5 important lessons for financial advisors

By Charles Paikert for AdvisorEngine

I spent the last several weeks speaking with successful financial advisory firms. The question we explored together: "What are the most important things you have learned about running a wealth management business?"

During the conversation, five major lessons emerged - with 'growth' being a key cross-cutting theme across the board. Importantly, these lessons came from listening to client needs, treating people well, and putting in energy to strategic planning.

Whether you're starting your career or building on years of experience, here are five important lessons for investment professionals.

Client Acquisition

Organic growth? In a relationship business, it's all about referrals.

"Seventy percent of our new business comes from existing clients," says Brian Vendig, president of MJP Wealth Advisors in Westport, Connecticut. "If you're doing a good job, you don't have to ask clients for referrals. They will be happy to recommend you. Good service is contagious — in a good way."

Grant Rawdin, principal of Wescott Financial Advisory Group in Philadelphia, agrees. "There's still no better way to appeal to prospects than through current clients," Rawdin says. "When a prospect calls based on a referral, you're 70% there.

Generating referrals from current clients is predicated on providing high-quality service.

"The best way to achieve double-digit growth is to deliver incredible service to clients," opines Matthew Fleissig, president of Pathstone, a $20 billion national wealth management firm that has reported it has more than doubled in size over the past decade. "If you do that, you will be referred by clients, and that's where the majority of our new business has come from."

Another important source of referrals are "centers of influence," who are usually industry professionals who are familiar with your firm's work, such as accountants and attorneys.

"[They] are major referral sources," Rawdin says. "Try to identify who they are and spend more time with them. If their work is good, you can also refer them to your clients."

Organic growth can also be boosted by expanding services — and corresponding additional fees — from current clients.

"One-third of our new business comes from clients we already have," says Pathstone's Fleissig. "We work closely with them and try to identify the additional scope of services we can offer."

According to a recent survey of elite RIA firms by E*Trade, more than half of those surveyed said "generating more revenue from existing clients" would be part of their growth strategy over the next two years.

Client Retention

Superior service is the cornerstone, the *sine qua non*, for client retention.

"We want every aspect of the client experience to feel special," says Carla Wigen, chief operating officer for Laird Norton, a 53-year old Seattle-based RIA and family office with $6 billion in assets based in Seattle.

Clients' needs must be an absolute priority from the moment they pick up the phone, log on to an advisors' site, or walk in the door. "Advisors simply cannot afford to alienate clients," says practice management consultant John Furey, founder of Advisor Growth Strategies. "Their time is too valuable, and their business is too important."

The digital era has only increased the need for high customer satisfaction.

"Silicon Valley has changed client expectations for good with the promise of frictionless, innovative, and smart client experiences," write Mark Tibergien and Kimberly Dellarocca in their book, "The Enduring Advisory Firm."

Clients now experience superior service in so many aspects of their lives, from hailing a ride to ordering online, that they take it for granted. As a result, financial advisory firms "cannot expect to have highly satisfied clients if the service experience does not resemble the easy and personalized experiences that are so common in their everyday lives," the authors write.

At Laird Norton, the client experience includes inviting clients to prestigious community events, such as the premiere of the last season of "Downton Abbey," which the firm sponsored in partnership with Seattle's local public television station.

"These exclusive opportunities add value to the relationship and help us build a partnership with the client," Wigen says. "It's a strategic program that's been quite successful."

Another key to retaining clients: don't be afraid to say 'no.'

If a client wants to do something that doesn't make financial sense, "tell them in no uncertain terms why it may be dangerous," writes Lawrence Miles, principal with the Los Angeles-based wealth management firm AdvicePeriod, in his book "It's That Simple: How to Build the Professional Service Firm of the Future."

"Tell clients no because so few people do," Miles writes. "You'll stand out. Challenge them. If professional service firms want their clients' respect, don't agree with them all the time."

Transforming a practice into an enterprise

Are you thinking of growing your financial advisory practice into a business enterprise?

First piece of advice: Think again.

"There's nothing wrong with a lifestyle practice," says industry consultant Matt Sonnen, CEO of PFI Advisors. “You can make a nice living, you can help people, you can make your own hours, and there’s not too much stress. But if you want to monetize your firm, if you want to grow and be able to sell an enterprise, not just a book of business, you have to decide to be fully committed.”

That means you no longer eat what you kill. It means reinvesting money back into the business for growth and finding sources of capital, whether from loans or from investors, to fund that growth.

