COMMONWEALTH *financial network*

Cracking the Code of Strategic Alliances:

A Coordinated Approach for Financial Advisors

The wisdom of forming strategic alliances with other professionals gets considerable air time in the financial services industry. You've no doubt heard that strategic alliances are something you *should* be forming—and that future growth will inexorably come from these relationships.

The current reality is that many advisors haven't yet cracked the code and figured out how to make these alliances worthwhile. Often, advisors struggle with two primary hurdles:

1. Getting a firm to agree to a partnership
2. Getting the "right" referrals to occur between the firms

The following approach may help you better position yourself for a successful relationship.

Laying the Groundwork

Before you consider approaching an outside professional about an alliance, you need to know the answers to the following questions:

- What's your niche—teachers, small business owners, retired pilots? Affiliated professionals tend to look for an expert in a niche market—someone who fully understands the needs, concerns, and values of a specific audience. If you're not able to present yourself as an expert in your niche, professionals may be resistant to an alliance with you.
- Who are the top attorneys, CPAs, and other professionals in your niche? Who do your clients work with? These professionals are more likely to provide services appropriate for your clients than someone outside your niche. The types of referrals you receive from them are also more likely to be appropriate for your business.
- What goals do the professionals you have identified hold? How can an alliance with you help them achieve those goals? Similarly, do they have concerns or weaknesses that an alliance with you can mitigate?
- How committed are you to a strategic alliance? How involved do you each expect to be with shared clients? How will you maintain the alliance?
- If you are a wealth manager with an existing team, how will a strategic alliance fit in to your team? Is the alliance partner willing to commit to that team?

Laying this type of groundwork is essential to pursuing a successful alliance.

Determining Relationship Structure

The next step is to consider the type of relationship you'll form. You may opt to simply have another professional join your team, set up a reciprocal referral relationship, or enter into a referral fee-sharing arrangement (if your firm offers one).

At Commonwealth, we have a something we call the Commonwealth Alliance Program (CAP). CAP is a turnkey, structured approach that allows professionals in multiple disciplines (e.g., CPAs, attorneys, property and casualty agents) to work with Commonwealth's Investment Adviser Representatives (IARs) in a coordinated manner to serve their clients' diverse needs. The referral fee compensation, which is negotiated by the partners, is paid as a portion of the IAR's advisory and/or consulting fees.

So, for the purposes of this paper, let's assume that you want to develop a fee-sharing relationship with another professional; the next step is to approach your target alliance.

Presenting Your Proposal

In your preparatory work, suppose you identified a local CPA firm—zeroing in on the organization's primary rainmaker as the person you'd like to approach regarding an alliance.

You also did your research to develop an understanding of current issues affecting CPA practices. Many CPAs are facing threats to their growth from tax-preparation software and discount tax-preparation firms, as well as from fee compression. They may be having a difficult time locating and hiring new CPAs for growth or succession planning purposes. They may also be losing clients to one-stop-shop financial services firms. All of which can make them suspicious of your motives.

Some CPAs view advisors as transaction-oriented, product salespeople. Many may also have concerns about loss of client control, ethics, legality, structure, liability, and licensing. Given these concerns, be sure to clearly describe the *consultative* wealth management services you offer to clients. This can be invaluable in showing how you envision the CPA's services fitting into your comprehensive approach. The CPA will also gain an understanding of all the beneficial services you can provide to his clients.

You'll also want to illustrate how an alliance, using a formal arrangement like CAP, can potentially increase the CPA's revenues over time. Let's say you had access to a CPA's clients and converted $10 million in new assets annually at 1-percent gross asset management fees. If the CPA received 20 percent of that amount, he would realize a new revenue stream of $100,000 in five years. Although you may give up some client revenue to the CPA, consider it a normal marketing expense for acquiring new clients.

So, not only would such an arrangement add to both parties' revenues, but it could also help the CPA retain clients because he is now able to provide value-added, comprehensive financial planning services through a trusted advisor.

Preparing an Action Plan

Assuming you decide to move forward with a formal arrangement, it's time to take action.

Have the CPA fulfill any licensing or registration requirements. Requirements vary from state to state. The CPA may need to take an exam, though many states waive this for credentialed professionals. If an exam is required, offer to tutor the CPA. You can also help him with paperwork and maybe even pick up any initial fees.

Set measurable expectations. You and the CPA should document your expectations in terms of measurable goals, such as target number of clients received (by each of you), target revenue goals resulting from the referral arrangement, and when you will review or adjust targets. At a minimum, set an initial progress meeting within the first year. The six-month point may be ideal to give a new relationship time to produce results. Perhaps most important, you should address what you will do if expectations aren't met. Will you terminate the arrangement, change your goals, or analyze other criteria?

Create an ongoing plan for communication with the CPA. At the outset of your relationship, you should have a written plan for how you will keep your practice front-of-mind with the CPA. Often, it can take time for a new relationship to result in new clients for you; what starts out as exciting can easily lose attention as other professional demands beckon. To prevent this from happening, consider sending your CPA a regular newsletter or e-mail, or offer a seminar for CPE credit.

Create a joint action plan. Your CPA may be happy to provide referrals to you and you to him, but you both should consider how you will market to each other's clients to get the best results. Address the following in your plan:

1. **How will you introduce your services?** Your CPA can set the stage for success by positively introducing your affiliation to clients. How you communicate from there must also be discussed; each partner will decide what makes sense for the client base. Here are a few strategies that have worked for other advisors:

    - The CPA sends a letter to his clients, making them aware of your services and providing your contact information. The letter also includes a call to action, inviting the client to contact you or the CPA.
    - The CPA commits to discussing you and how your services may be helpful to clients during regular meetings.
    - The CPA facilitates meetings with you at his office for clients who have expressed an interest in or need for your services.

    In each of these scenarios, both parties need to agree on the "script."

2. **How will you market yourself to clients?** This should be a part of your overall marketing plan. You will use many of the same methods to market to your CPA's clients that you will to other prospective clients. When documenting the marketing component of your plan, keep your goals in mind and consider how you'll measure the success of each element in the context of your overall relationship objectives. Some suggested methods include:

    - **Brochure.** Create something specifically for your CPA's clients, referencing your partnership and your services.
    - **Introductory letter.** Send this after your CPA has officially announced your relationship to his clients.
    - **Introductory phone call.** If your CPA indicates that clients have expressed an interest in a follow-up, you can make the first phone call to set the relationship in motion.
        - Be sure to follow Do Not Call (DNC) procedures. If the prospective client is on the DNC list, the CPA should make the call because he has the existing relationship. The CPA could also tell the prospect to call you, or the prospect could provide written permission allowing you to call him or her.
    - **Newsletter.** Offer clients a subscription to your newsletter.
    - **Website links.** Link to each other's sites to promote the affiliation.
    - **Annual co-meeting with clients.** Show support by meeting with clients jointly.

3. **How will you help each other identify potential shared clients?** We have heard of instances where both parties were committed to referring clients to each other, but they weren't sure where these opportunities existed. Fortunately, there are several "trigger points" for clients that may require the services of an additional professional. Trigger points may include:

    - Selling a business
    - Exercising stock options
    - Considering early retirement
    - Transferring ownership of a company
    - Recently laid off
    - Revising an estate plan
    - Receiving an inheritance
    - Sizable AMT taxes

Plan annually. Once you have created your initial action plan, be sure to set a goal to review and update the plan each year, to make the most out of your professional partnerships.

Staying Patient

Creating successful strategic alliances takes time, patience, and endurance; however, the financial rewards from even one successful alliance can help you find the cipher for growing your business in the years to come.

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