Considerations To Get That Big Check as a Seller

1. You've got to watch out for **Client Retention and Concentration Considerations**: High client turnover rates and dependence on a small number of major clients negatively impact value.

2. You have to keep an eye on **Revenue and Profitability Trends** and adjust as you go to keep those numbers looking good: Declining or unstable revenue and profit margins or irregular cash flow patterns are a problem. If you're managing to your KPI's, you can make a lot of good changes here. I'll even send you a copy of the KPI manager that I use in my office so you don't have to reinvent the wheel.

3. **Economic and Market Conditions**: Both of our business' valuations can be impacted by economic downturns or recessionary periods. Volatile financial markets can affect (AUM), and depending on timing it can work for or against us. Interest rates can also impact how liquidity events are structured. High interest rates tend to push more of the purchase price into earn-out territory and less is paid up front for a practice. The more of an earn-out arrangement you have in a P&S agreement, the higher the price the buyer has to pay since you as the seller is taking on completion risk. A buyer is trading low capital to buy in with paying a higher overall price. Both interest rates and markets are out of our control, but both impact valuation and deal structure.

4. There's also the **Regulatory Environment**: It's constantly changing and for some practices, there can be consequences for value and risk for an acquirer or seller. For the last 30 years we've seen the regulators move us toward levelized compensation and away from commission-based sales. They view these transactions as intrinsically biased against the client and the rest of the developed world has moved away from commission sales, hence the low value you see assigned to commission sales.

5. **Compliance and Risk Management**: A practice with inadequate compliance systems and procedures, for example, lax documentation while managing money internally, comes with higher operational risk exposure, lowering value.

6. **Technology and Systems**: Outdated or inefficient technological infrastructure, like running your business using paper and filing cabinets, means there's a lack of automation and modern digital tools that an acquirer would need to spend money and time on to upgrade, therefore they would pay less.

7. **Employee Relations and Talent** can impact value: In most transactions, buyers want the staff to stay, or most of them, as they often have good relationships with the clients. If you have high employee turnover or dissatisfaction and a lack of skilled or experienced staff, it's going to hurt your multiple.

8. **Succession Planning**: If your business is over dependent on you as the owner, you're not doing it right. A business that thrives without the owner is more valuable than one that depends on it. Also, a practice with a clear succession plan or transition strategy is more valuable in the marketplace. It shows business acumen. Even though you're defining your succession in a transaction, on the front end it shows others you're squared away.

9. There's **Brand and Reputational considerations**: A business with negative reviews or a business that has a less than stellar reputation in the industry or in their area can lower value. Dings on your U-4, high client turnover, bad reviews on social media, aggressive sales tactics – they all reduce value. Also, a business with good brand recognition not centered around a person is more valuable.

10. **Client Demographics**: If you have an aging client base without a strategy for attracting younger clients, this drives down value. And some diversity in client demographics can be helpful. If all your customers are engineers that work at NASA, what do you do when most of them are laid off at the end of a big project? I know, the smart answer is "Rollovers", but you get the point.

11. Here's another one that can impact your value: **Service Offerings**: This can work for or against you as a seller. For example, if you conduct business providing a limited range of services or products offered, this creates an opportunity for improvement. For example, you see this when a seller had only limited licenses like a series 6, the buyer with a series 7 and 66 sees an opportunity to expand the service offering. This could actually improve your value if you clearly define the opportunities in the negotiation phase of your sale.

12. Here's a big one. **Your Scale and Size**: You've got a 1M practice. You're a big deal in the independent space. You get all kinds of kudos and respect. But remember that hypothetical offering from a group of advisors setting up a regional presence that approached you? The difference in their multiple, or value, and mine or yours is that if something happens to you or me, the clients start to scatter almost immediately, value torpedoed. If one of those 20 advisors took a powder? The company wouldn't miss a beat. Value unaffected. The other 19 advisors take over. Which is why they're worth double or more.

13. This whole discussion revolves around improving your practice's **Financial Health**: That KPI manager should help you here, but carrying high levels of debt or financial liabilities or showing weak financial performance or deteriorating financial ratios need to be addressed as soon as possible.

14. You also need to demonstrate good **Client Communication and Engagement** to improve your metrics. If you don't have a written plan that you stick to for communication levels to your A, B, C and D clients, an outside observer would think that you are going to have some client dissatisfaction issues.

15. **Geographic Location** of the practice can impact value. If the practice is in a region with declining economic prospects, it's going to hurt you. Also, if all of the clients of the practice are in one area, you could be lacking diversification in geographic coverage for the practice.

16. **Contracts and Agreements** can gum up the works and make your business less valuable. If you have unfavorable or unstable contracts with clients or partners or uncertain partnership agreements affecting the sale process, you could see potential buyers walk. Careful what you sign.

17. **Operational Efficiency.** Inefficiencies in business processes or operations create high overhead costs impacting profitability and the value of a business. And finally, if you sense that you may have Client Transition Challenges, like difficulty in transferring relationships and assets to a new owner, or an unwillingness of clients to accept a new owner, that's going to affect retention and value. That's why it's so important to map out any transition plan on the front end with both buyer and seller during the negotiation of terms and conditions.

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All of these challenges come with running a financial services practice. In just a few short years, with some concentration on these metrics, you can significantly improve the value of your practice. It takes some work, but course correcting prior to the sale of your business can mean MUCH bigger numbers the day your closing comes around. Good luck!