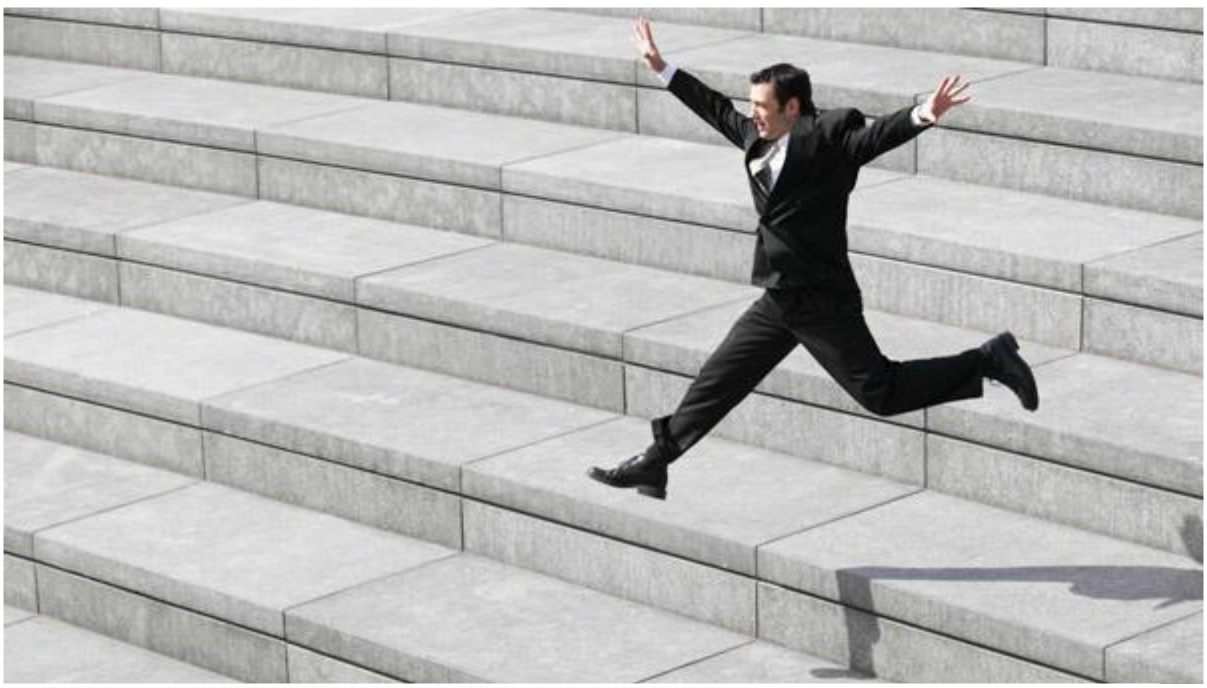
6 Secrets to Becoming a Billion-Dollar RIA Firm: aRIA

The Alliance for RIAs released a white paper today with a detailed outline on how independent financial advisors can reach and surpass $1 billion in AUM

By Emily Zulz November 5, 2014



Billion-dollar firms manage 40% of RIA assets, aRIA says.

While billion-dollar firms might be considered a minority in the wealth management industry, more and more firms are reaching this level.

In 2012, there were more than 500 billion-dollar firms reported – up from 300 firms just three years prior. And these firms are controlling a disproportionate amount of the assets in the RIA channel, according to the Alliance for Registered Investment Advisors. In 2012, billon-dollar firms represented over 40% of all assets under management.

The Alliance for Registered Investment Advisors (aRIA) released its fifth white paper, *6x6 = $1 Billion: Six RIAs Share Six Secrets to Achieve Scale*, today to provide financial advisors with a blueprint of "What it takes to be a billion-dollar firm."
The aRIA is composed of six independent financial advisory firms – Advisor Growth Strategies LLC; Savant Capital, Exencial Wealth Advisors, Carson Wealth Management Group, Stratos Wealth Partners, Beacon Pointe Wealth Advisors and Highline Wealth Management.

"This is our most deep-drill white paper to date," says **John Furey**, principal at **Advisor Growth Strategies** and managing member of aRIA, in a statement. "It is effectively a blueprint for getting to and growing beyond the billion-dollar plateau. With checklists, best practices lists and real-world examples presented by the best of the best independent advisory firms, anyone interested in growing their firm and taking it to the next level will find this useful, to say the least."

The white paper, released to coincide with Schwab's Impact 2014 conference in Denver, focuses on six ways a firm can grow its business into a billion-dollar firm.

The first step toward becoming a billion-dollar firm: The necessary evolution of the owner's role within the firm.

As an advisory firm changes and increases in size, the owner's role will also change.

Brent Brodeski, CEO of Savant Capital, examines the evolving role of the owner and the owner's movement from "player" to "player/coach" to "coach" to professional manager and lastly to "strategic owner."

"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 whitepaper states.

