

# 6 x 6 = \$1 BILLION: *SIX RIAs SHARE SIX SECRETS* TO ACHIEVE SCALE

AN aRIA WHITE PAPER  
BY JOHN FUREY, ADVISOR GROWTH STRATEGIES

# OVERVIEW

The wealth management industry continues to evolve and mature. Independent advisory firms have recently entered into a new era of prosperity and success. Although the current decade has seen Registered Investment Advisors compete and succeed against competition in more “captive channels” such as wirehouses, many advisors still struggle with achieving the next level of scale. Why is this?

The Alliance for Registered Investment Advisors (aRIA) is composed of six top independent financial advisory firms. Each firm has common characteristics including achieving material scale in its own unique way. This paper is designed to provide interested financial advisors with a blueprint of “What it takes to be a billion-dollar firm”. Perhaps more importantly, the paper hopes to help you answer the following questions:

## KEY TAKEAWAYS:

- 1 What does my future success look like? Do I want to grow and scale?
- 2 Is scale even important to driving long term success?
- 3 How did firms get to \$1B in AUM to begin with?
- 4 If I want to achieve scale, how should I go about it?
- 5 Does my firm have the willingness to make the investments and tradeoffs necessary to “break through” and reach the next level of success?
- 6 Is being a billion-dollar firm a good level of success? What other metrics should be considered? Revenue, profit, productivity, and personal return on investment?

The findings in this report are focused on the business management element of growing an advisory business. For almost every firm that has grown to \$1B+ in assets, this has taken some form of business acumen beyond the skill set of being a great wealth manager. Additionally, reaching a \$1B+ in assets firm is perhaps not the “end all, be all”. Being a skilled enough business manager to charge clients for the value added service the firm delivers is just as important.

aRIA, as a group, is convinced that strategic planning will become more important than ever. If you get anything out of this report, we hope your business will be spurred into action to take a fresh look at where you are now and where you want to go.

As always, we welcome your questions, comments, and friendly debate!

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## INTRODUCTION:

### GROWING UP IS HARD TO DO:

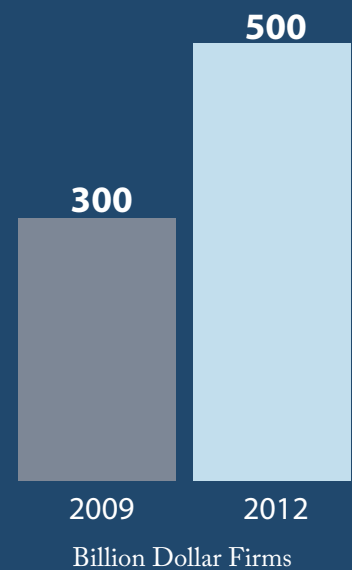
Billion-dollar firms might be the minority in the wealth management industry, but as the years go by, more firms are reaching this level, and many additional firms are seeking to do the same. In 2012 there were over 500 billion-dollar firms versus 300 firms just three years prior. As a result, billion-dollar firms are controlling a disproportionate amount of the assets in the RIA channel: In 2012, billion-dollar firms represented over 40% of all assets under management and the trend appears to be accelerating.

Owners of these firms have made a conscious choice to grow into this elite category. These firms may all operate in different manners, but they share unique qualities. Billion-dollar firms tend to have more complexities than other firms in terms of people, process, technology, and the clients they serve. The scale and infrastructure required to become a billion dollar firm necessitates investment.

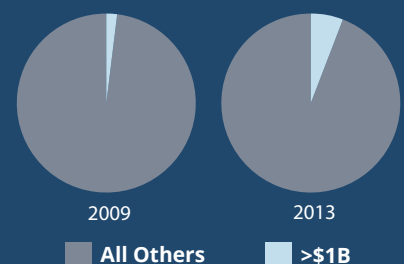
Billion-dollar firms have a unique engine that propels the firm's revenue and assets under management. This might be through specialization, multiple service lines, or inorganic growth strategies. The unique pairing of growth and scale is founded on a highly evolved client experience and backed by documented processes. The similar traits found in billion-dollar firms are products of a well-defined strategy that executes on a number of concepts outlined in this paper.

Why is growing up hard to do? Owners that grow into billion-dollar firms decided to take on the risks associated to realize the rewards that come with it. Some owners might find that becoming a billion-dollar firm is not part of their strategic vision. The investments in time and resources needed to grow the firm up might prove to be more than

IN 2012 THERE WERE OVER  
500 BILLION-DOLLAR  
FIRMS



PERCENTAGE OF RIA  
FIRMS OVER \$1B IN AUM



Source: Cerulli Advisor Metrics 2013,  
Quantitative Update 2009

a founding owner wants to take on. Owners might also decide that they do not have enough time or resources to implement the changes needed to become a billion-dollar firm.

