5 key staffing considerations for IFA's to focus on when looking to buy or sell their business

I interviewed Dawn Pearce-Herzberg on the key considerations IFA's looking to buy or sell their business should be focused on when it comes to their staff. Since RDR came into force in December, 2012, there has been a lot of changes within the financial planning sector. Dawn has seen many of these changes first-hand, having played a pivotal role in the setting up of the national financial planning company, Bellpenny, and more recently starting her own company, Vines Row.

Dawn has had a long career in financial services, stemming from Australia back in the late '80s, returning to the UK at the beginning of the 90s. Firstly, doing consultancy work through Purple Patch Consulting, which helped IFAs to work more effectively with accountants and lawyers, then secondly and more recently, setting up and running two wealth management companies, the first back in the late '90s, which was a company called Dunbar Independent, and then more recently, Bellpenny.

From October 2012 to May 2015 Bellpenny had bought 25 businesses and during that time that Dawn recognised the use of introducers or brokers in the market. So an IFA company that is looking to sell their business predominantly will look to use a broker to help facilitate the matchmaking that's required in order to make sure that their transaction goes through smoothly. Dawn has worked with a number of introducers, and recognised that actually there's a lack of knowledge in the market around how the acquisition of businesses works and really what the integration of a business should look like and how that should be driven through.

There's obviously been a lot of changes within the industry over the years, let's take a look at things a bit more from a staffing angle, in terms of buying and selling an IFA business.


Dawn Pearce-Herzberg, Vines Row

Once an IFA business has made that decision to sell, what should they consider when it comes to communicating this to their existing staff?

Dawn: The big criteria, because we're quite a cottage industry, is to communicate as soon as possible with staff. I talk about the cottage industry bit particularly because we tend to run businesses in the IFA marketplace that are very close-knit. So from the point of view of the principals working with their staff, they can almost become like family, and therefore any strategic changes that are coming up in the future, really should be communicated as early as possible with staff. Staff like to be treated as adults, so they like to know what's going on, and they like to be able to at least have some kind of feedback into what might happen in the future. So particularly where IFAs are looking to retire, staff are quite aware that there's going to be a change in the future and are very open to it, and prefer to know up front rather than finding out perhaps, you know, further down the line.

As a recruitment firm we are often approached by people coming to us saying, “Oh, we think the business is looking to be sold. We're not being told anything. I don't feel that my job might be here in three months' time, so that's why I'm looking to register with you now.”

Our method isn’t to jump on finding a new placement for them, but talk to them about what they can ask the employers, what information they feel they can glean to make them less uncertain. And I think exactly what you're saying is that there should be more openness and transparency because the last thing these business owners want to do (and we’ve experienced this before) – is run the risk of losing some really key members of staff who start to wobble, because the business owner wasn’t upfront from the beginning of the process.

What can the advisers do to limit the rumour mill as much as possible, so they don't run the risk of losing something good from their existing team?

Dawn: Part of that is obviously around communicating as soon as possible. Actually sitting down with individuals, or as a group initially and then as individuals afterwards, but to explain what's going to happen and why they're looking to make the strategic change that they're looking to make. And then allaying fears from the staff's point of view about the fact that they're going to be involved in that strategic change.

Sitting down with them individually afterwards and talking about what their career aspirations are, what good would look like for them going forward. So whether that's within a new organisation or whether that's actually now, to think about what their options are, and to then talk them through how those options might be maximised. So you may have a paraplanner who says, “Actually, I've been thinking about it for a while and I really do want to get out and start advising clients, rather than just doing paraplanning. So what are the key things that would be needed from an experience/knowledge perspective in order to be able to do that in the future?” Again, whether it's with the new company or whether it's with somebody else.

So getting that communication out early, treating people like adults, if you hear that the rumour mill has started, stamp on it straight away. You know, these things do happen. People leave out documents that they're not supposed to and they don't realise that they've done it. You know, all sorts of things can happen. And staff do recognise changes in patterns of work behaviour or in the way that they're being communicated with. So they are quite astute about the fact that things are afoot.

What do you do with long standing members of staff that the firm want to take to the business that's buying them, but people aren't as qualified as they should be, as we've witnessed happening before.

