

MAXIMIZING VALUE

MAXIMIZING YOUR BUSINESS'S VALUE

INCREASE THE INTRINSIC VALUE

INTRODUCTION

Intrinsic value is the value of a business on a standalone basis. This is a pure investment calculated to not change the basic structure of the business.

In all businesses there are many areas that can be improved to increase productivity and therefore profitability which will increase the intrinsic value without dramatic changes to the business. Some of those areas follow.

BUSINESS STRUCTURE

In Canada, we have a \$800,000 capital gains exemption when selling the shares of a private corporation. Despite this potential windfall, most advisors have not incorporated. Even a relatively “small” sale of shares for \$200,000 would result in a tax saving of \$46,000 at the top marginal tax rate.

It is very important to have a clean Balance Sheet. That is, no personal assets and debt, no outstanding legal notices, report all capital leases, etc.

QUALITY OF YOUR BRAND

The term Brand means different things to different people. What it is – is the perception of what that brand means to others who know you/company. What it is not is something that is there some of the time or not there other times. Therefore, every individual and every entity has a brand – some perceptions may be good, some may be bad, most are probably non-existent. The key in the financial practice business is “what is the perception of those who know the brand?” i.e. the entity. The second and most important part of your brand is “is it transferrable”. If someone buys your business will the brand become theirs? When the brand has a positive value than the buyer should pay more.

A common occurrence in the financial advisor business is to give the business your name. In most cases, even if you have created a favourable brand, your brand is not transferable to a new buyer.

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QUALITY OF SYSTEMS

This is a huge opportunity to increase the value of your business. It is so important to have a contact management system in place. This is important from a marketing perspective for clients and prospects, from a compliance perspective and a process in place to keep in regular contact with your clients.

In addition, a software system should be in place to prepare financial plans for clients and prospects. There should also be a system in place to periodically review those plans with clients with the appropriate adjustments made.

These productivity processes can only be in place with current software and current hardware plus employees that can drive these processes.

QUALITY OF CASH FLOW

This is the most obvious area buyers want to examine but most advisors spend very little time improving. Making sure trailer, annual and renewal fees are maximized can increase your income and increase the value of your business.

Knowing the average revenue per client and working to improve it. The average assets per household and the average age per client are very important when evaluating prospective continuation partners.

BUSINESS PLAN INCLUDING TARGET SALES/EXPENSES

Do you want credibility in your business management skills? Show a prospective buyer your annual business plan for the last 3 – 5 years and you're actual numbers to budgeted numbers. This will show the reader you know how to run your business and hit your targets. It will also tell the reader you are well organized and professional. Plus it shows how productive your business is and details how to duplicate your success.

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FINANCIAL FEED BACK LOOP

Feedback loops are the most successful learning process known. Basically they follow the following process:

1. Identify and quantify the areas to improve.
2. Set achievable goals in those areas.
3. Measure the progress and compare actual to budget.
4. Go back to #1.

I recommend that once you have a comprehensive valuation that identifies the areas that can be improved (Maximizing Value Section) setting the goals and actually reviewing on a minimum of monthly basis will develop productive habits that will continue to increase the value of your business and achieve your goals..