3 Factors Key to RIA M&A Partnership Success

Firm Culture: Part 3 of 3

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5 MIN READ

This is a Part 3 of a 3-part advice series dedicated to three factors that are critical to successful RIA M&A partnerships: Strategic Objections, Partnership Criteria & Firm Culture.

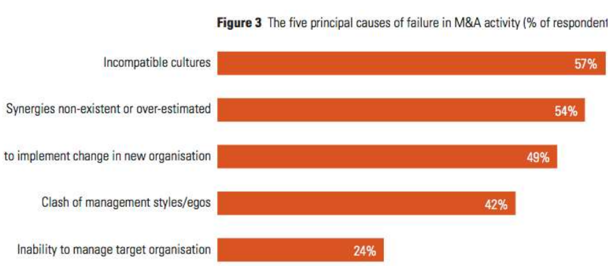
Parts I and II of this RIA M&A advice series were dedicated to establishing your strategic objectives and then identifying the type of partner that can help you achieve them.

The right partner will look a lot like your RIA in terms having compatible investment philosophies, service offerings and fee structures. But perhaps the single most important consideration in partnership success is the people factor – which is where culture comes in.

Culture is a qualitative and therefore harder to put your finger on. It is not something found on a firm's website or ADV. Culture relates to the collective behaviors, beliefs, and values of the group. Determining whether a prospective M&A partner's culture aligns with your own requires thorough due diligence.

People often reply on gut feel when making judgments about other people. While you should "trust your gut" to a certain extent, a wide body of behavioral research shows that we often get it wrong. That is not a risk worth taking given the stakes involved in M&A.

As shown in the graph below, "Incompatible cultures" is the number one cause of M&A failures.



Source: Institute for Mergers, Acquisitions and Alliances

Discerning culture requires a multifaceted approach. Here are steps to consider when evaluating prospective M&A partners:

Do You Like Them?

M&A is a lot like a marriage. You have to look at it in the same way by asking:
Do I like them? Can I trust them? Do I want to spend time with them? The answers to these questions will help determine cultural fit. Likewise, it is equally important to assess your team's impression of prospective candidates.

Get to Know Each Other

You cannot really get to know someone until you spend time together. Most of the initial conversations these days are over video calls. It is important to make the most out of these interactions by speaking with not just the M&A team or principles, but also those responsible for running operations, investments, planning and technology. The more you talk, and the more people you talk to, the better.

That said, talks cannot go on indefinitely. If you receive an offer and hold on to it for too long without making a commitment, then a lot of buyers will feel like they are wasting their time and walk away. Time, after all, is the most valuable resource in the wealth industry

How Do They Compare?

Most folks date several people before finding the "right one". Having a basis of comparison makes it easier to decide whether you are making the right decision – or a wrong one. In M&A having multiple offers from multiple suitors also helps determine your firm's fair market value.

Onsite Visits

While video calls are certainly worthwhile, there is no substitute for face-to-face meetings. Home and away onsite visits enable you to see how their team interacts, and how they treat each other. Onsite office visits will give you a good sense of cultural fit.

Likewise, socializing outside of the office helps build personal relationships – in which almost all M&A partnerships are dependent. Hanging out together is also a good opportunity to make sure your beliefs and values are aligned.

Outside Opinion

It is always useful to get input from people that have been in your same position. If the firm you are negotiating with has merged or acquired another RIA, ask to speak with them about their experience. Most acquirers will happily oblige. If they decline, then that raises red flags. Prepare questions in advance of the discussions to make the most use of everyone's time.

While a prospective partner does not necessarily have to have acquired before, it certainly helps. The M&A process is quite complex, and the post-sale integration of firms is even more complicated.

A preferred partner will have an integration team that have been there and done that. They will help solve problems and not exasperate them. Proficiency and professionalism in the integration process are cultural traits of an ideal M&A partner. The best ones take pride in making things run smoothly while minimizing disruption for staff and clients.

Other Factors that Define Culture

RIAs are almost exclusively dependent on market performance to drive revenues and profits. This can put a lot of pressure on the entire team during a protracted downturn, especially if margins are squeezed too thin.

