession planning. It outlines how a practice will continue to operate during an unplanned disruptive incident — preserving business viability, honoring fiduciary responsibilities, and minimizing potential harm to clients.

Consider the importance of continuity from multiple perspectives:

- **Fiduciary perspective** Financial stability and asset protection are essential. Advisors have a duty to ensure their clients' best interests are protected, even in times of disruption.
- **Business perspective** Success is not left to chance. Owners who delay planning risk losing enterprise value and potentially jeopardize client relationships and staff retention.
- **Client perspective** Clients value clarity and continuity. Advisors should be prepared to demonstrate that clients will be protected in the event of unforeseen circumstances or the retirement of a key individual.

Clear and disciplined continuity planning helps advisory owners evaluate opportunity costs and make more profitable, long-term decisions. Without a well-defined commitment to see the plan through, outside pressures and short-term distractions can derail progress — introducing unnecessary risks for clients, staff, partners, and the advisor's own family.

There are several common and critical gaps that should be addressed to adequately prepare for a range of sudden changes and unexpected disruptions (Figure 2).

Figure 2
**Risk Mitigation:
Address Critical
Gaps to Improve
Business Stability**

Change	Strategic plans for temporary or permanent leadership changes that ensure continuity across advisory services and business operations
Control	<ul style="list-style-type: none"> Define how control and responsibilities will be transferred when needed Identify material financial resources available to the advisor or practice Regularly review governance, structure, and transition economics for sustainability
Client Service	<ul style="list-style-type: none"> Define the process for investment management of client portfolios during leadership changes Outline how client data and assets are secured and what clients should expect Establish policies for safeguarding, transferring, or distributing client assets in various scenarios
Communication	<ul style="list-style-type: none"> Clarify how continuity plans will be communicated internally, externally, and with third-party partners Formalize practice privacy policy (written statement distributed and available to all clients)
Consistency	<ul style="list-style-type: none"> Outline compensation for key professionals and reinforce equity sharing commitments Ensure systems and operations have backup, recovery, and protection measures in place
Covenants	Ensure the team stays together, debt obligations don't compromise the practice, and required transactions are clear or are appropriately restructured

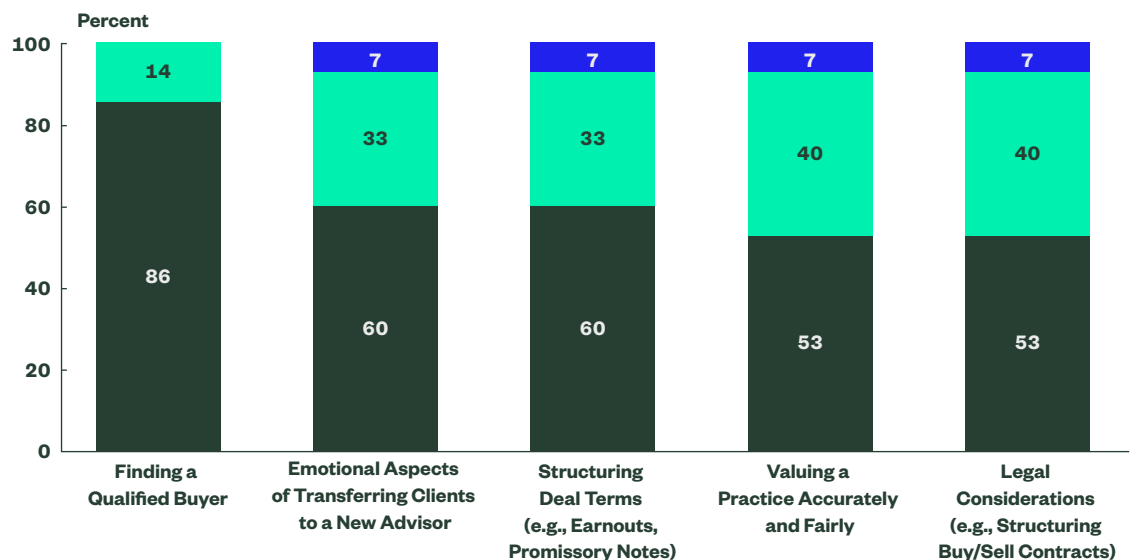
Source: Echelon Partners, "Continuity Planning Solutions for Wealth Managers," 2018. Common challenges advisors struggle with. State Street Global Advisors Practice Management.

Laying the Groundwork for a Successful Transition

Whether an advisory owner is actively looking to transition the business through a merger or just starting to explore the possibility of retirement, there is value in starting to do the groundwork now. Advisory owners must contend with a series of decisions that call for introspection and potential tradeoffs (Figure 3) — and many often struggle to let go of their business, career, and clients. However, having a plan in place is simply smart business. Creating such a blueprint requires the advisory owner to think through and develop systems and processes for the business to ultimately run without them.

