The secrets of high growth firms

By John Furey for FinancialPlanning

The advice industry is growing, but not all advisors are growing at the same pace.

So why do some advisors lag behind, some run the race faster than others, and a select few come across as the wealth management equivalent of Secretariat?

The RIA channel in particular has found success over the past decade by being the clear channel of choice for advisors and clients. Clearly, fiduciary advice is preferred with fee-based models prevailing in the market. However, countless firms in our industry have fallen under a spell of complacency due to rising markets. Industry benchmarks show the compound growth for most firms is 8% to 10%, however, the true growth rate (uncorrelated to markets) is closer to 4% on average, according to Cerulli Associates. If you look across firm size within the industry, larger firms have fared far better than smaller firms.

Advisor Growth Strategies feels a minimum of 10%, ideally 15% or more annual revenue growth is required to maintain a healthy firm, with organic growth rates over 20% as "best in class." So, that's the numbers, but let's break down what a health firm really means.

Does growth even matter?
Depending on a firm's situation, growing may be less important than maintaining a stable business and taking care of clients. Firms that don't grow usually hit a "capacity wall" where they can't add new business because the professional talent that can find new clients has no time. For firms that are happy with their current level of success, growth might be less important to the founders/owners, but more important to talented contributors on their team.

For example, a recent client I worked with has a founder that was more interested in "cash flowing" the business versus investing for the future. The "next generation" minority owner wanted to grow the firm aggressively. This firm struggled with the risk/reward scenario of making key investments. We helped model returns on their business in a way that limited the downside to the founder (funding 80% of the cost) and provided upside for the next generation owner if the investments resulted in new profits.

Growth is extremely important to attract and retain "A List" talent because these contributors are looking for career advancement, high levels of income, and intellectual challenges that come with higher contribution levels. Firms that are not growing do not have an expanding organizational structure to support career aspirations. These firms usually wind up with team members that are more interested in "punching the clock" than driving excellence within a firm — the dreaded "B Team."

The mojo of high-growth firms
Why do certain firms grow faster than others? Is it as simple as having great business developers? A great wealth management process? Killer branding? All these attributes help but in the end there is no silver bullet. Additionally, there are no "shiny objects" that will drive results. Shiny objects are a trap advisors may fall into that has the promise of growth but delivers no returns.

What really is happening within a high-growth firm that is durable and scalable? Here are some ideas for your firm.

- Development of a business plan and clear goals for contributors: This is obvious, simple enough, and requires little explanation. However, too many RIAs do not have a clear and actionable business plan. If you don't know where you are going, you'll never get there.

- Accountability: This does not mean business development quotas and boiler room type pressure. Instead, accountability means understanding the metrics that truly matter and getting contributor commitment to their piece of a business plan on a quarterly or monthly basis. Annual goals don't cut it anymore because the industry is moving too quickly.

- Functional roles versus hybrid roles: Many RIAs do not set up their organizations with dedicated roles to areas like sales/relationship management, investments, planning, tax, operations, and service. Too many firms have hybrid roles where advisors take on multiple functions. Firms that have less functional responsibility grow faster because they can build functional excellence and scale. This is obviously harder for firms with fewer than 10 contributors. High growth firms take the opportunity to segment their client facing professionals into sales/lead advisor roles and service/support advisor roles. This allows for senior professionals to focus on the highest-level activities.

- Consistent and well thought out processes: If every team member gets to do things "their way," a firm winds up flatlining. Why? Without a consistent process for sourcing and servicing clients, opportunities can be lost. The simple answer to fixing this is building workflows within a CRM and enforcing accountability to tracking leads and share of wallet opportunities. One of our clients pays incentives for excellence in driving and tracking activities that drives results versus the result itself! The next level is developing a systematic process to find and nurture clients. One of our clients has a fully elaborated sales process that helps their relationship managers overcome any client objection to transitioning assets. The process does not guarantee results, but it does increase success probability (this firm grew over $5 billion in organic AUM in the last six years).

- Career development plans and mentorship: This is probably the single biggest challenge to our industry — the transfer of knowledge and the "art" of developing business from one generation to the next. Most firms do not have the budget to build training programs and even more challenging is finding contributors who can be successful in growing business. The best firms take the opportunity to mentor promising professionals internally and externally. I experienced this first-hand with Brandon Kawal from our team being mentioned by industry leaders Mark Tibergien and Tim Kochis.

In the end, the fastest growing firms commit to accountability and are the best implementors of their plans. It's that simple. Does your firm have the desire to be a high growth firm? The place to start is building a plan, then finding the right mix of people, process and technology to make it a reality.