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COLUMBIA THREADNEEDLE INVESTMENTS

# Succession planning for advisors:
## Why starting early can make the difference

Succession planning is a well-known priority for financial advisors, but it's a task that's often postponed amidst the day-to-day demands of running a business. Many advisors don't fully engage with it until it's too late — and by then, urgency can and frequently does lead to less favorable outcomes. Laying the groundwork ahead of time won't just simplify succession planning; it can drive stronger valuations when the time comes to transition.

### Industry forces shaping succession planning

Two major shifts are reshaping the landscape of succession planning:

- An aging advisor population, with many planning to retire in the next decade.
- An industry-wide focus on consolidation and scale, as larger firms look to acquire practices that fit their models.

Today's buyers aren't just solo advisors looking for someone ready to hand over the keys. They're often private equity firms, aggregators or turnkey asset management platforms (TAMPs) searching for scalable businesses with strong cash flow and efficient operations. For advisors without a clear succession plan, these high expectations can make it even harder to find an interested buyer.

### Why early action matters

Roughly one in four advisors planning to retire within the next decade don't have a solidified succession plan.[1] For these advisors, the need for a solid plan is obvious, but the path forward is usually anything but. Emotional barriers, competing business demands and uncertainty about valuations frequently delay action.

Those ready to act should consider that the earlier you start planning and building operational strength, the more options and leverage you'll have. For advisors aiming to maximize the value of their life's work, those extra years of prep can make all the difference.

### What drives higher valuations — and better outcomes?

While no two deals are alike, buyers — especially private equity firms — tend to prioritize the same key traits when evaluating potential acquisitions. Attractive, high-value practices typically demonstrate:

- **Consistent organic growth:** Buyers want to see consistent client acquisition and retention strategies that imply future growth is repeatable. Assets under management (AUM) growth that solely rises with the market only gets you so far.
- **Embedded value:** If the success of a practice hinges on a single advisor (like yourself), that's a risk. Institutionalizing your approach — from planning processes to investment philosophies — paints your practice as one that's easier to transition.
- **Practice size:** Larger firms tend to attract higher multiples, in part because they can withstand post-sale client attrition and offer more robust infrastructure and service offerings.

- **Synergy and scalability:** Buyers want efficiency. Practices using scalable technology and consolidated investment platforms like unified managed accounts (UMAs) stack up well against bespoke, advisor-specific approaches.
- **Strong margins:** Profitability is essential. Firms that streamline operations, keep overhead low and optimize resource consumption typically achieve better margins and thus higher valuations.

According to MarshBerry, operationally efficient firms that are well-aligned with platforms can command valuation multiples of up to 14x EBTIDA — compared to closer to 11x for independent firms with less structure and scalability.[2]

## Start early, build smart

Whether you're planning to hand off your book to a junior advisor or sell to an external party, the key is to prepare well in advance. Many experts suggest the following:

- 10 years out for an internal transition
- At least 5 years in advance for a third-party sale

That window gives advisors breathing room — time to organize processes, standardize investment philosophies and streamline their practice, all of which make a practice more appealing to buyers.

These activities don't just make for better business; they allow advisors to focus on important activities like client planning, relationship management and strategic growth. That efficiency creates differentiation, and differentiation creates value.

## A legacy worth planning for

At some point or another, every advisor exits the business — whether by choice or by circumstance. Advisors who treat succession planning as a long-term project, rather than something addressed under pressure, are more likely to achieve the legacy they want: financial stability, client continuity and a business that's built to last.

To access more practice management ideas and resources contact your regional advisor consultant.

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[1] Cerulli Associates, U.S. Advisor Metrics Report, 2024.

[2] Marsh, Berry & Co., LLC, Building a Resilient Advisor Firm Report, 2024.



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