Figure 3
**Top Five Succession
Preparation
Challenges**

■ Major Challenge
■ Moderate Challenge
■ Not a Challenge



Source: Cerulli Associates, The Cerulli Report: U.S. Advisor Metrics, 2024. Responses are from practice management professionals. Challenges are sorted by percentage indicating each as major challenge.

A thoughtful place to begin is with the end in mind.

- What should happen as the practice continues to develop?
- How do you want your career to progress?
- How do you plan to exit the business?

Conducting a candid self-assessment of the business' current state and your future aspirations will help identify steps for the next chapter.

Vision: What do you want to accomplish with the business transition plan?

- Do you want to disengage entirely from the business or stay on in a different role? How does this align with the goals you have for the practice — and for your retirement?
- If you stay on with the practice as part of the transition plan, what will your role be? Mentoring new advisors? Serving as a board member? Transitioning key clients?

Leadership: Who should lead the business and who will serve clients well?

- Will you be comfortable giving up control of your practice to new leadership? If the succession plan includes human capital, can you build ownership and compensation incentives to attract and retain next-generation advisors and valued support staff?
- Is the right talent within the firm today? Perhaps a defined M&A strategy has the potential to realign the trajectory of the business — or does an external sale seem to be a better fit?

Strategy: What will implementation look like?

- How best to manage expectations — yours, current team members, future leadership, and clients? Is optimizing the business structure foundational to the plan?
- What key milestone can be used to guide — and course correct — the strategic plan? How can you use time to your advantage when addressing both short- (unplanned events, death or disability) and long-term considerations (planned scenario, exiting, and retirement)?

These questions help define a future vision, but the answers may evolve over time. Advisory owner leadership and transparency are essential to a successful strategy. Succession is about more than the transaction — it's also about growth, continuity, and setting goals that focus on real progress, not just activity.

Five Guidelines for Shaping a Comprehensive Succession Strategy

The choices an advisory owner makes during the succession planning process do much more than clarify how leadership is transitioned. A comprehensive plan demonstrates to clients and team members that not only is the business capable of facing any unforeseen environment headwinds (such as the coronavirus pandemic), but that current firm leadership is able to help steer them through to a more secure future.

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Budget Ample Time for a Transition

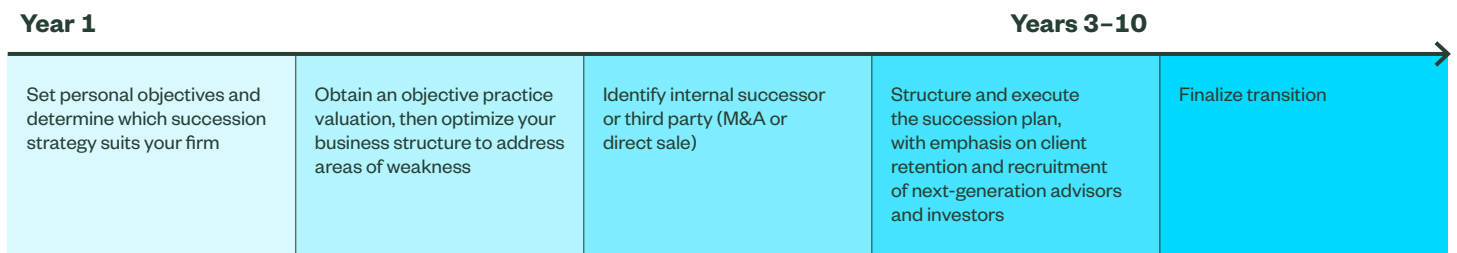
It is never too early to begin discussions related to succession planning (Figure 4) and knowing what the priorities are is a key component. Identifying your time horizon informs the timing of seeking a potential successor. Certainly, it is possible to plan your succession with a one-year horizon, however a shorter timeline imposes risks and constraints that a longer timeline wouldn't.

- For an internal succession, plan for a minimum of five years:
 - The talent required to take over and grow the practice may not exist in-house. Hiring externally can be time consuming and the first hire may not be the right choice.
 - Few individuals can raise the capital required to buy an advisory business, so the purchase must typically be financed by the owner over an extended period.
- “ Not only does internal succession require a longer runway, it requires that owners create more than one viable option. Putting all your eggs in one basket by assuming one key individual will be the answer to your succession plan carries high risk. Identifying successors that demonstrate the character, values, skills and financial wherewithal takes time, so the more time to plan, the better.”
 - Eliza De Pardo, Founder and Director, De Pardo Consulting

- For a merger or direct sale, plan for a minimum of two years, but recognize that while there are firms that have become quite adept at managing the integration process, integrating firms can be complex and time-consuming:
 - Conduct an independent valuation before getting underway with a search. This leaves time to optimize business value if there are areas where the practice may fall short.
 - Lead time is required to source and perform due diligence on the right partner or buyer, build relationships, and adequately negotiate the structure of the agreement.

