GUIDE 4: ASSESSING FIT

The primary keys to a successful acquisition are price and fit. The consequences of a poor fit are damaging for both parties. The following notes provide some guidance on assessing and determining a strong fit.

Preparation

- Set the criteria in advance and stick to it as you move through the initial assessment exercise without letting your emotions become too involved.
- Be honest with yourself when assessing the potential for fit.

Management approach

- Do the two firms share a similar approach to managing the firm?
- Are there any management systems or formulas in use in either firm and to what extent are they followed? (Check management meeting notes for clues).

- What level of autonomy do individuals working in each firm enjoy? Are there defined decision rights, and how are they assigned and reviewed? This provides a strong indication of culture, as decision rights are a strong signal when assessing consistency of behaviour.

Clients

- Are there similarities in the types of client, typical challenges faced and solutions offered? Client lists should be supported by conversations with advisers.

- Is there relative experience of dealing with each firm's type of client and potential for genuine empathy?

Proposition

- What depth of financial planning has been undertaken? There's a vast difference in approaches to financial planning and an early inspection of client files should provide clues.

- What types of products are used with clients? Do the firms use the same types of solution or are there significant differences?

- What differences are there in your investment management solutions? Differences in this area often present insurmountable challenges, so this is a key priority.

Roles and structure

- Are there similarities in the roles undertaken? Again, discussing roles with individuals generally provides greater insight than (often) out of date job descriptions.

- What are the arrangements for adviser support and is there a match? Advisers that have enjoyed a particular type of support, can often really struggle in a different environment.

Processes

- How are processes defined? Some firms interpret checklists as processes, some have detailed written instructions and others have workflows in software systems. Is there a match? Every firm claims to have processes and there are huge differences.

- Is there evidence that processes are adhered to? Does anyone check? Are there consequences for non-adherence? Again, discussions are important here and the main leaders of the business may not know the answers, as they probably don't deal with these issues on a regular basis.

Premises

- What are the standards of accommodation in use?

- Do clients visit the offices and if so, how many meeting rooms are needed?

- Have you considered the physical location, proximity to each other's offices and geographical spread of clients?

Risk management

- How is regulation regarded within each firm? Is it a burden or a tool to support good governance?

- Are there similarities in the firms' approaches to regulatory compliance? Are these similarities born out in the results? (i.e. number of complaints, cost of PI cover, regulatory return detail etc.).

Financial management

- Do both firms administer their finances on either a cash or an accrual basis?
- Do both firms follow a similar approach to fee matching and bookkeeping processes in general?
- Do the firms hold similar amounts of capital (relative to regulatory requirements), or is one or the other holding significantly more or less? If so, why?
- Is there a similar view on the management of cashflow within the firm, drawing money out for owners, investment into the firm for projects and so on? This can all be discovered through an assessment of the firm's detailed accounts and a discussion with the owner(s) and possibly their accountants

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