

ENHANCE THE VALUE OF YOUR BUSINESS

TURN YOUR LIFE'S WORK INTO YOUR LEGACY & YOUR RETIREMENT PLAN

What type of business do you want to have? As an independent advisor, you have the benefit and the burden of making choices about your future. Only you can define the optimal business model that fits your needs and desires. Planning for that objective should start now, here, today.

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1. CREATE A CONTINUITY PLAN

Before you do anything else, you need a disaster plan in place that provides for your clients and family if unexpected events keep you from your business. The plan should be a written contract between you and another advisor who agrees to take care of your clients until you return or a permanent successor is in place.

If the unexpected should happen to you, the lack of a written continuity plan may mean that you and your family are left with little value for your life's work. As soon as clients realize their advisor can't help them, and there is no continuity plan in place, they may begin leaving you to find other financial advisors. This results in fewer options for your family and quickly erodes practice value. If you take nothing else from this article, make it your mission to build a continuity plan that provides a foundation for the longer-term succession plan you envision for your business. If you have an emergency continuity plan in place, revisit it on a regular basis to ensure that it addresses changes occurring over time.



2. DEFINE YOUR GOALS

Decide what you want your business to be and how much value you want to gain from it. Do you want to have a small shop or an enterprise? Do you want your business to continue as it is after you've left it? Think about what you want your life to be like after you stop working in your practice and decide how much you might need from your business to support that life. Growth goals can take many forms, but need to be matched to your ideal outcome.

There are as many scenarios as there are advisors to define them. In order to maximize the benefits of your life's work, begin by focusing on what you would like to accomplish as an ideal objective.



3. EVALUATE YOUR BUSINESS

Once you have identified the ideal outcome for your business, you must take inventory of your resources and determine the missing components that will be necessary to reach your goals. Understanding these elements will allow you to continue to leverage your strengths and create a plan to fill needed gaps.

Performing a SWOT analysis (strengths, weaknesses, opportunities and threats) may be helpful to figure out the gaps in what you want your firm to be and what it is today. This is now possible through First Allied's new Pentameter® platform, which allows you to evaluate your business in the areas of Business Development, Operational Efficiency, Human Capital, Business Management and Succession Planning—what we call the five measures of practice management. Evaluating your business in this way is critical to understanding where your business is today and what will be required to reach your future objectives.

STRENGTHS	WEAKNESSES
OPPORTUNITIES	THREATS



4. DETERMINE WHAT YOUR BUSINESS IS WORTH

To help you build a plan to create value, you need to know what your business is currently worth. There are three main valuation models in the independent advisory space:

CASH FLOW MODEL

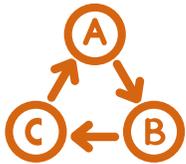
The most popular model today, it essentially subtracts compensation and non-compensation expenses from revenue to get to normalized earnings (typically 30 percent or more of total production). Normalized earnings are then multiplied by the valuation multiple (which is in the 5 to 9 range with an average between 6.5 and 7)* for a final practice value.

DISCOUNTED CASH FLOWS MODEL

This model applies a discount rate or hurdle rate to estimated future cash flows of the business, resulting in a value supported by those cash flows. This method is also gaining prominence in the industry, as it determines a value based on cash flows that will meet the desired return on investment.

REVENUE MULTIPLES MODEL

This model has been the rule of thumb in the industry, but is becoming less and less so. It is essentially your non-recurring revenue plus two times your recurring revenue.



5. CREATE A PLAN TO BUILD VALUE

Start by looking at the list of aspects that impact an advisor's practice value and decide what will be the best items to focus on based on your specific business. For example, maybe you need to add more advisory business, improve your technology, build scalable processes or increase your marketing to increase your assets under management (AUM). You might want to consider hiring staff members, training junior advisors or acquiring a practice. Purchasing a new book of business can be a quick way to gain staff you need, bring in new advisors as potential successors, grow your AUM, or diversify your product or client mix.

The idea is to create a specific plan that is directly tied to your goals. You can use Pentameter's® business plan template to lay out strategies and tactics that will get you closer to your objectives. But make sure to build flexibility and adaptability into the plan as your business grows and changes.

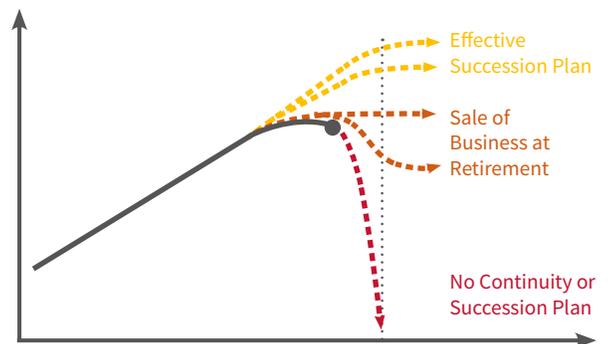


6. CREATE & EXECUTE A SUCCESSION PLAN

Even if you are years out from retirement, you need to have a succession plan that will allow you to extract the value you are creating. Like a continuity plan, it can be changed and should be updated regularly, but having some type of plan in place will help you develop the resources and structure needed to eventually execute the plan.

If you simply wait until you are ready to leave your business, you will likely not get the amount it is actually worth—or at least not the amount it was worth when at its peak. The accompanying chart demonstrates what happens to an advisor's business' value over time if a succession plan is not put in place early on in the firm's lifecycle. You can see that the value of a practice grows over time, but if there is no succession plan that can be executed before retirement, it may quickly lose value.

You should have an idea of what type of succession you would like even early on in your business, but begin planning and working on your succession strategy about three to seven years prior to retirement.



EXCLUSIVE RESOURCES

First Allied has many resources to help you through this entire process. The best place to start is Pentameter®, where you can fill out an assessment to see how you're doing in the five measures of practice management, do a SWOT analysis of your business, and build a business plan, which includes setting and tracking goals.

PENTAMETER'S® FIVE MEASURES OF BUSINESS SUCCESS



Business
Development



Operational
Efficiency



Human
Capital



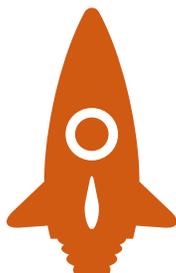
Business
Management



Succession
Planning

Pentameter's Succession Planning and Business Acquisition modules include resources for building continuity and succession plans, as well as completing a business acquisition. There are road maps and step-by-step instructions and materials to assist you along the way.

Additionally, you can call your regional Business Consultant, who is able to help you think strategically about your business and set goals, and can also assist you with continuity plans, succession plans and business acquisitions. First Allied can potentially provide you with options for continuity plan and succession plan partners, or even help you locate a business to purchase if you are interested in acquisition. We may also be able to assist you with the financing of an acquisition, depending on the deal terms.



START TODAY

Only you can define the optimal business model that fits your needs and desires and make the decision to shape your business into your ideal practice. If you want to take steps to maximize the value of your firm, make a plan to extract that value and ultimately leave a legacy, we are here to help you.

So you must ask yourself: what do you want your business to look like? What do you want it to do for you? Then take action to make it happen.

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