Figure 4

An Effective Succession Plan Can Take Several Years to Execute



Source: State Street Global Advisors Practice Management.

Figure 5
Methods for
Practice Valuation

Understand the Drivers of Practice Valuation and Address Weaknesses

While many advisors rely on a multiple of revenue to value their practice (Figure 5), practice management professionals recommend a third party to provide a fair, objective assessment that captures the full complexity of the business.

Valuation Method	Practice Management Professionals: Frequency of Valuation Methods Used by Advisors				Practice Management Professionals: Suggested Methods (%)
	Never (%)	Sometimes (%)	Frequently (%)	Always (%)	
Multiple of EBOC, EBITDA, or Another Financial Metric	7	21	43	29	67
Valuation by a Third Party	0	36	50	14	67
Multiple of Revenue	0	7	21	71	47
Discounted Cash Flow Based on Financial Projects	0	57	29	14	33
Percent of AUM	14	29	43	14	7

Source: Cerulli Associates, The Cerulli Report: U.S. Advisor Metrics, 2024.

“Valuation professionals understand two things. First, value is a function of the future. Second, the key drivers of value are free cash flow, risk, and growth, not gross revenue. An advisory firm may be generating a high level of gross revenue, but underperforming in terms of cash flow or net profits, have a high degree of risk and uncertainty, such as overdependency on the founder, or a poor organic growth rate. A third-party valuation professional will take these factors into account. Revenue multiples are often used in postmortems or cocktail conversations but are not always helpful when buyers are making an investment decision.”

— Mark Tiberghien, Independent Director, Pathstone

Sellers often have unrealistic expectations for their practice's valuation while buyers are evaluating the practice's future revenue potential — and an aging client base diminishes that prospect. Divergent expectations can break a deal so aligning interests is critical.

Valuation concerns remain top of mind. While many established methods exist, all involve some degree of complexity and subjectivity — requiring both buyers and sellers to be prepared. A revenue multiple may serve as a starting point with adjustments made (up or down) based on the following characteristics of the individual business:

- Assets under management
- Client age and tenure
- Revenue mix
- Product mix
- Operations and technology platforms
- Financial terms of the deal
- Business location

Focus on Key Decision Factors

When the opportunity for growth shifts to the need to add a financial advisor partner — build a larger combined business — both parties should be mindful of sourcing complementary skill sets rather than identical or matching ones. This aspect of inorganic growth is about developing the infrastructure necessary to navigate this growth phase.

Practice management specialists note that far too often, advisors approach acquisition targets trusting that transitions will simply run smoothly instead of taking the time to assess whether the acquisition is truly a good fit for the practice. Advisors often fail to have extensive, upfront conversations about how they will integrate incoming clients into the client service model or what the future growth plans for the combined entity may look like.

During the due diligence phase, buyers and sellers are often heavily focused on valuation and may overlook critical factors that drive long-term success such as technology adoption, pricing strategy, and the practical steps required to achieve anticipated benefits like economies of scale. Advisors should assess fit and compatibility across the entire business model, including client demographics, service philosophies, and human capital alignment.

Cultural considerations are particularly important, given that a cultural misfit can derail an acquisition and substantially disrupt the client experience. As explained by Andrew Blake, Associate Director of Wealth Management at Cerulli, firms must adhere to company culture when exploring M&A. “Establishing clear expectations for integration processes, timing, and post-deal roles and responsibilities is essential to ensuring a successful transition,” Mr. Blake notes. “Strategic partners can help advisors understand how to integrate on all levels to create successful M&A outcomes.”

Build Your Human Capital

Over the next 25 years, approximately \$124T in wealth is expected to be transferred intergenerationally — including \$105T passed to heirs and \$18T to charitable causes.⁵ Yet more than 70% of heirs are likely to change financial advisors after inheriting wealth — a striking statistic that underscores the asset attrition risk for advisors who haven’t built relationships across generations.⁶

An overconcentration of assets within a single client segment can diminish long-term business value. While serving the older demographic remains essential due to their substantial wealth holdings, it’s imperative to begin cultivating relationships with the next generation as they represent a viable demographic for portfolio growth.

