



# 6 Essentials On Securing The Best Valuation For Your Firm

## #1 Focus on GROWTH

Growth is, by far, the single most important driver of a firm's value. Key growth metrics for buyers of advisory firms include:

- Average annual revenue growth
- Net organic growth, or total assets under management growth before mergers and acquisitions and investment performance
- The number of net new clients a firm adds each year

Key corollaries of growth are size and scale. The more your firm grows, of course, the bigger it becomes and more likely it is to achieve efficiencies and scale: qualities buyers covet.

## #4 Be Tech Savvy

In the digital age, you can't afford to be a tech laggard. Whether you are catering to next gen clients, widows or/and UHNW clients, your client portal should be easy to navigate and intuitive. Financial planning software and your CRM should be best in class with a high adoption rate at your firm. Document management software and portfolio management tools are also important to showcase firm usage.

Specialized planning tools that allow for holistic planning efforts such as tax, estate and insurance planning are also a good investment for your practice which will bode well with potential buyers.

## #2 Never Forget: It's a People Business

Your employees bring in revenues, serve clients and represent the firm to the outside world. Your relationship with them will be scrutinized very carefully by prospective buyers. Demand for top talent is at an all-time high and a competitive salary is only table stakes.

Key Considerations:

- Review compensation plans frequently to ensure you are on par with your peers. Utilize industry benchmark surveys to validate.
- In addition to a base salary, consider performance incentives and if possible and warranted, offer equity.
- Job seekers expect generous benefits, a defined career path and a flexible work environment. Review your current offerings and make adjustments where needed. Buyers want to see a firm has a forward thinking approach to human capital.
- When recruiting, cast a wide net. Have a dedicated effort to recruit with a lens on diverse candidates who will reflect the country's rapidly shifting demographics. Hire on potential...not just experience. Buyers will expect no less.

## #5 Review Your Client Mix

Buyers don't like concentration risk so review your clients mix to ensure you do not have a handful of clients controlling a disproportionate amount of revenue.

While it's great to have a lot of high-net worth clients, make sure they don't represent too much of your book of business. Beware: asset concentration is high on a buyer's checklist. A standard firm valuation will assess the top 10% of your book and portion of assets controlled by those clients. A top-heavy book represents a big risk to prospective buyers since they will take a hit if even just a few of those clients leave.

Insider Tip: Firms looking to sell should spend more on business development efforts in order to diversify their client roster and add more clients with accounts that match the upper quartile of their book.

## #3 Review Your Client Age Breakdown

Acquirers are buying future performance, so if more than one-third of your clients are over 65, that can be a red flag. That makes bringing in next gen clients imperative. While you may have to invest more on digital and content marketing, refreshing your website and your overall client experience, but it will be well worth it.

Boomer clients and older, especially those with substantial assets, shouldn't be ignored. Buyers also look at client retention and fee generation, so you want to have best practices in place for optimal client experience and satisfaction.

Insider Tip: Have aggregate client data organized and ready to deliver to potential buyers; they will surely ask.

## #6 Benchmark Your Firms Performance Against Peers

Participate in several of the industry benchmarking studies from firms such as Charles Schwab, Fidelity and InvestmentNews. This will allow you to review your firm's performance against your peers. Key metrics to focus on include revenue totals and mix, asset growth YOY, number of employees and new clients as well as overall margin. You'll want to at least match the industry benchmark to ensure the best valuation for your firm.

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