How Financial Advisors Can Transform a Small Practice Into a Big One

By Charles Paikert for Barron's

Some advisors are happy to be part of a small, community-oriented practice. But many advisors end up feeling constrained by the limitations and lack of capacity of a small firm, or worry about encroaching competition. What steps should motivated advisors who envision a wider horizon for their practice take to evolve into a larger enterprise with tangible market value?

Start with a vision, then shape a strategy, says Mark Tibergien, the former CEO of Pershing Advisor Solutions, and co-author of "*The Enduring Advisory Firm*."

"Successful enterprises have either developed a niche market, such as working with widows or doctors, or have a technical specialty, such as estate planning or risk management," Tibergien says. "You want to be recognized as one of the top three firms in your market. Studies have shown those firms will get twice as many opportunities with prospects as the fourth firm in the market."

Reinvesting in the business and, if necessary, securing capital either through investors or credit, adding people, and installing professional management are the next steps.

"Becoming an enterprise is all about leverage," says Grant Rawdin, president of Wescott Financial Advisory Group in Philadelphia.

"You want one resource or process to be able to serve multiple clients," explains Rawdin, who in three decades has grown Wescott into a $2 billion-plus business. "First you have to establish centralization, standardization and consistency. You won't see an immediate ROI when you make an investment, but you will when you reach a critical mass of clients and achieve scale."

Crucially for an enterprise, scale increases profit margins. "You are now more efficient," Rawdin says. "The same $100,000 you invested to serve 100 clients also serves 1,000 clients just as well. Your cost per client is lowered and your profit margin is raised."

Professional enterprises must have professional managers, according to industry consultant Matt Sonnen, CEO of PFI Advisors. "Scale doesn't magically happen," he says. "Growth has to be managed and you need a chief operating officer to do it. Someone who is just focused on the business, key performance indicators and the firm's infrastructure."

Tibergien suggests different types of management structures for different phases of a firm's growth. A general manager is sufficient for the early stage of a firm's life cycle, he says. A COO should be brought in when an RIA's revenue hits approximately $3 million, and when revenues approach $10 million, it's time for a chief executive officer.

Even with a killer strategy and a great manager, an advisory firm can't grow without hiring more people.

“A practice will never become an enterprise unless it has the right team,” says practice management consultant John Furey, founder of Advisor Growth Strategies. “We worked with an owner who wanted to grow but was a narcissist. He believed he was the only one who could do things the right way, and he hit a wall. You have to hire the most talented people you can. That’s something you can’t outsource.”

Once people are on board, establishing a career path and a professional compensation structure are critical. That means eliminating the lone wolf, commission-based “eat what you kill” compensation model, working in teams, and instituting competitive salaries, accompanied by bonuses.

“Owners have to recognize that the demand for top talent is greater than the supply,” Furey says. “Salaries have to be competitive and bonuses have to be aligned with the firm’s goals. And there has to be a path to equity for the best performers if you want them to stick around. I don’t know a lot of enterprise firms who still have equity tied up with the founders. People need a long-term incentive.”

And while not every employee is interested in, or deserving of equity, Welsh adds, firms should at least consider across the board profit-sharing. “If you want to grow, you have to share,” he says.

The M&A route. The fastest way to grow an advisory firm and add assets is to merge with or buy another advisory firm, but it’s not the easiest route. M&A is currently a fiercely competitive, expensive seller’s market that requires a lot of capital.

“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. “Then you need to be intentional and think through how an acquisition or merger would work, and what kind of firm fits best with yours.”

A better solution for firms in the initial stages of growth is what the industry calls “tuck-ins”—recruiting individuals or small teams from rival firms. “You’re much better off adding advisors one by one than adding an entire business,” says Tim Welsh, CEO of consultancy firm Nexus Strategy.

Aspiring enterprise RIAs must also pay close attention to their technology stack. “Tech is constantly changing,” says tech consultant Joel Bruckenstein, producer of “Technology Tools for Today” conferences for advisors. “You have to keep up and educate yourself. There’s a wide choice of affordable market-leading applications and you can white label a software interface with clients to make it feel like your own and help build your brand.”

An advisor who wants to grow “has to get out of the back office,” Welsh says. “Take advantage of all the tech vendors out there who are offering great service solutions. There are custodial options, turnkey asset management platforms, and new companies offering unified tech stacks that tie everything together.”

And as firms do evolve from practices to businesses, measuring progress by industry benchmarks is critical, Tibergien says.

"If advisors want to have a real business, they need to think about it the same way they advise their clients, by analyzing a set of facts and measuring them against a desired goal," he explains. "Examine key metrics like revenue and operating profit per client and per staff, and client and staff turnover, at least once a year for several years," Tibergien says. "What are the trends? How do they compare to industry benchmarks? Are you doing what you need to do to get to where you want to be?"