So if the acquiring company has a benchmark for any staff to have a set level of financial services qualifications, it would be worthwhile with some of these businesses going through the selling process, to help their existing staff as much as they possibly can. Support for them to gain those qualification levels, so they're not left necessarily out in the cold if they don't meet the new company's criteria.

Dawn: Absolutely. I mean, we certainly had that at Bellpenny. We made the decision right at the beginning that we only wanted to work with qualified paraplanners. And I stand by that decision. I think it was a good, quality business decision to make. But clearly as you've rightly stated, you then are placed in a position sometimes where a), maybe it's difficult to recruit those people in the first place because those types of people are sought after. But also we acquired businesses where they had very good paraplanning staff who weren't, as you say, 'professionally' *qualified.*

What we had to do at Bellpenny was to come up with a new type of paraplanning role in which those people could slot into. We really would have preferred that we just had to play with qualified paraplanners and that was it, and we would have still worked with those people then to become qualified anyway. So, you're absolutely right, getting people qualified for the role that they are going to fulfil is really important.

The other consideration is where a business is being sold, so an acquirer is buying a business, and they're buying the staff in as part of the proposal, often they're doing that for a reason, and that is because they're looking for good quality people that they haven't necessarily been able to recruit in organically.

So, again, the whole communication piece in keeping people on board could be crucial to whether a deal will go through, because if you lose your good quality staff because you didn't communicate with them, actually the deal isn't as attractive as perhaps it once was. So that kind of thing has to be really taken into consideration as well.

Often staff are very, very experienced, they don't necessarily have all the qualifications, but they've still got the relationships with those clients, whether they're an adviser, an administrator or a paraplanner. You know, those relationships are key and that's what you want to maintain, because if that breaks down, what have you really bought? You could be left with having bought a big, long client list with no substance behind it.

If someone's buying a business and unfortunately redundancies do have to be made, how should companies handle that process?

Dawn: It is a difficult thing to obviously go through. The most important thing is to make sure that you've got a good quality HR expert or HR lawyer employed who understands the i's that need to be dotted and the t's that need to be crossed. It's a very easy trap to fall into from an employment law perspective that you don't actually do the right thing and then you can end up in a litigious issue. So it's not a good thing to get into.

The second thing to say, again, is to communicate effectively with staff about what's going to happen, what their role is in what's going to happen, what their responsibilities are, and ensure all the way through the HR consultation process that they understand fully what's happening, and, more importantly, what's going to happen post the HR consultation.

Things like allowing people to take time off to go home and reflect. Give them one to one time to ask questions if they need to. All of those sorts of things are really key along with a real sort of empathetic approach, because these things, regardless of whether they know it's even going to happen, can still be quite daunting and quite shocking as a process as it happens.

It's not a nice position to be in if you've been with a company a long time. So I think the more support the company can offer these people, the better. And whether that means working maybe with a recruitment company that can talk to those staff about other job possibilities or appoint an outsource consultancy firm; particularly for some of these people who have been with these businesses for a long time, the chances are they have been very loyal and they haven't been out on an interview every five minutes. So they'll need help with interview techniques, what to say, what not to say, and all that kind of stuff.

Dawn: You're absolutely spot on. I think that's a really good point, Jess. Look for a good firm you can work with for help with things like getting a very focused CV together, learning some interview techniques, going through some role plays, so it doesn't feel like they're going into it brand new. Helping people to understand how to stretch themselves, so rather than look at a role that they might like the look of, but think, that's not for me, I'm not good enough, perhaps helping them to understand whether they could be. And/or what are the sorts of key things that they might need to take on board, again, knowledge, experience, qualification wise that might enable them to take those roles on for the future. So the right company have a really good role to play there.

What would you say are sort of the biggest mistakes that you've seen and what were the consequences of that in terms of how the staff and team felt and how they were impacted?

Dawn: Again this comes back to communication, but it was the biggest thing that we learned, or certainly I learned during my time at Bellpenny. So I can give you an example of where the communication went really well and we therefore had an easier transition and an example where it didn't work at all well and we all wound up with egg on our face. So both of these purchases happened within a couple of months of each other. The first was a fairly immature company, so they'd only been in business for about four and a half years.