The changes that are required to become a billion-dollar firm are holistic and require evolution. This paper will feature and seek to clarify six major concepts that must be addressed:

- Evolution of the owner's role within the firm
- Developing the right ownership structure
- Designing growth oriented compensation
- Investing in organizational talent
- Best in class growth engine: developing a unique proposition for specific market
- Becoming a superior financial manager

These concepts have been addressed by billion-dollar firms and will need to be addressed by those aspiring to become billion-dollar firms. This paper will elaborate on what it means to tackle each of these concepts and bring to life the path to becoming a billion-dollar firm.

## **EVOLVING THE OWNER'S ROLE WITHIN THE FIRM:**

A common thread in every billion-dollar firm is that the founder's role has expanded over time. As an advisory firm increases in size, the growth will demand that an owner gradually moves away from being solely an advisor. An owner will have to evaluate his/her appetite for taking the evolution of their role over time, investing in the right people to help, or accepting marginal growth in the future.

When initially forming an independent firm, an advisor's role typically changes from being solely an advisor to an advisor/coach. This stage is best captured through a sports analogy, e.g., moving from being a player on the team to a player/coach. Many advisors feel this change right away when they found their own RIA. At this point, they are now responsible for not only looking after their own clients, but also for directing firm operations and staff. There is consistent tension in this stage between the time spent in advisory functions and running the firm. The unwillingness or perhaps lack of skill to be a great people manager is a primary reason why many advisory firms might find their growth to be stagnant.



The changes that are required to become a billion-dollar firm are holistic and require evolution in terms of business.

At some point, the owners of the advisory firm eventually get to a point of size (usually around the \$500M in assets or \$5M in revenue range) when their role needs to evolve again into more of a sole coaching role. Owners will start to transition everyday client responsibilities to more junior staff members and assume an oversight position. This might mean that all servicing of clients is done with the junior advisor, and the owner acts as a point of escalation and collaborator on client strategy. Coaches seek to divest everyday service activities in order to spend more time developing human capital and acquiring new clients.

Firms will eventually start to develop more complexity in everyday operations that will lead a coach to the next stage. Coaches will become professional managers who focus the majority of their time on business operations. This can be a difficult stage for advisors to accept as they begin to get further away from advisory functions. In this stage, owners will be paying attention to financial discipline, process improvement, staff, technology, etc.

Professional managers will have advisors and staff underneath them to handle the majority of client service and business development. By this point, the professional manager will likely only keep relationships with their top clients, in order to focus primarily on managing the business. However, some owners who have a love for business development will continue to acquire new clients for the firm.

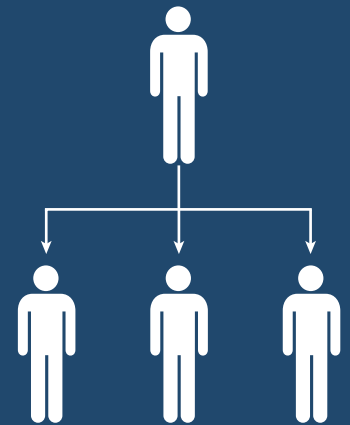
Firms at this stage usually see a clear path to \$1B in assets and might move to hire a professional manager. Or, they might seek the assistance of professional services companies to help them structure key elements of business, such as firm entity design, compensation, succession plans, technology infrastructure, marketing, and financial management.

## NEXT STAGE OF GROWTH

As the firm begins to grow even more, owners will move to the next stage, which is a strategic owner. Strategic owners have many advisors and staff members reporting to them to fill the owner's past roles. The strategic owner is now focused on the strategic vision for the company and the tactics needed to realize that vision.

For example, a strategic owner might begin to look at potential acquisitions, geographical expansion, new markets, and other organic and/or inorganic strategies. A strategic owner might still work with a few select clients, but will mostly rely on an advisory staff and

## EVOLVING ROLE



Owners will start to transition everyday client responsibilities.

*"...a strategic owner might begin to look at potential acquisitions, geographical expansion, new markets..."*

management to handle the majority of client advisory work. The strategic owner is solely focused on generating scale and material growth, which are two critical traits of billion-dollar firms. All aRIA members hold that role within their firms.

Strategic owners will evolve the firm in both structure and direction, and the firm will begin to take on the look and feel of a more formal company. This is when the strategic owner becomes a leader of a formal company. During this stage, the firm will likely adopt a very formal corporate governance structure that includes a board of directors. The board of directors will provide valuable third-party expertise to the management team and help provide clarity for a complex firm. By this stage, the company will have created a formal equity offering for key employees and advisory staff members. This stage becomes crucial in order to handle the complexities of a large firm and to attract and retain valuable human capital.

### A CRITICAL EVOLUTION:

To better illustrate this, we can look at an example from within aRIA. Savant Capital Management is one of the fastest growing firms in the industry by virtually any measure – asset growth, revenue growth, capabilities expansion, and intellectual capital. The firm is led by CEO and aRIA member, Brent Brodeski, who experienced this evolution as an owner.

With an extensive background in the financial services industry, Brent has evolved from an advisor to strategic leader of a more formal company. Savant now employs over 100 advisors and staff members with multiple business lines. Brent personally continues to work with a select few clients, but spends the majority of his time overseeing business management and realizing the strategic vision of the firm. This includes strategic planning, formulating a shared firm-wide vision, acquisitions, high level recruiting, serving as a firm spokesman, and client experience.

