# Capitalizing on RIA Consolidation: Branding Yourself a *Successful Buyer*

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# Introduction: The RIA M&A Landscape

**The RIA industry continues to attract advisors of all sizes who value independence and want to create an experience beyond that of the big, traditional broker-dealers.**

RIAs have benefited from a combination of bullish markets, positive public perception of the space, and clients' continued acceptance of the value the RIA model offers, including the assurance of the RIA's role as fiduciary, their access to multiple sources of research, ability to align best-in-class tools, technologies, and resources, and the chance to deliver unbiased solutions and non-traditional opportunities within better fee structures.

As a result, the RIA space continues to grow exponentially, now encompassing more than 12,000 SEC-registered RIAs[1] in the United States with upwards of $82 trillion AUM[2] – and rising. That also means 12,000+ brands trying to differentiate themselves and grow their businesses across the emerging independent frontier – a veritable Wild West frenzy of entrepreneurs standing at the forefront of change but in dire need of help to move forward.

RIAs are not only competing with each other but must simultaneously guard against the deep pockets, expansive advisor networks and sophisticated governance models of major traditional players – and keep a watchful eye on industry behemoths with the firepower to build, buy or spin off their advisors to create a formidable RIA brand with massive scale.

In turn, it's no surprise that larger RIAs are moving fast and turning to M&A to accelerate growth – and most experts predict that this consolidation trend will intensify with deals becoming larger and more complex. According to Fidelity Investments, the average transaction size is up almost 30 percent to about $1.2 billion. Fidelity tracked nine RIA deals representing $16.6 billion, "…including three multi-billion-dollar AUM transactions," in October 2018 alone.[3]

As reinforced in ECHELON's recent report, 2018 marked a sixth consecutive M&A record year for RIAs with 181 total transactions – 8% higher than 2017 and more than doubling the number of deals in 2013 – and the outlook for M&A activity in 2019 is strong.[4]

Complexity doesn't just refer to the larger size of the Buyer and Seller involved in M&A transactions, but also to the complex components both Buyer and Seller need to bring to the negotiating table in order to successfully complete a transaction. "Ten years ago, all you needed to have was a checkbook. Now, that doesn't work. There are so many options, and the hyper-competitive nature of the buyer community is making everyone work harder,"[5] says Rich Gill of Wealth Partners Capital Group.

An alignment of interests and business values must be developed between Buyers and Sellers in order to truly ensure the right fit, gain the most efficiencies from a deal, and create a firm capable of driving immediate and ongoing growth. To do so, Buyers should think beyond the financial structuring of the deal, understand the interests of Sellers, and "…articulate the value they bring to the table in terms of strategic positioning, as well as assurances that the Sellers' staffs and clients will be well taken care of,"[6] says Rich Gill.

While "…succession planning is often cited as another M&A driver,"[7] Matt Brinker, head of acquisitions for United Capital, thinks it may be over emphasized. He believes that clients "…are demanding more for what they are paying and, operationally, (selling) firms are stuck between lifestyle business and scale. A strategic Buyer can often solve a lot of what is ailing these (selling) firms by providing scale, digital tools and growth programs."

This means that Buyers in the RIA world will need to really figure out what they are offering to potential selling advisors and advisory firms. This white paper addresses the value and importance of RIAs defining and communicating their brand to optimize M&A opportunities, and the five building blocks they can put in place to help become a *Successful Buyer*.

[1] "With 17,000 RIAs in flux, state regulators issue exam guidance" Financial Planning, May 8, 2018
[2] "All About RIAs in 2018" ThinkAdvisor, September 6, 2018
[3] "Fewer But Larger M&A RIA Deals Completed In 11 Months Of 2018" Financial Advisor Magazine, December 13, 2018
[4] "ECHELON's RIA M&A Deal Report US Wealth Management | Q4 2018
[5] "Successful RIA Deals Take More Than a Checkbook" ThinkAdvisor, December 12, 2018
[6] Ibid.
[7] "Can the Bull Market in RIA M&A Continue its Record Run?" Financial Planning, March 7, 2018

# Defining Your Brand

**Who will rise to the top and capitalize on this competitive and consolidating RIA space?**

We believe it will be those firms who proactively shape differentiating brands, invest in their business models and operations, and find the right partners (as Buyers and Sellers) to enhance their ability to:

- unlock new and sustainable growth
- build scale and enhance governance
- expand solutions and access to investment opportunities
- attract and develop talent
- advance tools, technologies and resources
- enhance digital capabilities and the client experience

The biggest RIAs are ahead of the game – controlling the majority of assets, investing in their business models, scaling infrastructure, and driving growth both organically and through M&A deals. This leaves a massive number of small and mid-size firms grinding it out to compete.