They were young employers, young staff, and the employers took it upon themselves to tell their staff right at the beginning what they were doing and why they were doing it. And then importantly as they went along, talked to the staff about who they were looking at from an acquisition perspective. When they started to deselect, they took them through that piece of the process. And then by the time Bellpenny was selected, they were absolutely aware who we were, where we were looking to take the company, what their roles and responsibilities would be going forward.

So even though we had bumps in the road, and you always do, we had a very committed and very positive approach from both sides on the fact that we'd made this transaction and it was a good quality business for us to buy, and we valued the people that came with it.

Conversely, two months later, we purchased another company where we kept the staff and office, and despite our advice they decided the first that their staff would know about the acquisition was the day that an HR lawyer and a Bellpenny executive turned up on their doorstep to carry out a 2-week HR consultation. So the consequences of that were huge actually. The staff not only hated Bellpenny with a passion, but they also hated the owners of the business who they felt they had been very close to and had had a good working relationship with prior to this happening.

So the consequences were we actually lost staff sadly. Everybody was really demotivated and not really interested in being committed to Bellpenny going forward; we also lost clients as a result. It had a huge impact on the staff, but also on the seller's revenue, because clearly when you start to lose clients, you will lose revenue, and a lot of the deferred considerations that are paid on businesses are predicated around the revenue that's been bought actually being there in a year and two years' time. It's definitely one to be aware of.

Unfortunately, it's such an emotional transaction for people who are selling their businesses, and the last thing that they welcome is advice. So what they want is for somebody to be very empathetic to the position that they're in and the decision that they're making.

For someone to say, you absolutely must do X, Y and Z, one of which is quite an emotional thing, tends to be either ignored or it becomes a deal breaker.

How would you say to advisory firms that were looking to sell their business, how to spot a good firm to work with to help you through the process and how to spot a bad one maybe?

Dawn: The key is to feel like you're being listened to. I think the key is to actually meet the introducer, so that you know that the introducer knows you, they know what your business is like, and you can then secondly sit down and conduct a thorough fact find. Not only the fact find being done on the seller, but also the seller can then conduct a bit of a fact find on the introducer as well to find out what their background is. For example, I get asked a lot about my experience at Bellpenny? Why did I make the decision to leave? All of those sorts of things.

It's a good quality opportunity to build a relationship from the early days. And to understand from the introducer what acquirers they work with and what due diligence they've done on those acquirers as well. From a seller's perspective, do I feel happy that a business that you're going to perhaps place me with and give me full knowledge about, are they likely to be able to execute this transaction when it's needed? Are they going to be able to integrate my business in the way that I expected it to? Do they have the right investment philosophy, the right culture? And, importantly, are they going to have the money in the future to be able to pay me out when I'm expecting it?

As a good introducer, you should be able to find those things out. It's quite simple I think to ask those sorts of questions from a seller's perspective and feel satisfied that you are working with the right person.

It's very much like recruitment. You need to know and understand both parties. You need to know the business that you're representing, the business that you're trying to make attractive to other people that might want to buy it as well, and juggle both of those things all the time with as much information that you can give to make the proper match. It is matchmaking at the end of the day. When I'm placing candidates, I want to make sure that when they go and join that firm, they're going to be there for a long time and it's all going to work.

From an acquirer's point of view, if they buy a business, they want that business to fit their ethos and their culture, too. Otherwise, they could find a year down the line, it all goes horribly wrong because you haven't done that whole proper due diligence bit and they were never really aligned in the first place.

Dawn: Correct, the cultural piece and the career opportunities are really important, aren't they? It's not just about the knowledge and experience and qualifications that somebody brings to the party. It's also about the future on both sides. And I think you're absolutely spot on from a recruitment perspective. That's very important to understand.

More about Vines Row:

Vines Row, it's a very simple proposition. Firstly we do business matching, which you would expect. So we have sellers and buyers on our books, and we carry out a full fact find to find out exactly what both parties are looking for. Secondly, we work with companies to help to prepare their business for sale. That could be within the next three or six months, or it could be as far away as ten years. And then lastly we also help businesses who want to buy, to find businesses that might not know they want to sell yet, but when the proposition is found out, would perhaps look to take up the offer.

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