The owner's role will typically start changing when the independent firm is initially forming. And once the firm reaches a certain size, the paper says "usually around the $500M in assets or $5M in revenue range," the owner will take an oversight position and everyday client responsibilities will transition to junior staff members.

The owner's role will transition from acting as a point of escalation and collaborator on client strategy to spending the majority of time on business operations.

As the firm continues to grow even more, the owner's role will start to look like more of a strategic owner.

"Strategic owners have many advisors and staff members reporting to them to fill the owner's past roles," states the whitepaper. "The strategic owner is now focused on the strategic vision for the company and the tactics needed to realize that vision."

The second step toward becoming a billion-dollar firm: Developing the right ownership structure for your firm.

“Failure to develop an ownership structure that goes beyond the founding partners can be extremely limiting,” the paper says.

Ownership structures 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.

As Ron Carson, CEO of Carson Wealth Management Group, said in a statement, “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.”

The paper suggests several reasons creating an ownership structure is beneficial, such as helping create long term growth, set up a succession plan and lessen clients’ view of risk.

From the client perspective, firms that manage a client’s wealth with only one or two owners could be seen as risky.

An ownership group or team-based approach in delivering the client experience would also distribute the revenue risk across more individuals in a partner group, versus one or two people.

The paper also points out that providing a path to ownership to existing employees and/or talent from outside the firm is key for founding partners who are seeking a succession plan. Without this, partners will have a more difficult time constructing a long-term plan.

While growing business is a top priority for partners, the paper points out that professionals who are not aligned through equity are more likely to be “less interested in the firm’s long-term growth perspective.”

The paper suggests creating a compelling compensation package — and using equity to do it — for top talent in the wealth management industry. Which leads us to the next secret.

The third step toward becoming a billion-dollar firm: Designing growth-oriented compensation plans.

On the topic of executive compensation, John Burns, principal at Exencial, said in a statement, “creating a growth-oriented compensation plan is a key element to drive incremental results.”

Compensation, which according to the paper is the single biggest expense category in a firm, gives incentive to the human capital behind that expense to drive and retain revenue.

"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," the paper states.

The paper provided examples of potential incentive plans, such as an individual or team-based variable compensation plan or an annual incentive plan that is linked to a measurable driver such as revenue, assets, new revenue or profitability.

Other examples include project-based incentives to achieve a firmwide objective, performance-based awards based on outcomes related to the client experience, a path for employees to grow in their career, and a long-term incentive plan that usually includes some form of equity ownership.

The fourth step toward becoming a billion-dollar firm:Investing in organizational talent

The average independent advisor has a headcount of 5.5, which includes advisors plus staff, according to the paper. This is 76% less than the $1 billion-plus firms, which average 23.1 staff per firm.

Owners with billion-dollar firms in their sights will need to make investments in organizational talent, the paper stresses.

Jeff Concepcion, CEO of Stratos, said in a statement, “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.”

To establish clear performance guidelines, owners will need to measure an employee’s performance both quantitatively and qualitatively. To hold the employees accountable to these guidelines, firms can link goals to employees’ compensation at the individual or team level, as the paper suggests.

Along with investments in organization talent, the paper says firms will also need to invest in infrastructure and process.

The firm can most likely accomplish this “in the form of utilizing new technologies, but might also include outsourcing noncritical activities,” the paper states.

The fifth step toward becoming a billion-dollar firm: “Developing a ‘best in class’ growth engine” and “unique value proposition for the market”

Matt Cooper, president of Beacon Pointe Wealth Advisors, believes that the hardest question for firms to answer pertains to building value.

“Does a unique proposition exist in my firm that can be the growth engine to propel the firm to the billion-dollar level?” he said in a statement. “If not, can it be created? If it cannot be created, is the current state acceptable? Are there other alternatives that should be considered?”

Value propositions will differ depending on what market a firm is trying to reach.

“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 paper states. “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.”

Most firms will find that growth will plateau once they reach a certain level of success if they don’t have a long-term and systematic growth engine, the paper says.

The sixth step toward becoming a billion-dollar firm: "becoming a superior financial manager."

If a firm wants to reach $1 billion or more in AUM, the paper suggests that owners will need to become more disciplined in financial management, through consistent P&L, targeting and strategic planning.

Neal Simon, CEO of Highline Wealth Management, expanded on proactive profit and loss management in a statement. He said, "Owners who determine 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 business metrics/results."

While strategic financial planning can help redirect investing, budgeting, and staffing decisions, "targeting" manages the P&L to specific figures that will realize firm goals. But, the paper states that "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."

Other valuable tools for superior financial management that the paper points out are forecasting and variance reporting. Forecasting provides a "what if" analysis and helps give some insight into the expected return on the given level of investment. Variance reporting can show how actual results varied from forecasts, which in turn can bring insight to the previous year's performance and lead to a strategic shift moving forward.