The evolution of an owner is critical in order to become a billion-dollar firm. Founding owners will first need to be willing to take on these stages. They will then need to determine if they are capable of doing the same. Some founding owners will come to the realization that they are not willing or able to take on this evolution. In that case, to become a billion-dollar firm, outside talent will be needed.

*“The strategic owner is solely focused on generating scale and material growth...”*



The evolution of an owner is critical in order to become a billion-dollar firm.

## DEVELOPING THE RIGHT OWNERSHIP STRUCTURE:

As a combined group, aRIA members know thousands of independent advisors around the country. Ownership of these firms can vary widely from single members, to multiple “active” members, to firms with passive owners, to firms that have capital partners, such as a strategic acquirer or private equity. We have seen three trains of thought prevail:

1. No ownership outside the founding partner/partners group
2. Limited equity to “hook employees” for the long term with founding partners retaining control
3. Meaningful path to equity for key contributors, advisors, and potential successors

A striking commonality among all aRIA firms is that they all have built ownership structures that have not only helped them achieve their growth objectives, but they have set their firms up for even more meaningful growth in the future. There is no right or wrong way to structure equity, and one size does not fit all. However, failure to develop an ownership structure that goes beyond the founding partners can be extremely limiting for the following reasons:

1. Top talent in the wealth management industry requires a compelling compensation package and equity can be a differentiating lever.
2. Professionals who are not aligned through equity are less interested in the firm’s long-term growth perspective; a top priority for partners is to grow the business.
3. Over time, clients might see risk in having their wealth managed by firms with only one or two owners.
4. Founding partners who are seeking succession will have a more difficult time constructing a long-term plan without providing a path to ownership to existing employees and/or talent from outside the firm.

In general, an ownership group (versus one or two people) is accretive to firm value, as the revenue risk is distributed across more individuals in a partner group. This assumes a team-based approach in delivering the client experience versus silos.

### AN OWNERSHIP GROUP IS ACCRETIVE TO FIRM VALUE



Revenue risk is distributed across more individuals in a partner group.



## THE CHALLENGING QUESTIONS:

Many questions arise at this stage, such as: How can owners of advisory firms go about deciding if expanding the ownership group is a legitimate growth strategy for their firm? Is there a quantitative method to measure the risk/reward or potential return? What are the tradeoffs in terms of organizational structure? Will new owners get certain voting rights that can potentially change control of the company? What changes are required for a firm's entity structure and buy/sell provisions, and how are the optimal requirements determined?

These are challenging questions for an owner to answer. Each aRIA member addressed these issue and made an informed decision in order to move forward. Usually the determination was related to a decision to accelerate the firm's growth beyond the existing founding partners' capabilities. For example, Carson Wealth is approaching \$4.3B in client assets. To achieve a non-market correlated growth rate of 10% (Carson Wealth Management's goal is higher) or \$400M in assets annually, the firm requires more than just Ron's efforts as the top rainmaker. \$400M in new assets in a year is more than the absolute size of more than 80% of RIAs in the country!

It is easy to say that a firm may need to offer top team members an equity incentive, but how does a firm go about acquiring it? aRIA believes the best equity plans are linked to the firm's long-term goals. Carson Wealth took its ownership structure to the next level when Ron Carson realized he needed to better "activate" his management team to help him reach the priorities he had, not only for Carson Wealth, but also for his other business entities: Carson Institutional and Peak Advisor Alliance. This need triggered Ron to rethink how his businesses are structured by implementing a more holistic corporate governance plan. This process included collaboration with his internal team and third party experts (consulting, legal, and tax counsel). The strategic outcome for Ron included:

- The creation of a board of directors with experts from both inside and outside the industry
- The development of succession plans for all business entities
- Design and implementation of a "key contributor" grant program for the management team based on specific and quantitative business outcomes, which was integrated into a holistic compensation plan

Since implementation, Carson has seen the company hit on "all cylinders". Each business line is exceeding goals defined at the onset of the plan. Culture and human capital have never been stronger,



aRIA believes the best equity plans are linked to the firm's long-term goals.



resulting in high “Raving Fan Index” scores (similar to Net Promoter Score). Carson Wealth “net new” client assets, have trended nearly 20% above goal and Carson Institutional is competing for and winning substantial new business. Several Carson affiliated advisor teams have reported results 40% over annual plan in the current year a result of scale received by working with Carson Institutional Partners.