Many of these small and mid-size firms are driven by advisors with bold visions and courage – that's why they pursued the entrepreneurial, RIA space in the first place. They have strong books of business built over time. They've earned the trust of clients. They believe in what they do and are passionate about doing it. Unfortunately, most will have a difficult time generating sustainable growth and building scalable businesses. They simply won't be able to make their visions a reality on their own.

Some of the herd will be naturally thinned out by market, economic and regulatory forces. Others will give up their independence and rejoin traditional firms. Many of the remaining RIAs will eventually seek a partner: either acting now and *proactively* finding the right Buyer to enhance growth and scale or staying the course and *reactively* falling victim to lack of scale, required investments in technology and/or the need for a succession plan.

**This means fertile ground for Buyers to level-up growth through mergers and acquisitions.**

Unfortunately, too many M&A deals do not live up to expectations. Reasons vary but can include overpaying and eventually divesting at lower valuation; lack of disciplined due diligence to evaluate synergies, markets, and clients; and inadequate attention to brand, culture and the degree of fit between the Buyer and Seller which can lead to an exodus of talent.

Buyers will be well-served by first recognizing the type of Seller that would best advance their vision, understanding what the Seller is looking for, and articulating their value to the Seller – in effect, framing the negotiation around the power of what's possible versus price alone, and helping both the Buyer and Seller assess and confidently determine whether the fit is real and additive for both firms – or simply appealing on paper.

Buyers should understand that the process can be confusing and filled with anxiety for Sellers trying to find the right partner. Sellers often want more than a big payout.

- They want to join a firm that aligns with their own beliefs and goals – a Buyer with a clear and powerful brand, vision and purpose.
- They want a Buyer they can trust – one with a track record and reputation for living up to its promises.
- They want to know the Buyer has a strategy and structure to integrate and grow the Seller's business, and will invest in an experience that supports and adds value to clients through best-in-class tools, technologies and resources.
- And Sellers want a Buyer committed to the personal and professional development of people.

These are essential value points for the Buyer to realize – value that lives beyond the price of the deal and value that will be the direct result of shaping an authentic brand that is true to the Buyer's firm.

**So how can Buyers build their brand and reframe their positioning with Sellers?**

First, Buyers should take a step back and understand that their brand is more than a logo, tagline, or creative campaign. It is a promise of value to target markets and a source of pride for employees. It represents the unique and enduring bond between the firm and its internal and external audiences. It drives and connects everything the firm does, says and stands for – creating a positive, memorable experience, evoking an emotional connection with the audience, and becoming an assurance of quality and consistency that the firm delivers as promised. In effect, the brand and the business are one.

Second, Buyers should ask fundamental questions that tap the deeper essence of their firm's purpose and beliefs, clarify and reframe how they articulate their capabilities, offerings and value, and challenge and stretch their vision and what's possible. Who are we and what do we do best? Why do we exist as a firm? What business are we really in and how should clients evaluate, appreciate and use our firm? Who are our clients and what unique value and capabilities do we provide? What is special about the experience we deliver to clients and advisors? What beliefs unify us as a culture? Where are we headed and how will we get there?

It is important to keep in mind that these questions should be considered not simply within the context of competitors and the Buyer's own credibility today but also its aspirations – who, what, and where they want to be – as that will be essential to vetting the right Sellers and deals, and telling a powerful story of evolving capabilities and enhanced experience post-deal.

