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To the Wealth and Investment Management Industries

Increasing Business Value Through Technology

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At the recent **Deals & Deal Makers Summit** held at the high-tech headquarters of PIMCO in Newport Beach, California, and put on by industry leading investment bank and consulting firm **ECHELON Partners**, the topic on the table was how to increase business value for advisors as they ponder their strategic futures.

Dan Seivert, CEO of ECHELON kicked off the conference with a broad overview of the M&A market for the wealth management industry. "Based on volumes and demographics, there should be more deals being done, however, there is often a disconnect between buyers and sellers as to valuation, deal structure and cultural issues."

In order to provide context on how to better bridge this gap, Seivert laid out a valuation framework of the key drivers of business valuation to help firms identify — and close — more deals. Chief among them were technology and scale, which are levers all advisors can push to increase their business value and attractiveness to potential buyers, while creating operational efficiencies and scale to make their firms more attractive to an acquired firm so that the seller's client service experience is improved and its clients will be well cared for.

As an example, consider the research that Laserfiche has completed comparing firms that have deployed document management and workflow technology and the direct business results. "Our research shows that advisors can save 9% of revenues by automating manual processes, getting rid of paper and streamlining back offices, which translates directly into increased profits and cash flow," says Linda Ding, director of strategic marketing for Laserfiche, who was at the conference. "When you apply a typical valuation multiple to that increased cash flow, the results can be remarkable in terms of new business value that is created."

To illustrate this leverage, consider a $1 million revenue firm that saves 9% of revenues from technology ($90,000). When a typical valuation multiple of five to eight-times cash flow is applied, the firm now has added anywhere from $500,000 to $700,000 in new business value. The leverage that technology brings provides not only increases profitability and cash flow today, but also substantial business value tomorrow.

Steve Dunlap, president and COO of FolioDynamix agrees. "The more advisors can present themselves as a technology-enabled company, the better the chance they have to gain the types of valuation multiples that fintech companies command."

The key, according to Dunlap, who was a presenter at the ECHELON Deals & Deal Makers Summit, is to use technology to be able to serve more clients than non-tech-enabled wealth managers can. "Scale and capacity are key elements that go into a valuation, so you definitely want to focus on that aspect of what technology can give you."

Another business valuation element Dunlap points to is the power that a digital presence can have in providing advisors with a growth engine. "Using online technology to qualify and better work with prospects up front saves time and brings efficiencies and a higher closing rate with prospects," he says. "Thus, this systematic growth engine is also another key aspect of driving business value, providing advisors with yet another way to leverage the latest technologies."

On the client management side, Riskalyze CEO Aaron Klein suggests that using technology can add to client relationships to better cement and match portfolios. “When advisors use a process such as our Risk Number to tailor their investment and financial planning recommendations, trust is built,” he says.

“By better knowing your clients’ on this level, their comfort and knowledge with their advisor results in fewer panicked phone calls during market volatility periods and a much stronger relationship.” These enhanced relationships translate into higher client retention rates, another business valuation driver.

Another benefit to using the latest technologies for investment automation is the ability to go after new markets profitably, ones that advisors were not able to service otherwise. Klein points to the success advisors are having with Autopilot, Riskalyze’s automated account platform. “Autopilot is great for democratizing advice, enabling advisors to go down market and still profitably service clients through efficiencies.”

All of these benefits that technology brings — efficiencies, enhanced client experience, automation, growth, scale — are key drivers for building a better business, which results in a better valuation.