With Americans collectively possessing approximately \$156T in assets, baby boomers hold half of that wealth at \$78.1T.⁷ Generation X — in or approaching their prime wealth accumulation years — controls \$46T, nearly 30% of the nation’s wealth, while Millennials currently possess \$13.3T, constituting 8.5% of the total.⁸

Together Gen X and Millennials are projected to receive \$84.6T of the \$105T transfer to heirs.⁹ Amid this transition, affluent investors are seeking more investment advice than in the past — a jump from 34% in 2018 to 43% as of 2024 — as geopolitical events and market volatility drive concerns.¹⁰

Generation X in particular is an investor segment that requires guidance as they show signs of financial distress: trying to save for retirement while also supporting children and aging parents. More than two-thirds of this cohort are not optimistic about their financial outlook, and over 60% continue to express concerns about inflation and its impact on their ability to sufficiently fund their retirement years.¹¹

In conversations with Mr. Blake at Cerulli, many advisors express surprise at the lower-than-expected valuations proposed by potential acquirers — often due to the advisor's book of business being in decumulation and lacking a clear growth plan. While practices serving older clients may appear more profitable in the short term, those with younger client bases tend to achieve higher long-term growth rates. Proactively diversifying the client base can help avoid trade-offs between growth and profitability.

A teams-based approach promotes continuity of relationships, even as senior advisors retire. Sharing stewardship over client relationships and leveraging a team's collective talent supports growth. Associate advisors bring fresh perspective and are more likely to engage younger investors who may be overlooked by established practices.

By ladderizing advisory talent across generations — from Boomers to Gen X to Millennials — the firm is in a better position to address the different concerns of clients across the generations. Advisory owners who invest in the career of younger financial advisors not only create potential internal succession options but also help the business drive future growth.

“ Every time I interact with someone who really impresses me, particularly younger professionals, I put their name on a list. When I want to hire new team members, I send the job description to everyone on the list. If the people on my list are not interested themselves, they might know someone who could be ideal for the role. This is a simple strategy to quickly get the word out to a large number of prospective candidates.”

— Advisor, Morgan Stanley

Case Study: Sourcing, Developing, and Mentoring Young Advisors

One of the most common questions posed by financial advisors to Sterling Shea, Head of Practice Strategy for Morgan Stanley Wealth Management, is how to source, develop, and mentor young advisor talent into potential successors.

“These are among the most important, albeit challenging activities for any financial advisor,” says Shea. “Too often, I see advisors spend decades building an outstanding business, only to begin the succession planning process too late and end up not finding a suitable match to whom they can transition ownership and leadership of the team.” As a result, the practice owner is forced into a defensive position — or even left desperately seeking an answer for the future — which can create negative ramifications for their business and team culture.

For those teams who get it right, what is their secret to success? “In my experience, the secret is to dedicate time, energy, and resources to business continuity. The succession plan should be developing, evolving, and actively executed all the time, as opposed to receiving attention periodically or a few years before retirement,” notes Shea.

The process begins with talent acquisition. “Successful talent acquisition strategies mirror many fundamentals of a new business acquisition strategy: Building and maintaining a strong professional network, having a clear and visible team brand, and keeping an active and relevant digital footprint,” describes Shea. “Networking and brand building internally and across a variety of external sources will attract top talent — both seasoned and green.”

Lastly, Shea encourages advisors to consider how they are training and mentoring talented team members. “Is your process for their development strategic and intentional? Are you making the right introductions to clients and centers of influence? Are you building their skill set for long-term success? Are you considering your team members’ career goals?” asks Shea. “In short, the key to success in talent sourcing — and ultimately, in succession planning — is the same as it is for any function of the business: It requires strategy, intent, and accountability.”

Be Proactive With Clients

When evaluating potential successors, key traits to look for include the ability to prioritize clients' best interests (97%), establish strong chemistry with existing clients (87%), and demonstrate alignment with your practice's financial planning philosophy (80%).¹² These qualities help ensure continuity of care and build client confidence throughout the transition. Retiring advisors have often spent decades cultivating relationships with their clients and may feel apprehension about handing them over. They want to choose a successor who will similarly care for their clients and nurture the business.

Many practice transition deals include an earn-out structure, where price adjustments are tied to client retention. That makes alignment in personality, style, and service philosophy especially important. A mismatch between buyer and seller expectations can cause friction — underscoring the value of a thoughtful due diligence process, careful successor vetting, and open conversations.

Transparency is important. Clients need to feel confident that they remain in good hands during a planned transition or unexpected disruption. Many already anticipate the day their primary advisor will retire. Proactive engagement helps preserve trust and protect assets.

For both internal and external successions:

- Include the eventual successor in client relationships well ahead of retirement.
- Collaborate with the successor to ensure continuity in service and investment management.
- Pair associate advisors with senior advisors in client meetings to build rapport and ease the transition.

Succession Planning Is About More Than Retirement

A succession plan is a powerful tool for maximizing practice value and strengthening client relationships. When care is taken to plan ahead, the advisor-client bond grows stronger.

But those who delay planning risk falling short of full business value. Just as important, the absence of a robust continuity and succession plan can weaken next-generation client retention.

The time to act is now — protect and enhance the future of your business.

Endnotes

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* Pensions & Investments Research Center, as of December 31, 2023.

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