Third, the brand "answers" (strategy) should be codified and shared internally to galvanize the team and operationalize the brand across the organization; for example, directing development of an engaging and distinct experience across all touch points and journeys (internal and external); aligning operations, processes, and systems to consistently deliver and reinforce the brand promise; prioritizing actions and communications to ensure a clear, crisp, differentiating story; and discovering new ideas and ways to bring the brand to life.

Finally, Buyers should infuse the brand into all external communications – at a high-level to position the brand and generate awareness and appreciation, and specifically to reinforce at least three levels of value to Sellers that will prove essential in negotiating deals: *strategic value, market and operational value, and culture value.*

*Strategically*, Buyers should position the brand as a beacon of clarity – attracting, engaging and inspiring Sellers to join a firm with a strong sense of identity, purpose and direction; a firm that stands out in a sea of sameness and knows how to win in a crowded and changing marketplace. *Operationally*, Buyers should communicate the brand's promise of value and internal alignment to deliver – conveying to the Seller that the firm is committed to clients and solutions, invests in infrastructure, and stays at the forefront of marketing, solutions, and support. *Culturally*, Buyers should reinforce the firm's beliefs and esprit de corps – instilling confidence in the Seller that the firm is committed to empowering people, attracting and developing talent, and working in unified purpose and direction.

**By cultivating clarity and building the brand, Buyers can reframe their M&A approach to ...**

- identify Sellers that best fit the Buyer's brand, culture, vision and growth goals
- match Seller excitement as they make this huge personal and professional decision
- ensure a clear and relevant positioning, recruiting and onboarding strategy
- demonstrate commitment to an exceptional experience for both advisors and clients
- show advisors that the Buyer's brand, tools and offerings are strong enough to lead them through their entire journey – from integration to acceleration to unlocking value

Above all, they can negotiate and structure better deals for immediate and ongoing results.

The wealth landscape is rapidly transforming – and will continue to be marked by sweeping consolidation across the RIA industry specifically. For those RIAs (Buyers and Sellers) who understand the implications, take the time to think through their brand, and align the right partners and deals, the opportunity for significant and sustainable growth has never been greater.

# 5 Building Blocks to Becoming a Successful Buyer

To become a Successful Buyer, the acquiring RIA needs to build its:

## 1. Buyer Brand

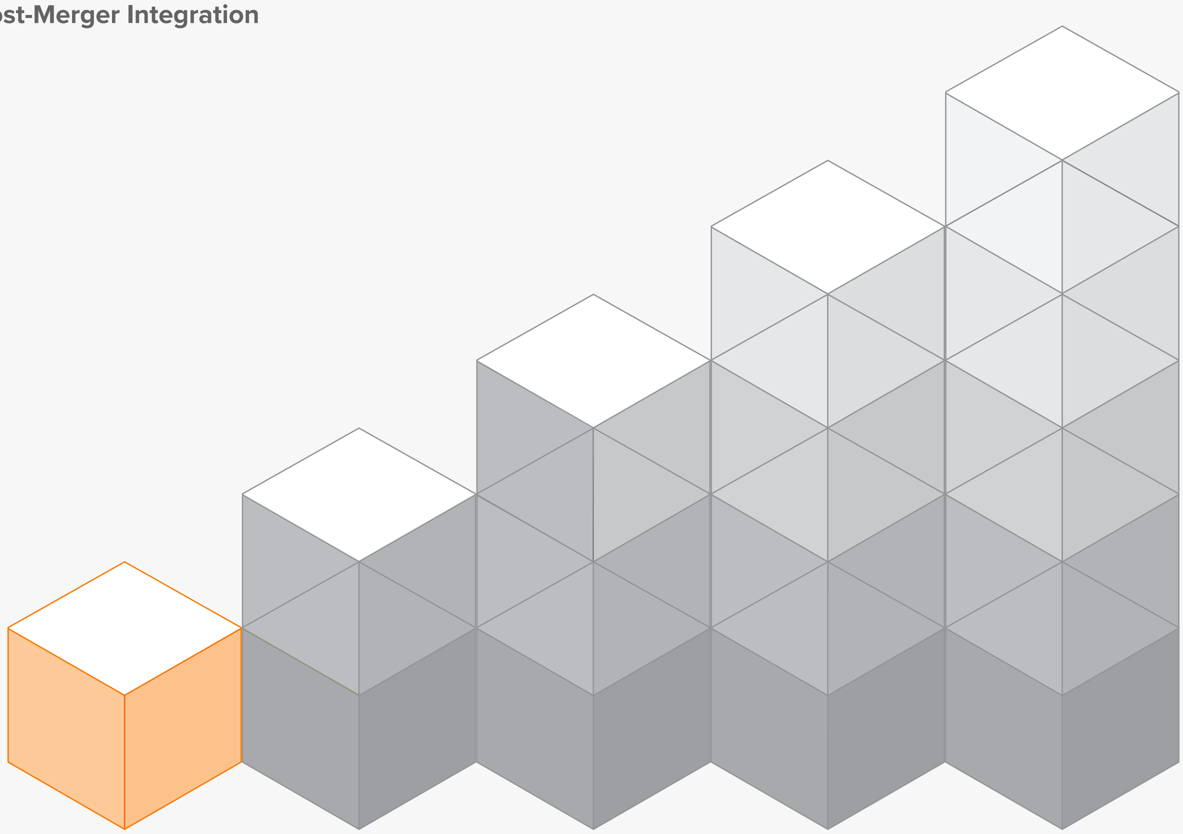
The RIA Buyer should ensure overall strategic clarity – who it is, what value it provides, what type of Buyer it is, and what the Seller can expect. For example, is the Buyer an integrator? Consolidator? Platform? Partner? Passive Investor? Financial Acquirer? Strategic Acquirer? Branded Acquirer?[8] Each variety of Buyer works with selling advisors in different ways, and how an RIA defines their Buyer Brand compared to other RIAs will make it easier for Sellers to understand their options and who will be the right fit for them.

