

# INCREASING THE VALUE OF YOUR BUSINESS

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**Many business owners have asked my opinion on how to grow their business and make it as attractive as possible ahead of a prospective purchase or merger.**

The purpose of being in business is to make a profit. If you are currently considering your exit strategy you should have a documented plan that will look to provide you with an annuity or capital sum. To achieve this you must start with the end in mind and manage your business in order to maximise the value at exit.

An investor is looking for a business that is well managed and easy to integrate into their existing portfolio. Therefore, if your business model does not fit what they are looking for, they are likely to arrive at a different valuation to you. Every business is worth whatever someone is willing to pay for it, so make sure you get ahead of the game at least five years prior to exit.

Hidden costs could be affecting your bottom line. Try to identify savings you can make, which could optimise the synergy between your business and any prospective acquirer.

Outside of your people, the top three savings come from:

## 1. IT - HAVING A RELIABLE BACK OFFICE SYSTEM

IT can help or hinder your processes. A back-office system helps with the management of client data and can help digitalise your client communication strategy - more on this in a future blog. Managing your client data electronically will give you greater insights into time spent working with each individual client. It will also help identify the true net cost to the business.

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Firms tend to categorise clients by asset values and typically rank them in three tiers. The best way to categorise a client is to consider their profitability rather than the number of individual transactions they may generate. This will affect the bottom line of your business. For example, some advisers discount client fees for advice if they invest with them, therefore discounting the fees they would have otherwise charged. It may be that the ongoing advice charge is sufficient to provide the required service, but how do you demonstrate that to a prospective purchaser? The best businesses I have seen monitor the true cost of servicing the client and ensure they are profitable. Why is this important? A client bank with non-profitable clients is a detractor to any business and may incur costs on disposal; reducing the valuation.

## 2. CLIENT SEGMENTATION MANAGEMENT

## 3. INVESTMENT PROPOSITION

The investment strategy you choose will determine the amount of time and administration required from your team in order to manage it. If the investment committee is held in house, due diligence must be conducted on the assets selected and regular, comprehensive, reviews of the portfolios must be carried out. This in turn represents a challenge to the average IFA whose core proposition is in giving financial advice, not investment management. If an investment professional is brought in to manage the proposition, this is an added cost to the business. Oversight would still be required to ensure the investment strategy meets client expectations and is consistent with their attitude to investment risk. To increase value in your business the obvious solution is to outsource to a reputable investment management firm that can meet your requirements. An investment proposition that can be easily transferred into an acquirer adds instant value. The acquirer will be able to assess the suitability of your investment strategy and if necessary, manage the proposition. The investment strategy and choice of provider therefore play a big part in due diligence prior to any offer being made. As such it is vital in ensuring your business increases in value.

In conclusion, start planning for your exit as soon as possible, and prepare your business to realise maximum value. Working on the top three synergies will give you a head start. These obvious savings could have an immediate impact on your business as well as help you receive maximum value.

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