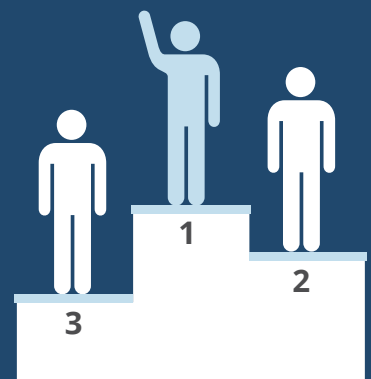
## BEST PRACTICES:

For firms that have been considering expanding equity ownership within their firm, here are the top best practices to consider:

1. Link your equity plan to your firm’s strategic plan. Without a strategic plan as a “guiding tenant”, an equity plan will not meet any objective other than diluting the founders’ ownership!
2. An equity plan should be closely tied to firm-wide compensation systems. This is especially true for advisory professionals who attract and retain revenue for a firm.
3. Equity grants should always be “accretive” to the founding members. Consider linking grants to growth goals and vesting schedules.
4. Be clear if you want to share control with new owners/partners. Most professionals in a significant revenue creation capacity will want some element of control.
5. Considering how new owners exit as equity holders is more important than how they gain equity. Think through what will happen if results are not achieved or if the new owner does something to hurt the company.
6. If you do not have the in-house knowledge, leverage the expertise of third parties. Firms aspiring to become billion-dollar firms have more to gain and lose.
7. Collaborate with your team to gain their input. Key contributors will have their own goals as it relates to equity. Understanding how they would like to contribute is key.
8. Take the opportunity to think through your long-term entity structure. Most RIAs are either S Corporations or LLCs. Each has its unique benefits; LLCs offer the most flexibility in terms of equity design, while S Corporations offer simplicity and tax advantages.
9. Most successful plans align to have some element of a “buy in” program, in which the new owner puts their own personal capital on the line. An entitlement mindset can develop in the absence of the equity recipients being required to put their own “skin in the game”.



Link your equity plan to your firm’s strategic plan.



Key contributors will have their own goals as it relates to equity.

## DESIGNING GROWTH ORIENTATED COMPENSATION:

aRIA believes the competition for human capital within wealth management firms will accelerate in the coming years. There have been multiple reports on why this is – lack of next generation professional talent to service the growing number of RIA clients, competition from larger firms, inability of firms to offer their employees growth opportunities (in cases when a firm itself is not growing), and the challenge of recruiting staff.

Compensation is also a key element to any firm's success, as it represents the single biggest expense category in any firm, and the human capital behind the expense helps drive and retain revenue. Firms that aspire to become billion-dollar firms will likely need to rethink compensation at some point if they want to achieve accelerated growth objectives.

## RETURN ON INVESTMENT:

Many tenured RIAs that have been in existence for years might find the compensation subject to be a difficult one to approach strategically. This might be due to several factors, including:

1. Long-standing employees are accustomed to a certain compensation system.
2. Owners are incapable of separating business objectives from their personal or emotional relationships with employees.
3. Sophistication or knowledge of ways to build compensation systems is lacking; most RIAs have salary and subjective bonus systems and may have a payout-type system for professionals.
4. Creating individual or team-based awards that are growth oriented may have the potential to take away from the owners' personal cash flow and overall profitability of the firm.

What triggers the need for advisors to take a fresh look at compensation planning? The reasons include a desire by the ownership team to provide incentives for employees within the firm to grow, the need to “rationalize” compensation if the alignment between employee contribution and compensation is lost, or the need to bring on new talent or hire for new functional roles.

For firms that want to reach the next level, creating a growth oriented compensation plan is a key element to drive incremental results.



Firms that aspire to become billion-dollar firms will likely need to rethink compensation.

## INCENTIVE PLANS:

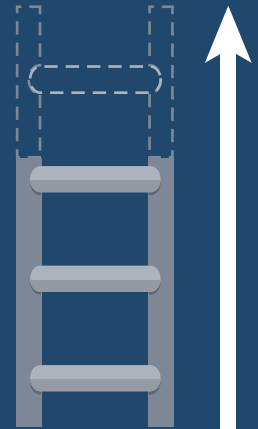
Almost every billion-dollar firm in the RIA space has some growth oriented compensation plan for professional employees, and most firms find a way to align operational/support staff. How can employees be incented to grow a firm? Here are some examples of incentive plans:

1. Individual or team-based variable compensation linked to a measurable driver such as revenue, assets, new revenue or profitability
2. Annual incentive plans linked to individual, team, or company performance related to the metrics in #1
3. Project-based incentives to achieve a firm-wide objective (e.g., technology conversions or integrating a new advisor or practice)
4. Performance-based awards based on outcomes related to the client experience (e.g., client satisfaction or operational efficiency)
5. A path for employees to grow in their career. For example, a firm can create a path for an associate operational employee to become a senior contributor in their role or outline a path to move into a more professional role. Firms will create criteria and performance management systems to help employees grow within a firm.
6. Aligning employees in the firm's long-term success by creating a long-term incentive plan that usually includes some format of equity ownership.

A key decision point for advisory owners is to decide if they need to revisit compensation. Usually this will manifest itself and trigger a decision if the owners: need additional professionals to find new clients, require professionals to take on more client relationship responsibilities to retain clients, and/or find they need to retain key employees for succession or long-term company effectiveness.