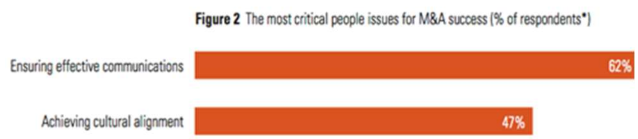
Firms with a long-term view are more apt to weather the storm simply by riding it out. Firms that are more focused on the short-term on the other hand tend to agonize more acutely over quarterly results. The pressure comes internally from the top down and externally from shareholders. The pressure adds stress throughout the entire organization which is reflected in culture.

Another important cultural distinction is diversity. It is no secret that the wealth industry consists of a preponderance of white males. That seems to be changing for the better. If diversity is important to you, have a look at the faces on the website to make a reasonable judgment on where they stand.

Work with a M&A Advisor.

The author is obviously biased, but it is always a good idea to work with a M&A Advisor that can help guide you through the process. They will keep you and your team on track and focused on the task at hand.

"Ensuring effective communications" is top of the list of "The most critical people issues for M&A success" as shown in the survey below:



Source: Institute for Mergers, Acquisitions and Alliances

Most RIAs are relatively small and team members already wear too many hats. They do not have the time or resources to adequately coordinate and organize the multitude of calls, emails, meetings, visits, and data exchanges required throughout the M&A process. That often leads to a lack of communication which kills momentum, and ultimately the deal.

And lastly, a M&A Advisor will put you in front of compatible firms that are a good cultural fit and steer you away from those that aren't. That saves time, money, and major problems further down the road. There are plenty of sellers that decide to go-it-alone because they think they are saving money on advisory fees. Good advice pays for itself – as most financial advisors are well aware of. A skilled M&A Advisor will almost certainly negotiate a better deal on better terms.

About Nunnally International, Inc.

Nunnally International, Inc. provides strategic M&A services to RIA firms that are looking to buy, sell or merge their business. The company was founded by Tyler D. Nunnally.

Prior to entering M&A, Tyler served as a strategist to leading advisor technology providers – including FinaMetrica, which was acquired by Morningstar. He began his wealth management career as an executive at Oxford Risk, a behavioral finance specialist that was spun-off from Oxford University. During his career he has consulted hundreds of RIAs on matters of risk as a frequent speaker at industry conferences, host of countless webinars and proficient author of journal articles. Tyler has been a key relationship manager to strategic partners at prominent financial institutions including Schwab, Fidelity, TD Ameritrade, LPL and SEI Investments, as well as leading advisor technology companies such as Redtail, Orion Advisor Services, eMoney, MoneyGuidePro and Fi360. As an industry thought-leader, he has been interviewed extensively by The Wall Street Journal, Bloomberg, CNBC, Smart Money, Kiplinger and InvestmentNews. Tyler holds a B.A. from the University of Georgia and a Master's in International Business with Distinction from the University of St Andrews in Scotland.

How We Work With RIAs

Nunnally International, Inc. works with RIAs in two ways. You can choose whichever option best suits your unique circumstances.

Option A – Referral Partnership

Nunnally International, Inc. can introduce your firm to prospective buyers through our referral partner network. Our referral partners pay our fees, so it will not cost you anything. We work with a select number of referral partners that are all differentiated in terms of what they bring to the table. We do not partner with anyone that we would not have manage our own money. We employ our expertise in investor profiling to find the best fit based on your strategic objectives, partnership criteria and firm culture. Naturally, this is done in consultation with you. If you decide that you would like to pursue a conversation with a group that we recommend, then we make the initial introduction and help facilitate the talks.

Option B – Engagement Agreement

RIA firms that want to sell or merge retain Nunnally International, Inc. through an engagement agreement. We lead the M&A process all the way from initial introductions to close. Our fees consist of a monthly retainer, plus a success fee based on the closing price. This is a standard M&A advisor model for buy-side and sell-side engagements. We guide you through the M&A process by:

- Help define your strategic objectives.
- Identify the right prospective M&A partners.
- Make introductions to prospective acquirers and solicit offers.
- Assist in preparation of necessary documentation.
- Facilitate conversations and information flow.
- Conduct due diligence on prospective acquirers.
- Negotiate terms of sale and maximize valuation.
- Successfully close sale.

For more information call us at 404.492.2152 or send an email to tnunnally@NunnallyInternational.com