**2. Specific Advisor Pitch**

**3. Onboarding Plan**

**4. Client Messaging & Communications**

**5. Post-Merger Integration**



[8] "RIA Sellers Guide: Who's Buying, and What They Want" Financial Planning, August 17, 2016

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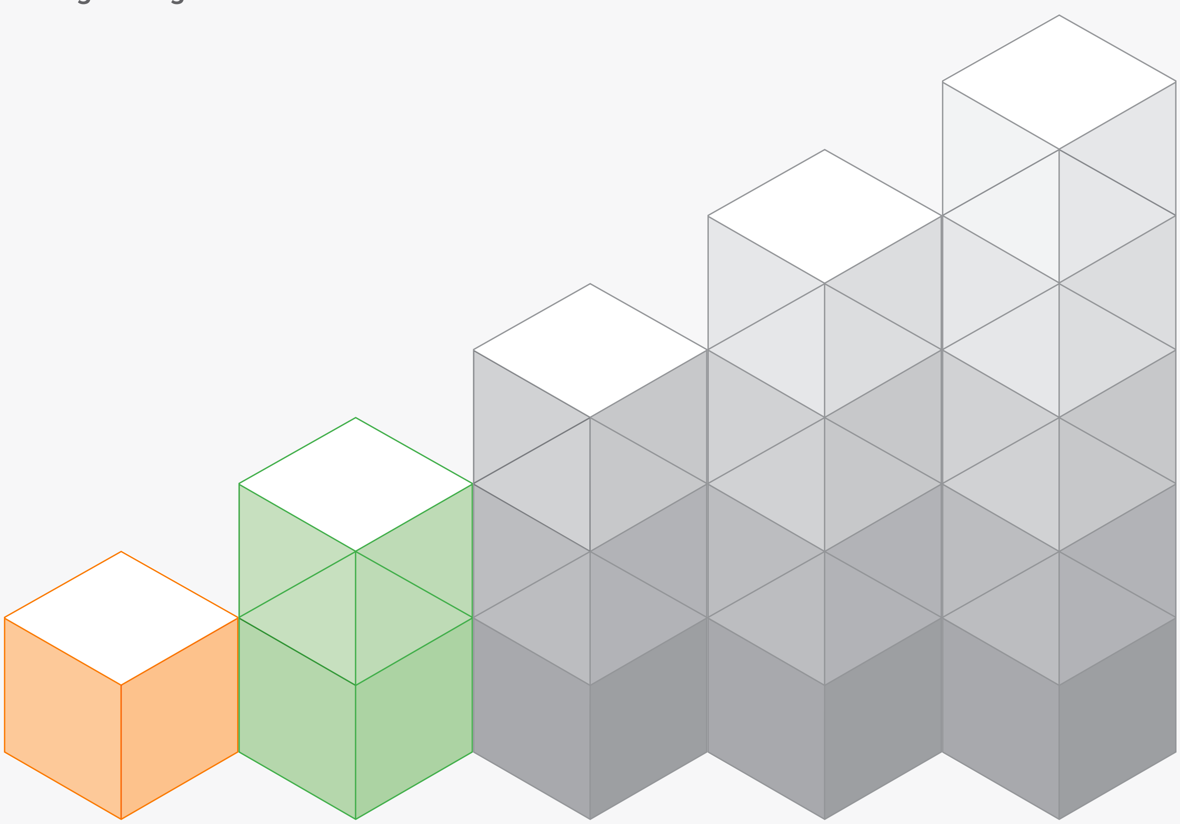
The goal here is to engage Sellers. The Buyer must have a powerful and specific value proposition that is clear, coherent and appeals to the Seller's immediate needs and long-term future and business continuity aspirations. This proposition needs be shaped to understand and fit the selling process, and connect with the Seller's mindset, concerns and goals. In turn, the pitch will likely feature substantially different messaging and value points than would be communicated in the RIA's pitch to clients and prospective clients.[9]