Exencial Wealth Advisors overhauled its compensation system a few years ago. The company went through a strategic planning process to achieve a firm value of \$100M or more. This goal required the firm to grow from a \$1 billion in assets to a firm that was more than five times that size at the time! John Burns quickly came to the conclusion that the firm's two principal owners could not achieve this through their own rainmaking efforts and that of one or two members of the team. The result of Exencial's change is highlighted in an aRIA case study (visit [www.allianceforrias.com](http://www.allianceforrias.com)).

## GROWTH ORIENTED COMPENSATION PLAN



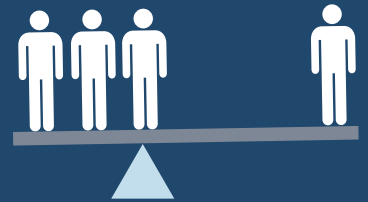
Creating a growth oriented compensation plan is a key element to drive incremental results.

## DRIVING GROWTH:

Advisors seeking to improve compensation systems to drive growth should consider the following:

1. Improving the leverage of professional compensation can make a difference. Most advisory firms are salary based with little leverage in the plan. Most growth-oriented plans have more variability for employees and are never “capped”.
2. Create a balanced approach between team and individual compensation. A trap into which many firms might fall is creating strong individual incentive plans that encourage silos within firms or “lone wolf” mentality. Taken to the extreme, “books of business” might be created within RIAs, which actually detract from firm value, as employees have earned leverage in terms of “owning” client relationships and a portion of firm revenue.
3. Using equity as an incentive is a great long-term compensation strategy and can help “kill multiple birds with one stone” – succession, employee loyalty, client retention, and long-term business value.
4. Get help if you need it! It is better to measure twice and cut once. Having to revisit compensation plans in a short duration of time can erode employee confidence.
5. Keep it simple. Do not build a compensation system that creates an administrative burden. If a plan is difficult for employees to understand, it is probably even harder to administrate, which leaves the potential for negative leverage. Thus, growth is not achieved, and there is incremental overhead cost to administrate.
6. Make sure the system is flexible enough for employees to advance in their career if results are achieved.
7. Take emotion out of the equation. Design the plan without current staff in mind. A simple way to do this is to build compensation plans based on the roles within the firm (roles required to achieve your objective), and then see where current staff fit within the strategically defined roles.

### BALANCE



Create a balanced approach between team and individual compensation.

## INVESTING IN ORGANIZATIONAL TALENT:

Human capital is one of the critical investments an advisory firm will make to achieve their strategic goals. Billion-dollar firms have made substantial ongoing investments in organizational talent that started well before they reached their current size. Early on, founding owners invested in organizational talent to meet the strategic vision of the firm.

Consider that the average independent advisor has a headcount of 5.5 (advisors plus staff). This is 76% less than firms with over \$1B in assets under management with an average headcount of 23.1. Owners who intend to grow into billion-dollar firms will need to make investments in organizational talent, and build an infrastructure and process to support it.

The investment in talent will come at the expense of current economics. Finding and securing the right organizational talent may take time and resources away from firm owners. This reinvestment will cause a loss of both time and capital, and will introduce personal risk to firm owners. This can be difficult for founding owners, as all investments in time and capital are made without assurances of future results. Founding owners will need to plan on spending considerable time as coaches to ensure the success of the investment.

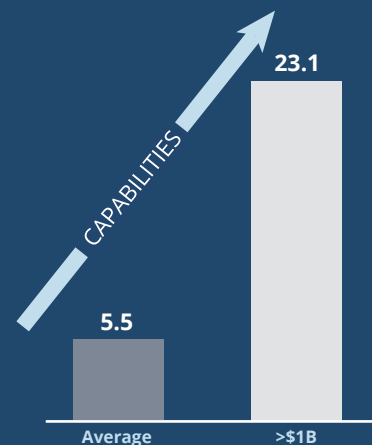
### CULTURAL QUALITY:

Attention will need to be paid to the quality of culture built through organizational talent. Founders should seek to move away from day-to-day activities and allow their staff to take over. Organizational talent should reasonably match the firm's culture and possess the proper technical skills. Even the largest RIA firms are still considered small businesses, which means that one bad cultural fit can have grave effects on a firm's culture.

To illustrate the importance of investing in organizational talent, consider aRIA member, Jeff Concepcion. Jeff founded Stratos Wealth Partners in 2008 with the goal of providing a higher level of support for sophisticated advisors and their clients. To do this, Stratos had to make extensive investments in organizational talent to provide the required support. This allowed Stratos to build a deep infrastructure with a strong understanding of practice management and implementation. All of this was possible through investment in organizational talent that supported the Stratos culture and philosophy. There was no guarantee of results, but today Stratos has \$6B of assets under management, and is growing at a healthy rate.