Becoming an enterprise means no more solo silos and working on commission. It means working in teams with salaries and bonuses — and distributing equity to those helping you build the enterprise.

Enterprises need professional management to achieve efficiencies and make sure key performance indicators are met. Enterprises invest in technology, buy market-leading applications, and make sure they’re seamlessly integrated and customized for clients. Enterprises grow organically by investing in marketing, client service, and client engagement. Enterprises grow inorganically by gaining clients and assets through mergers and acquisitions.

Scale is the key to transitioning from a practice to a business.

Centralization, standardization, and consistency must be established first. Then, according to Grant Rawdin, who grew Wescott Financial Advisory Group into a $2 billion-plus firm over the last three decades, advisory firms can begin to leverage one resource for many clients.

Scale, Rawdin says, is achieved when a firm has a critical mass of clients and can reinvest efficiencies into more services.

Crucially, scale increases profit margins.

“You are now more efficient,” Rawdin points out. “The same $100,000 you invested in serving 100 clients also serves 1,000 clients just as well. Your cost per client is lowered and your profit margin is raised.”

Growing through M&A

The fastest way to grow an advisory firm is to merge with or buy another advisory firm.

But it’s not the easiest.

“You need to have your own house in order first,” says Brad Bueermann, CEO of FP Transitions, a consulting firm specializing in M&A sales and valuations for RIAs. “You have to have a scalable, enterprise business, and you have to be intentional and think through how an acquisition or merger would work and what kind of firm fits best with yours.”

Once a firm is a scalable enterprise, regularly posting double-digit growth rates and is nearing $200 million in assets under management, it can begin thinking seriously about M&A.

Start looking at available databases, says one veteran buyer of RIAs.

"Readily available databases such as RIA Database and Discovery Data allow you to search by geography and data points such as client characteristics, growth rate, and investment philosophy," says Matt Cooper, president of Beacon Pointe Advisors. "You need to have a good reason to buy a firm. It should complement your firm, help you grow and be a good fit, from both a business and cultural point of view."

Ready to make an offer? Don't rush things, especially if you're new to deal-making. Hire an experienced consulting firm like FP Transitions, DeVoe & Co., or Echelon Partners to get an objective, professional assessment, and valuation.

And remember that it's a sellers' market – the demand for quality RIAs far exceeds the supply of those available.

"Buyers need to be aware of market conditions," says practice management consultant John Furey, founder of Advisor Growth Strategies. "There's a lot of competition, including some very big players with very deep pockets. What's your firm's unique strength? What makes you special enough that someone else wants to choose you and not the other guy? That's the only way to get the deal done. Otherwise, you'll have to overpay and outbid the competition."

Succession Planning

Succession planning is a perennial problem for financial advisors.

According to the Financial Planning Association, 61% of advisors say they're not ready for succession, 63% say it's too difficult to think about, and 67% avoid it out of concern for the business's future.

But neglecting to plan for the future — as financial advisors well know — can be a fatal mistake.

"Succession planning is a critical exercise even for advisors who are not ready to sell or exit the business," industry consultant David DeVoe said in an interview with Family Wealth Report. "Whether advisors' clients are verbalizing the question or not, they are wondering 'what will happen to me' if something happens to their advisors."

Having a comprehensive succession plan in place helps advisors "proactively put their clients at ease, ensure that the future of the firm is directed and create a more valuable practice," DeVoe said.

Advisors can opt for internal succession, including selling to existing partners or employees or an external sale to a like-minded firm, a large RIA aggregator, or a private equity investor.

An RIA owner can also recapitalize a portion of the business to a larger firm. This allows them to diversify their net worth, stay involved with the business until they decide to retire, and then sell the remaining equity — which may be worth more after a new injection of capital results in additional growth — when they choose to retire finally.

In any case, owners should begin succession planning sooner than later.

Operational, governance, compliance, and compensation structures need to be brought up to speed. An outside firm should conduct a formal valuation. Financing options for potential buyers should be reviewed and a transition plan drawn up.

Keep in mind that potential buyers will want to know the firm's growth rate, profit margin, net new assets, and client demographics.

When an offer is made, deal structures will include targets based on the expected number of assets, revenue, and clients that the firm retains for a predetermined "earn-out" period.

That time frame will determine the size of the initial payment to the seller and the payment cycle duration.

Yes, the process is time-consuming. But well worth it, industry experts agree.