**3. Onboarding Plan**

**4. Client Messaging & Communications**

**5. Post-Merger Integration**



[9] "Becoming A Professional Buyer, Part 2: Harnessing RIA M&A Strategies for Growth" PFI Advisors, April 5, 2018

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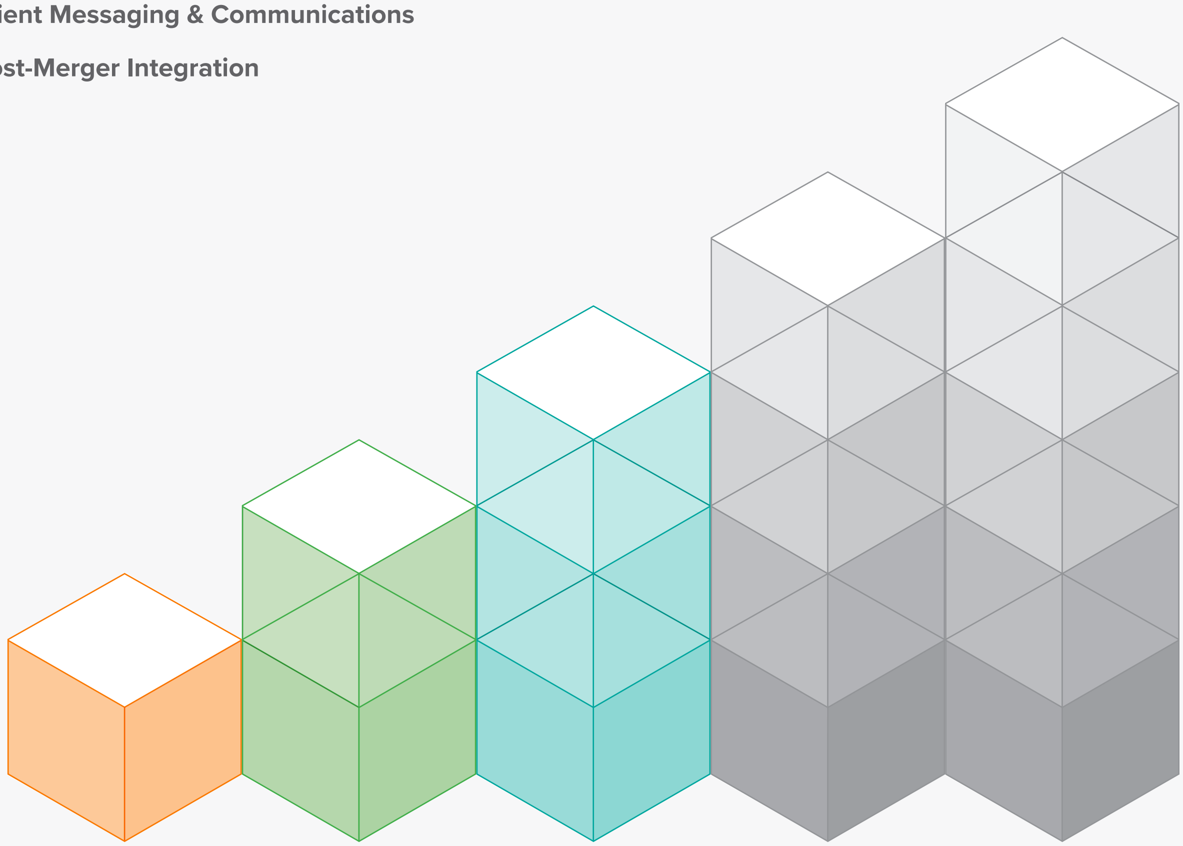
## 3. Onboarding Plan