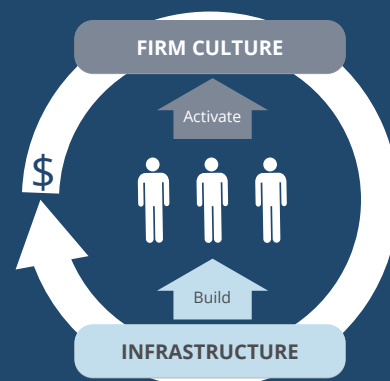
Building a team that has a strong culture and resonates with the founder's philosophy is a critical step, but more is needed. Teams must be held accountable for their individual and firm goals. Owners will need to establish clear performance guidelines and hold their team accountable to them. This should include both quantitative and qualitative measures of an employee's performance. To hold employees accountable, firms can link goals to employees' compensation at the individual or team level (described in the last section).

### INDEPENDENT ADVISORY PRACTICE STAFFING (AVERAGE VS. >\$1B)



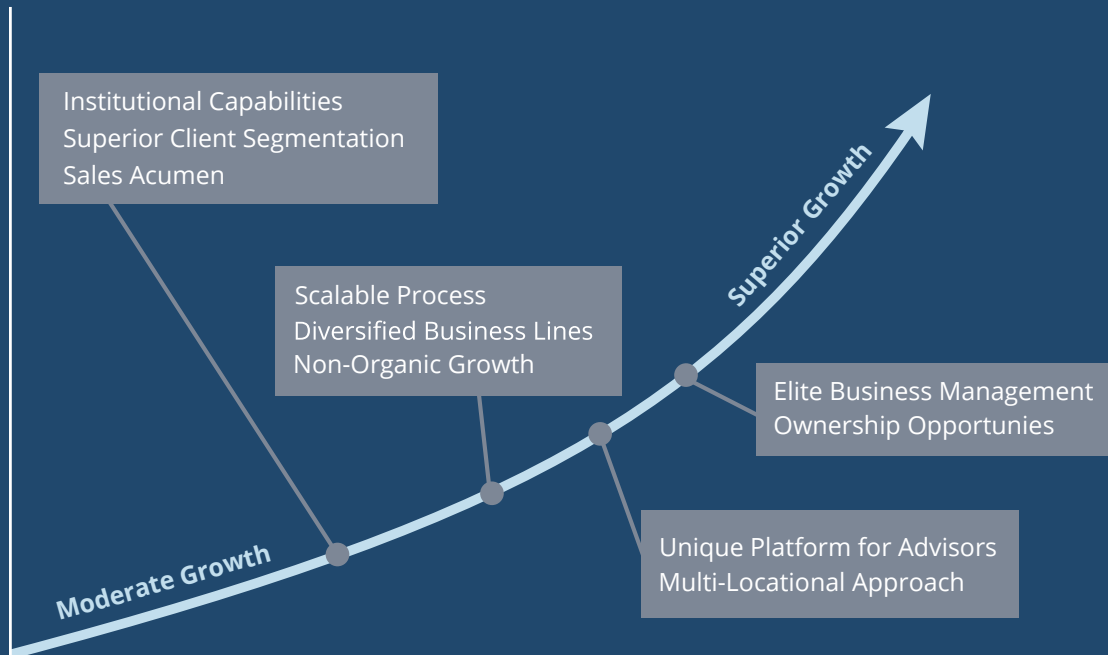
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### ORGANIZATIONAL TALENT INVESTMENT CYCLE



Building strong organizational talent will need to be met with infrastructure and process. This will activate organizational talent to help the firm reach new heights. To do this, firm owners will need to evaluate the proper systems that will support the path to becoming a billion-dollar firm. This will be accomplished mainly in the form of utilizing new technologies, but might also include outsourcing non-critical activities. This should start with the client experience and range to business management. The end result should be a defined structure and process that drives productivity in organizational talent and leads to a best-in-class client experience.

## BEST IN CLASS GROWTH ENGINE - DEVELOP A UNIQUE PROPOSITION FOR A SPECIFIC MARKET:



All firms that have reached the billion-dollar level must have great financial advisors, but also must have either a great value proposition, be blessed with professionals that are great rainmakers, or have found the ability to gain access to personal/professional networks that help drive the firm's growth. Without a long-term and systematic growth engine, most advisors will find that growth will plateau once they reach a certain level of success. aRIA as a group has discussed why this phenomenon exists, and how each member has broken through. Here is how each aRIA firm has broken through:

- Beacon Pointe: Institutional research and ultra high net worth platform for the \$1 to \$10M client
- Carson Wealth: Full autonomy for advisors, proven best practices for client acquisition and ongoing client experience and turnkey operations
- Exencial: Success with non-organic growth, team of rainmakers, and multi-location approach



- Highline: Best-in-class business management, non-organic growth success, and flexible compensation model for advisors who seek to join the firm
- Savant: Strong team of partners, excellent marketing expertise, repeatable and scalable processes, and superior client segmentation
- Stratos: Unique platform for advisors, ownership opportunities, and value-added services for advisors.

*“Does a unique proposition exist in my firm?”*

So the hardest question to answer is: Does a unique proposition exist in my firm that can be the growth engine to propel the firm to the billion-dollar level? If not, can it be created? If it cannot be created, is the current state acceptable? Are there other alternatives that should be considered?

