

What is the value of your business?



Independent brokers should be aiming to build their practices into thriving businesses over the long term as they go about their daily activities. This will ensure marketability of their practices when they exit the industry.

“While most independent brokers are aware of this, many are not sure how to make the leap from a one-man show to a viable venture,” says Ian Middleton, Masthead managing director. “Others simply don’t spend enough time and effort in the areas that create real value in their practices. As a result, these brokers end up giving their practices away at retirement.”

One of Masthead’s core objectives is to assist broker members to develop their businesses to the extent that they can sell their practices. “We want brokers to say that they run businesses in financial planning and manage their businesses today as if they intend to sell them tomorrow,” says Middleton.

Practice valuation

By conducting a practice valuation, Masthead is able to give members an estimate of what their business is currently worth and its potential value should areas within it be developed to operate at optimal capacity. The findings can also be used for other purposes, such as sound succession planning, determining shareholding within a practice, and identifying opportunities to diversify within the industry.

In Masthead’s Practice Management Gap Analysis Report, which is generated after a practice valuation, the practice management consultant highlights the areas of a business where a broker can focus to build up value.

Quantitative and qualitative elements

The practice valuation takes into account quantitative financial elements, explains Middleton. Qualitative factors also play a role and include the business profile, risk management, business processes, systems and client transferability.

“During a practice valuation, we take into account whether brokers have an electronic database with client relationship management functionality,” says Middleton. “There should be strong search functionality, and one should easily be able to access client records and determine key client information from the database.”

Client segmentation

He says a practice’s client base should also be clearly segmented. This yields valuable information on the profiles of the practice’s typical clients, as well as other aspects such as the profitability of the various segments. “To assess the continuity and quality of the client service delivered, we evaluate whether a practice has a documented client review process in place and scheduled client review

appointments,” says Middleton. “The more systematised the client review process, the more accurately a business owner can forecast earnings ability and therefore the higher the value in the business.

“Furthermore, we take into consideration a practice’s diversified income streams and the quality of product solutions available to clients,” he says. “From a business aspect, we determine the value of the practice’s systems that can be successfully transferred to a new owner, as well as the key staff members at the practice.”

Practice management intervention

Brokers who want assistance to increase the value of their practices can easily do so through practice management intervention. “With the aid of Masthead’s practice management consultants implementing our various modules, we have unlocked significant value in many members’ practices, which are now positioned to become attractive and flourishing businesses,” says Middleton.

Building valuable practices is not only advantageous for the brokers and their beneficiaries, but it also benefits both the financial services industry and consumers. For the industry, it ensures a sustainable channel of professional independent brokers, while consumers have access to quality financial advice businesses in a healthy environment.

To arrange for a valuation of your practice, please contact your Masthead practice consultant or visit www.masthead.co.za.