The Buyer's Advisor Pitch should include exactly *how* they will integrate the Seller's firm with their own. Selling advisors will want to see that the Buyer has thought of everything so they don't have to. This turnkey process should include specific tasks, roles and responsibilities, and an overall timeline that displays when all tasks will be completed. More detailed project plans may even include tasks that trigger specific workflows within existing firm processes. This will assure the selling advisor that the Buyer is a pro and instill confidence that the Buyer will incorporate their clients and employees into the acquiring firm seamlessly with a pre-defined plan.

**4. Client Messaging & Communications**

**5. Post-Merger Integration**



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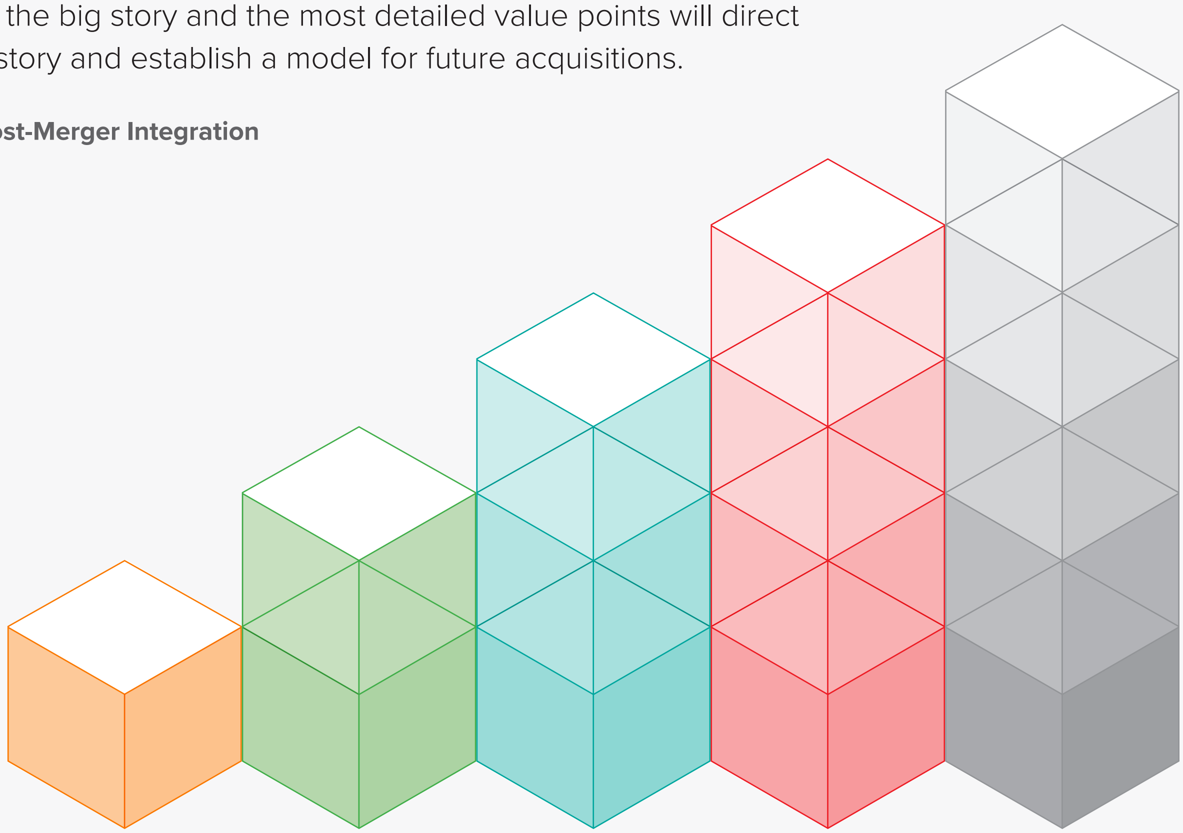
## 4. Client Messaging & Communications