A good place to start is to understand what the owners of the firm do well and how that applies to the market they are trying to reach. For example, if you are trying to grow your business by providing investment services to foundations and endowments, you will need a much different value proposition than what is required in the wealth management market. The ability to interact with boards, respond to RFPs in an effective way, and deliver a compelling investment solution is fundamental. This market is also fiercely competitive on price, so you must be able to deliver solutions in a scalable way.

Regardless of the proposition, it is critical for a firm to gain a disproportionate share of the corresponding addressable market. It sounds simple, but in practice, it is difficult. Beacon Pointe is an example of how a firm built its unique proposition. Beacon Pointe was founded in 2002 to provide independent advice to foundations and endowments, while also keeping a keen eye on delivering wealth management services to high net worth clients in Southern California. The founding partners had institutional research and investment experience and decided that the RIA channel was a superior channel to deliver fiduciary advice. So Beacon Pointe launched with an aggressive push to offer superior institutional and private wealth management.

Through the investment of personal capital of the founders and savvy marketing to differentiate itself from wirehouses and conflicted investment banks, the firm was able to reach \$1B in assets within months of its founding. Although we all know that institutional assets are lower revenue assets, the firm was able to effectively leverage its institutional presence to attract private wealth clients and build a very attractive business. The initial institutional business allowed Beacon

## ATTRACT PRIVATE WEALTH



Effectively leverage your institutional presence to attract private wealth clients.



Pointe to build out the fundamental elements of a very scalable business. In Beacon Pointe's case, the talented research and investment team provided the resources and story to private wealth clients required to build a fantastic business.

Once their credibility was built in this market, Beacon Pointe achieved the ability to leverage this strength into adjacent efforts including:

- Specialization of talents with Beacon Pointe to deliver best in class solutions to clients
- The ability to attract top talent through their growth efforts; Beacon Pointe has multiple roles in multiple departments and is certainly a place where advisors, investment professionals, and support staff can grow their careers
- Forming a platform for existing wealth management firms to partner with Beacon Pointe and leverage their strengths through an enterprise building partnership – Beacon Pointe Wealth Advisors
- Creating a partnership for other existing wealth managers to leverage the resources and strengths of Beacon Pointe, reduce risk, increase certainty to their succession plans and leave a lasting legacy

## **BECOMING A SUPERIOR FINANCIAL MANAGER OF YOUR BUSINESS:**

A key underpinning of growing a firm up to \$1B or more in assets under management requires superior financial management of the business. Owners will need to increase their discipline in financial management if the firm is to reach this goal. Becoming a superior financial manager involves addressing fundamental practices with the P&L and informing strategic planning, forecasting, and valuable firm reporting.

To start, owners need to proactively manage the firm's P&L. To do this, firm owners will need to begin by implementing best practices so that the P&L can inform a variety of other key business management decisions. This can be done by adopting an industry standard P&L structure, such as those used by major custodians or other industry benchmarking studies. These options will provide a framework and provide actionable insights into a firm's financials. To better illustrate this, the following template will highlight a basic P&L framework and best practices:

*"Owners will need to increase their discipline in financial management."*

### ***Revenue:***

Total firm revenue, including recurring and non-recurring. Firms with a variety of revenue sources should track these individually. Each expense item that follows can be stated as a percentage of revenue and compared year-over-year. Take caution that for best results, only revenue from advisory operations should be included in year-over-year comparisons.

### ***Direct Expenses:***

Includes professional and owner salaries and incentive compensation. Owners of firms should consider assigning themselves a market-based salary to better understand actual firm economics. Larger firms will also put the owners on the same compensation system as their employees, which will create a more accurate view of actual profitability. Top firms seek to manage this category at 40% or less of total revenues, with elite firms achieving rates that can be materially lower.

### ***Overhead Expenses:***

This category includes non-professional salaries, technology, marketing, and all other expenses related to business operations. Financial managers should pay close attention to the investments being made in the business and how they impact this category. Firms should seek to manage this category at less than 40% of total revenues. Firms that are in high growth mode usually operate with higher overhead expense ratios, as they are ramping up the business, with the intention of achieving better financial results in the future.

### ***Operation Income:***

Income from continuing operations is a good indicator of firm profitability in the wealth management industry. This pretax figure is expressed in dollars and a percentage of revenue and compared year-over-year. Firms should seek to manage this figure north of 20%, with best-managed firms likely over 30%.

## **DETERMINING THE NEED:**

The need to become a superior financial manager is recognized by Highline Wealth Management. After running three other companies, Neal Simon, CEO of Highline, understands the impact that financial discipline can have on a firm's growth. Highline has experienced rapid growth through organic and inorganic strategies since 2002. Discipline in financial management has allowed Highline to support acquisitions, mergers, and organic growth. To do this, Highline has not only mastered the basics of P&L management, but has also made a habit of using deeper reporting and metrics.

