



Building a business to sell

Selling your independent financial advice business marks the ultimate culmination of your efforts over the years. What you get for your business depends on the value it has accumulated, the purchaser's perception of that value and the effects of tax on the sale.

By managing your business as though you are selling it tomorrow, you can build the desired capital value. "How you position your business through its life cycle phases greatly influences that value," says Ian Middleton, managing director of Masthead.

Managing the life cycle phases

Within the first five years of launching a business, you set the stage for how your business will be valued in the future. Although the main challenge during this emerging phase is survival, value can be grown by defining your target market, building an advice offer to meet your target market's needs and developing a marketing plan that is executable with your available resources.

During the established business phase, value is further determined by your capacity to address the challenges related to human capital management and operational efficiency.

The final phase is the transition phase, during which businesses approach a landmark change such as acquisition of another business, a merger or your retirement. Most or all of the value factors in the business should be in place by then.

Determining value

To determine the financial value of the business, one needs an objective business valuation, which takes into account financial factors such as income streams, future commissions and certain key assumptions.

The valuation also needs to include non-financial aspects such as risk, goodwill and the ability to retain clients - and in particular their revenue streams - after the sale.

The level of risk in a business, or the quality of risk management, relates to compliance with the relevant legislation and the implementation of processes that monitor or decrease risk. It also relates to business brand and reputation, based on the companies and/or products the business sells.

Boosting value

To boost value, one can focus on tools and processes to improve client retention to ensure revenue streams remain on par after the sale. This can be done by providing an ideal client profile for the business, a segmented client base with differentiated services for each category, a CRM system, evidence of scheduled client reviews and the results of a customer satisfaction survey.



Goodwill relates to the value of your business name, customer base, staff competence, competitive position, momentum and track record. As this 'asset' is subjectively determined, the buyer should agree with you on this value.

Once the overall business value is determined, the potential buyer will want to perform a due diligence to verify that your business is in the state you assert it to be. The ultimate sale price will be based on what a willing buyer is prepared to pay for your business.

Tax implications

Tax consequences will also arise from the transaction, which may involve capital gains tax (CGT), income tax, VAT and turnover tax. The taxes levied will depend on whether the book or the business is being sold.

CGT ranges between five and 15 percent of the sale proceeds. One of the ways to minimise the impact of capital gains tax is to increase the capital value of a business.

It's never too late...

It is never too early to begin building capital value and creating a succession plan. Masthead assists advisor members to do this through the Masthead Business Development Program. We also perform business valuations for members and match buyers with sellers for successful transactions. For more information, contact a regional Masthead consultant or visit www.masthead.co.za