



# WPR WEALTH PLANNING RESOURCES

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## **Building Reliable Systems Designed to Sustain the Growth of the Firm** *presented by John B. Steiger, ChFC, AIF®, AEP, CFP®*

If your objective is to sell your firm for the highest possible price, you would be well served by building reliable systems that can sustain the growth of the firm. Before we get started on discussing this important value driver, here are a few quick definitions:

- *Systems* refer to a group of related processes.
- *Processes* have purposes and functions of their own and are components of a system. Taken independently, a process alone cannot do the work of a system.
- *Procedures* are the approved way we do things and often include a sequence of steps.
- *Steps* are the actions we take to get something done.



A solid management team is one of the first important value drivers to focus on when you are preparing your exit from your firm. In addition to building a strong management team, it is important to build reliable operating systems that can sustain the growth of the firm.

The second value driver then is the development and documentation of systems that either generate recurring revenue from an established and growing client base or create financial efficiencies. For most firms, this includes all of the core processes that generate revenue or control expenses. These systems may include processes related to production or service delivery, but also may include people-related processes such as a succession planning or a performance management approach.

Look at your firm from a buyer's perspective. If you leave shortly after a sale, what remains? If the answer is top management and highly efficient systems, you can be more confident that you will be able to get top dollar for your firm.

In addition to the systems related to revenue and expense, some systems are related to clients, such as tracking systems, and the delivery of your products and services such as distribution systems. The documentation of these systems and their related processes and procedures is important to ensuring that quality and consistency can be

maintained after the sale. They also signal to the buyer that elements critical to the successful transition of a firm are in place. Some examples of items worthy of documentation are:

- Financial control systems and accounting policies.
- Policies to ensure compliance with legal and regulatory matters, especially those related to employer/employee relationships and safety.
- Data management and information systems that tie the firm together.

Again, put yourself in the shoes of a would-be buyer. Buyers want assurance that the firm can continue to move forward after new ownership and that operations will not break down if and when the former management leaves. This assurance can be obtained when there are documented systems in place that enable the buyer to repeat the actions of the former owner to generate income and grow the business. There are several systems, which, once in place, enhance the value of your firm whether you plan to sell your firm now or decide to keep it. These systems include:

1. Human capital management including: recruitment, selection, hiring, and retention; performance management; training and development; compensation and benefits.
2. Production including product or service quality control and improvement.
3. Product or service research and development.
4. Inventory and fixed asset control.
5. Sales, marketing and communications.
6. Procurement including the selection and maintenance of vendor relationships.

Obviously, appropriate systems and procedures vary depending on the nature of a firm, but at a minimum, those resources and activities necessary for the effective operation of the firm should be documented.

If you have any questions about increasing the value of your firm prior to your exit, please contact us to discuss your particular situation. We can help guide you through the process of identifying the current value drivers in your firm and creating a road map for increasing value to meet your overall exit objectives.

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