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5 Key Drivers of Enterprise Value for Advisory Firms



Why a focus on people, technology, data accuracy, systemized processes, and client experience is critical for advisory firms of all sizes.



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Whatever your firm's goals are – whether you're interested in selling your business, pursuing a minority partnership, or building a generational firm that will outlast your own involvement, creating and improving your firm's enterprise value is critical to your success.

And even as our industry continues to evolve, we believe the following five areas of focus are the most critical drivers of enterprise value for independent advisory firms:

1. Investment in people.

Your employees are the lifeblood of your business. Dedicating the time and resources to developing leaders, retaining key employees, training new talent, and building a culture at your firm that people want to be a part of plays a large role in enhancing your firm's reputation and increasing its value.

For example, improving employee retention creates consistency for clients while reducing the time, energy and costs associated with hiring, onboarding and training new employees.

By contrast, high turnover rates, poor performance and a toxic workplace culture all contribute to reduced productivity, low efficiency and a subpar client experience, which can have a compounding negative effect on your firm's profitability, resulting in lower enterprise value.

2. Efficient, cost-effective technology.

Successful modern advisory firms are built upon a foundation of technology. The problem is that in spite of the myriad technology solutions available to advisors, most offerings aren't actually very

efficient – or they require intensive resources to reap their efficiencies, which eliminates the critical cost-effective piece of the profitability puzzle.

When it comes to building enterprise value, the less time and resources you pour into back-office solutions, the more you can focus on client interactions, business growth and enhanced revenue. This requires a two-fold approach that takes into consideration innovative, future-focused technology and a review of your current cost and resource structure. Evaluate the solutions and services you're paying for at your current firm against what you actually use. If you and your employees are struggling to adopt or effectively use your technology, it's not working for you, it's working against you and against your firm's value.

3. Data accuracy and control.

Data, as you know, is the key to a successful and profitable advisory firm – but data itself is useless if it isn't both accurate and

accessible. If you push your data into a software system and can't get it back, for example, that isn't a software system you should be using.

Ideally, your firm's infrastructure will enable you to create a data lake – a centralized repository that stores all of your data from various sources in a single place, eliminating the costs associated with a third-party data warehouse while making it easier to process and analyze information critical to your firm.

Clean, accurate, accessible data drives better business decision making, ultimately helping you improve enterprise value.

4. Systemized, repeatable processes.

Especially when it comes to investment operations, advisory firms often fall short on scalability and systemization. Too often, their strategies and models are recorded in disparate spreadsheets, making it necessary to reinvent the wheel every time a client needs a new portfolio.

Not only is this highly inefficient, it's also risky from a regulatory perspective. To improve enterprise value and mitigate potential compliance oversight, firms should prioritize implementing and maintaining a systemized, efficient and fiduciary approach to investment management. For some firms, this may mean leveraging a partner that provides portfolio management solutions and investment strategies that enable scalability and operational efficiency if building such a machine in-house would be too time consuming and resource intensive.

5. A consistent client experience.

While all your client relationships are unique, the experience of working with your firm should be consistent and predictable across your client base. Not only does a uniform client experience enhance operational efficiency for your firm, it also signals to potential buyers or partners that there are systems and structures in place that would

make it easy to scale, change ownership, and add new accounts – all drivers of positive enterprise value.

Implementing and maintaining a consistent client experience, though, especially as your firm grows, depends upon your ability to focus on the front office and off-load back office tasks, either to operational staff, technology, a strategic partner, or some combination thereof.



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Understanding Your Firm's Enterprise Value

No matter your goals for your firm, but especially if you're considering selling, completing an annual business valuation is critical for monitoring your firm's value and ensuring your progress is tracking in the right direction. Enterprise value is the basis for the acquisition multiples potential buyers will look at to determine what they're willing to pay for your firm.

In fact, even if you aren't thinking about a sale, or selling your firm is a long way off, you should manage your firm as though you're going to sell it in the near term. This approach will help you not only build a highly efficient and operationally consistent business, but it will also ensure there are no surprises if and when the time comes to sell.

Prioritize regularly assessing the key aspects of your practice and comparing the results to industry standards. How do you compare to similar firms of your size? Such

an analysis will help form the baseline of your business plan and contribute to the evaluation and adoption of changes and new techniques. Areas of focus should include outsourcing investment solutions, client fee schedule adjustments, the introduction of new support partners, client asset minimums, staffing level and compensation reviews, and operational and technology expenses.



At CG Advisor Network, we emphasize the enhancement of enterprise value through a combination of valuation and industry benchmarking support, cost assignment, operational resources and innovative technology tools available to our advisors.

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Empowering Your Focus on Clients and Growth

We have the platform and technology solutions to support you on every step of the advisory journey while offering the freedom of independence.

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