How to Prep a Financial-Advice Business for Sale

Four practice-management experts offer tips to boost a business's value

By Veronica Dagher
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As more baby boomer financial advisers contemplate the sale of their practices, there are steps they can take to potentially increase the businesses' value and command a higher price.

Some value-boosting techniques, such as changing their compensation system, may take longer than say, cutting costs. So advisers should ideally focus on making selected changes a few years before they actually expect to sell.

Below, four practice-management experts weigh in on some steps advisers can take to boost value.

The tip: Trim costs

The expert: Matt Matrisian, senior vice president at AssetMark Inc., an advisory-consulting firm in Concord, Calif.

Advisers preparing for a sale should constantly review their expenses and cut costs when possible, Mr. Matrisian says. Administrative and service costs are obvious areas to cut, he says. For example, advisers shouldn't be shy about attempting to lower their office rent or putting pressure on service vendors to lower fees. Business valuations of relatively small advisory firms, such as those with less than $5 million in annual revenue, are often calculated at around five times Ebitda, or earnings before interest, taxes and amortization. (The multiple depends on the growth and quality of the business.)

"If an owner is able to cut $100,000 in business expenses, that would potentially translate into $500,000 of value creation for the firm," Mr. Matrisian says.

The tip: Boost fees

The expert: David DeVoe, managing director of DeVoe & Co., a San Francisco M&A consulting business

"Increase fees if they're below market," Mr. DeVoe says. Advisers can see how their fees stack up by reviewing some of the benchmarking studies in the marketplace or by checking out the fees some advisers post on their websites, he says.

Advisers who decide to boost their fees should craft a marketing strategy to highlight the value the company has been providing and the breadth of its services.

The adviser should be prepared with an "exception" option for clients who have a "spirited" resistance, Mr. DeVoe says. Ideally, fewer than 5% to 10% of clients should receive a "special deal," he says.

Mr. DeVoe worked with an adviser who was reluctant to boost his fees for fear of client pushback. But when he went ahead, he lost no clients and the valuation of his firm doubled within 12 months, Mr. DeVoe says.

"Each extra dollar goes directly to the bottom line, so there is an immediate and substantial impact on valuation," Mr. DeVoe says.

The tip: Adopt a more-flexible compensation system

The expert: John Furey, founder of Advisor Growth Strategies LLC, a wealth-management consulting firm in Phoenix

Consider switching to a system of lower base salaries and higher rewards based on firm and individual performance, Mr. Furey says. “This is more attractive to a buyer because they don’t have as high of a fixed human capital cost,” he says.

For example, a firm might have variable compensation tied to business-development activities.

Employees may be resistant to such a change, Mr. Furey says. To soothe employees’ nerves, advisers should consider running the two compensation systems side by side initially and giving employees whichever compensation is higher for one or two years.

The tip: Grow assets and increase client engagement

The expert: David Canter, executive vice president for practice management and consulting at Fidelity Investments’ Fidelity Clearing and Custody Solutions in Boston

To help enhance their firms’ growth potential, advisers may want to add services such as college or charitable planning as part of their fee. Offering these types of services will continue to “deepen the client relationship and enhance engagement,” he says.

Potential buyers and investors “are more closely evaluating not just the recurrence of fees in a client relationship, but the engagement quality,” Mr. Canter says. In general, engaged clients are less likely to leave a firm.

Advisers may also want to focus on clients and prospects experiencing liquidity events, such as an inheritance or sale of a business, to fuel growth, he says.