Owners who determine that they want to grow a firm up into a billion-dollar firm will use a P&L structure to perform targeting and to achieve certain metrics/business results. The goal of targeting is to manage the P&L to specific figures that will realize firm goals. Targeting is only as effective as the actions it intends to encourage. Firms will need to have a strategic vision in order to use targeting effectively.



aRIA member firms recognize the need to use the P&L as a tool for drawing out actionable insights to inform day-to-day operations and long-term business planning. Strategic financial planning helps owners redirect investing, budgeting, and staffing decisions.

Through a consistent P&L, an owner can translate strategic vision into tactical investment, while preserving short-term financial health. For example, an owner might determine that he/she wants to realize a 10% increase in operating margin over two years. This would be stated in the strategic financial plan, executed, and tracked through quarterly/annual financial reporting. What is reported is negotiable, but the discipline is critical in order to reach and surpass the \$1B mark.

A consistent P&L, targeting, and strategic planning allow firms to perform some quantitative analysis on their financials. Forecasting and variance reporting becomes a valuable tool that influences a firm's direction. Forecasting allows a superior financial manager to perform a "what if" analysis. It also provides some insight into the return that can be expected based on the given level of investment. In some cases, firms will determine that an investment is not worthwhile after conducting a forecasting exercise. The variance analysis will show how and to what degree actual results varied from forecasts. This may bring telling insights to the previous year's performance and lead to a strategic shift moving forward. The process is iterative and meant to encourage progress in the firm's financial discipline.

# STATING THE OBVIOUS:

## THE TOP 10 THINGS AT WHICH YOU MUST BE BEST-IN-CLASS TO MAKE IT:

This report outlined six key business elements that owners of advisory firms must address to grow into billion-dollar firms. Although this list is simplistic, a firm also must possess these attributes to reach the next level of scale. If your firm is missing some or most of these attributes, consider revisiting your strategic plan to either build in these elements, find partners that can bring these elements to the table, or adopt an alternative advisory model or platform.

- 1 Growth rates of at least 15% in year-over-year revenue. A firm that cannot increase at this rate will find it difficult to make the proper investments in the firm and to attract and retain top talent to help it grow.
- 2 A clear and recognizable value proposition. You execute what you say you are able to do. All billion-dollar firms possess unique strengths that drive their level of success.
- 3 Commitment to continuous improvement of the client experience and outcomes for clients. This manifests itself in the highest level of fiduciary standards and putting client interests above all else.
- 4 Committed owners who possess a relentless pursuit of advancing their companies and improving the well being of their employees.
- 5 A target market from which a firm can win new clients and market share.
- 6 The ability to deliver on the basics of the wealth management experience – investments, planning, and client service.
- 7 A mechanism to attract and retain human capital. If owners are only thinking about their interests well beyond the interests of employees, the firm will likely plateau at some point through the loss of employees or inability to attract top talent.
- 8 The ability of the founders to recognize the scope and limitations of their own talents and recognize what areas of the business that he needs to relinquish control and subsequently hire top talent.
- 9 An eye for identifying and pursuing profitable and scalable growth opportunities. Growth for the sake of growth creates complexity and eventual stagnation.
- 10 A commitment to evolve from directly doing client work to leading teams and managing leaders.

Not every independent advisory may want or have the toolkit to become a billion-dollar firm. This report is intended to provide financial advisors with a blueprint to increase their probability of success. Industry participants should also consider the fact that achieving this level of scale may or may not be achievable in their current state. Firms may want to take the opportunity to consider alternatives to their current model.

aRIA members are willing to offer their time and expertise to advisors who are seeking advice for how to proceed or who want to consider a new advisory model. Our goal is to continue to evolve as firms and as a group, while providing the industry with ideas and unique ways to engage with us. aRIA will continue to test new horizons, and we challenge the industry to do the same.

# ABOUT ADVISOR GROWTH STRATEGIES:

Advisor Growth Strategies, LLC (AGS) is a leading consulting firm serving the wealth management industry. AGS provides customized business management solutions for independent firms seeking to aggressively grow their business and for financial advisors in transition. Our services include strategic planning, recruiting and acquisition programming, compensation design, and succession planning. We serve established independent advisors, large breakaway advisor teams, and institutional-level corporations. Visit us at: [www.advisorgrowthllc.com](http://www.advisorgrowthllc.com)

## ABOUT aRIA

aRIA, the alliance for RIAs, is a think tank study group composed of six elite RIA firms that collectively manage more than \$20B in client assets, and Advisor Growth Strategies, a leading consulting firm serving the wealth management industry. The group offers insight for advisors considering ways to enhance their firms' enterprise value.

Members include Brent Brodeski, CEO of Savant Capital; John Burns, Principal at Exencial Wealth Advisors; Ron Carson, CEO of Carson Wealth Management Group; Jeff Concepcion, CEO of Stratos Wealth Partners; Matt Cooper, President of Beacon Pointe Advisors; Neal Simon, CEO of Highline Wealth Management; and John Furey, Principal of Advisor Growth Strategies, LLC. The group meets regularly, releasing thought leadership pieces of interest to both independent and wirehouse advisors interested in exploring long-term growth strategies. On the Web at: [www.allianceforriias.com](http://www.allianceforriias.com)