

PROTECTING VALUE

Protecting your business's value is planning contingencies for unforeseen events that can erode the value of your business. Death is an obvious event. But also short and long term disability. What about other unforeseen events – divorce, death, illness or disability of a family member, etc. Any type of event that takes you away from being productive for an extended period of time can have long term negative impact.

CONTINUITY PLAN

The Continuity Plan is an emergency plan designed to retain the market value of a practice and ensure that clients continue to be served in the event that the owner is unable to adequately perform their duties. This is a disaster plan that requires having agreements in place that assure the continued operation of the practice under a competent, trustworthy, licensed professional.

The challenge is twofold:

1. Finding the right continuity partner, and
2. Structuring a plan that allows for a smooth, effective and efficient transition to a designated successor.

Finding the right partner is not as simple as it sounds. The ideal would be to have the same licenses, be with the same broker/dealer/mga/same contracts, etc. This plan has two possible outcomes – this person may be running your business for 6 months to a year or they may be purchasing it out right if you cannot return to work. Therefore, it is very important to have the right arrangement in place.

Currently, if there is a plan in place it is with the advisor's friend and it is not formally structured or well thought out. Rather than picking the easiest person there are other formal but more effective solutions.

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They include:

1. Multi-Advisor firms – there is a trend in other countries to create multi advisor firms for several reasons including economies of scale, strategic advantages and financial synergies (more about this in the Mergers section). The Continuation Plan can be accomplished with partners for the short term and a relatively basic Buy/Sell Agreement in the case of death.
2. If you have licensed employee(s) an internal stock ownership plan would be an excellent incentive for employees to run the business and/or purchase it.
3. Cross Purchase Agreements are reciprocal and binding agreements between two or more practices in the case of death and/or disability.
4. Guardian Agreements will put another licensed professional in place that may purchase the business or run until it is sold or the owner returns to work.

A proper Continuity Plan can meet the critical need to protect the advisor's clients, employees and the business's value. In addition, it can lay the ground work for a long term succession plan to maximize the value and realize the equity from the business. Also, it can lay the ground work for developing a long term relationship with the next "generation" of advisor by selecting a successor without the long term commitment of hiring someone.

QUALITY OF EMPLOYEES

One of the ways to protect your business in the event of an unforeseen event is having qualified long term employees. This will also oftentimes increase the sales price as well. Having long term qualified employees is an indication of a well-managed business. There is a direct correlation between long term employees and long term clients.

The greatest indication of an elite business is the business that runs at capacity with or without the owner there!! That should be every businesses goal. This will increase the intrinsic value of a business dramatically because the transition between seller and buyer will be very smooth.