Once a selling advisor has inked a deal with the buying RIA, they are immediately inclined to share their exciting news with their clients. But what do they say, exactly? It's important to have a marketing and communications plan at the ready to help the new advisor effectively communicate with clients. A Buyer who has thought through its brand and vetted a Seller who fits and enhances that brand will be in a position to tell a powerful story to both the Seller's clients as well as its own – why the Seller has joined the Buyer, who the Buyer is, how this transaction helps clients and what value they can expect, and the like. Creating a message grid with the big story and the most detailed value points will direct the story and establish a model for future acquisitions.

**5. Post-Merger Integration**



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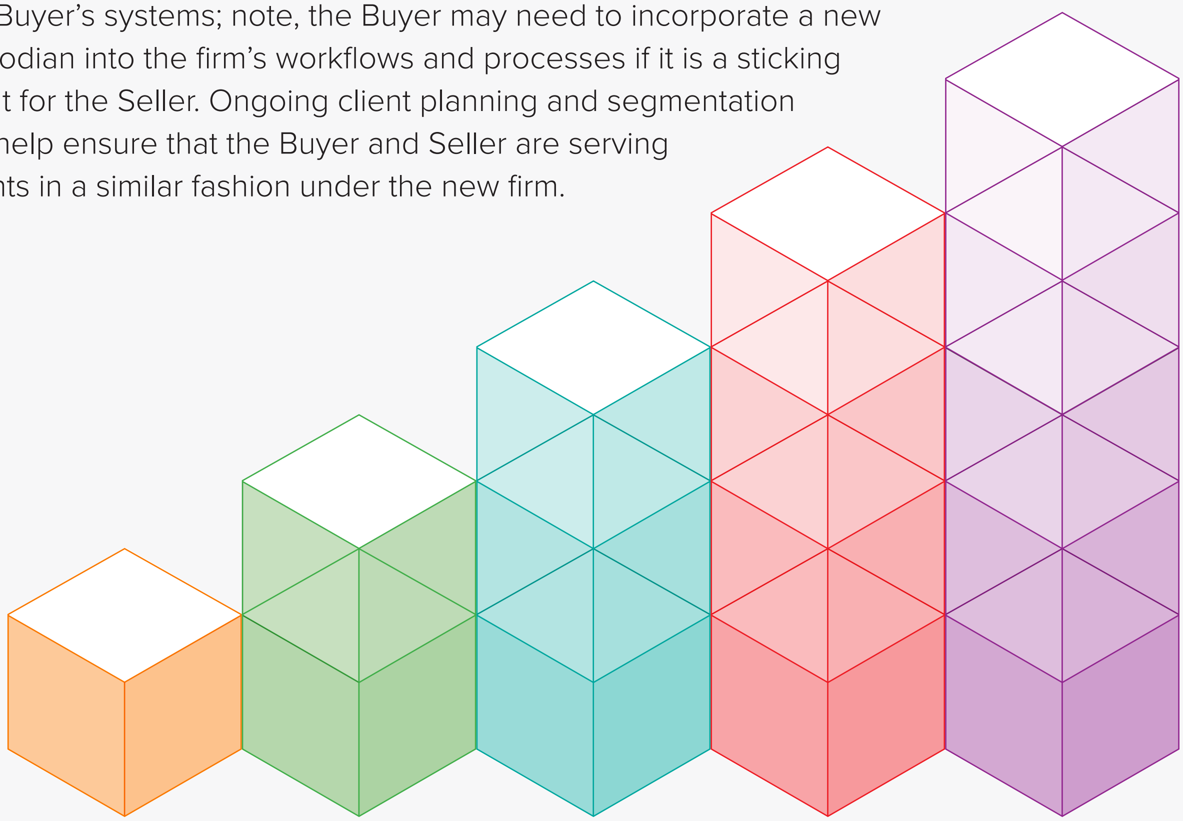
## 5. Post-Merger Integration

Many Buyers pop the cork when a Seller says "yes" and the two firms agree on purchase price. However, once the deal is signed, the real work must begin! As Chris Voss, former FBI hostage negotiator and author of the famous negotiating book *Never Split the Difference* likes to say, "'Yes' is nothing without 'How.'" Internally, employees must be onboarded – and, moreover, inspired and engaged as part of a unified and growing culture. Externally, client assets – and personal data – must be seamlessly onboarded to the Buyer's systems; note, the Buyer may need to incorporate a new custodian into the firm's workflows and processes if it is a sticking point for the Seller. Ongoing client planning and segmentation will help ensure that the Buyer and Seller are serving clients in a similar fashion under the new firm.



# Conclusion

**Consolidation in the RIA space means a world of opportunity for both Buyers and Sellers.**

It's no longer about who can write the biggest check, as everyone has a checkbook and a spreadsheet producing a similar valuation. What's important is that RIAs have a clear and differentiating value proposition that can easily be bought into by selling advisors. Sellers would love to go back to just being an advisor rather than managing the responsibilities of a business owner – wouldn't it be great if a Buyer could help them do that? *They can*.

RIA Buyers will find that once they define their overarching brand, they will be in an ideal position to understand which Sellers will best fit their firm's growth strategy, and reframe their negotiation and deal-making communications accordingly, including building their: (1) Buyer Brand; (2) Specific Advisor Pitch; (3) Onboarding Plan; (4) Client Messaging & Communications; and (5) Post-Merger Integration process for clients and employees. As a result, they will be on their way to becoming a *Successful Buyer*.

## About DeSola Group

DeSola Group is a recognized leader in strategic management, brand and marketing consulting. The firm has delivered decades of industry-leading results across financial services – including RIAs, traditional broker-dealers, insurance, retirement, banking and fintech – as well as with Fortune 1000 leaders, major brands and emerging businesses across numerous industries.

DeSola Group helps leaders grow their companies with purpose, unlock the true potential of their businesses, and make a significant difference for their clients, industry and society. The firm does so by partnering with clients to tap into the soul of their organization, challenge assumptions, discover new possibilities, and shape inspiring and engaging brands, experiences, and cultures.

DeSola Group operates with a "shape or be shaped" philosophy – reinforcing our belief that as transformation sweeps across industries, leaders – and RIAs specifically – must adapt to change and assertively design, tell and deliver their story – or risk becoming defined or disrupted by others.

The firm is 100% private, independent and driven by a proven and dedicated team of seasoned experts.

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## About PFI Advisors

PFI Advisors, LLC ("Pure Financial Independence") was founded in 2015 with the following mission in mind: To further evolve the RIA industry from a collection of practices to businesses, and to be a continued voice in validating the industry as a legitimate landing spot for billion-dollar teams and their clients.

PFI Advisors is an operational consulting firm that supports the unique back office, technology, and operational needs of RIAs in growth mode. PFI Advisors conducts Technology Assessments, manages Technology Conversions, and provides M&A Preparation and Integration Services to RIAs seeking growth support. The firm announced the launch of COO Resource in January 2018, an ongoing retainer-based service in which RIAs and their Chief Operating Officers can leverage the knowledge and expertise of PFI.

For breakaway advisors, PFI Advisors manages full RIA set up and transition to Independence, including office build out, RIA infrastructure development, client transition, and billing services – all for a simple consulting fee. There is no complicated long-term AUM fee structure or equity stake required to build the firm's future and provide advisors **Pure Financial Independence**.

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