

The Future of Practice Management

Member Briefing

December 2013

Overview

- While financial advisers assist clients in planning for their eventual transition out of the working world and into retirement, they are falling short in planning for their own futures, revealed ***The Future of Practice Management***, an inaugural study by the FPA Research and Practice Institute – a program of the Financial Planning Association[®] (FPA[®]).
- The study – which included nearly 2,400 professionals, including financial advisers, junior-level advisers, support staff, and non-adviser management – was conducted to provide a comprehensive assessment of current and future trends for financial advisers related to managing and growing an advisory business. The data gathered is designed to help assess advisory businesses on a range of practice management metrics; identify potential gaps in advisory businesses; and isolate the trends that may impact how advisers do business in the future.
- While the study, done in collaboration with New York-based Advisor Impact, examined several key areas of business operations, including business planning, marketing, and human resources, a major theme evolved that indicated that financial advisers are not widely considering their own business and personal retirement planning. The data shows:
 - 50% of financial advisers do not have a written business plan, but larger firms are more likely to have a plan in place
 - 46% of financial advisers do not have a retirement plan for themselves, yet 40% are planning to retirement within the next 14 years
 - Only 25% of financial advisers have a succession plan in place to ensure their business transitions appropriately when they retire – the percentage with a formal plan increases slightly to 31% at age 60-64 and 41% at age 65+

Overview (continued)

- Though some advisers may not be “practicing what they preach,” a likely culprit for their inability to plan for their own future may fall squarely on a simple lack of time. The study exposed that while advisers recognize that time management is among the most important business attributes they can possess, they are struggling to manage their time effectively.
- Other thought-provoking takeaways from *The Future of Practice Management* study included the future shift of advisers toward wealth management as a descriptor and the lack of understanding of who advisers serve.

Shift to Wealth Management:

- In an effort to clearly describe what they do for clients, many advisers are planning to change how they position their businesses with clients within the next five years. The study shows:
 - 76% of Money Managers indicate they will change. Of those who plan on changing, 44% will transition to Wealth Managers
 - 72% of Investment Planners indicate they will change. Of those who plan on changing, 46% will transition to Wealth Managers
 - 53% of Financial Planners indicate they will change. Of those who plan on changing, 62% will transition to Wealth Managers
 - Only 30% of Wealth Managers are planning to change

Overview (continued)

Lack of Understanding of Who Advisers Serve:

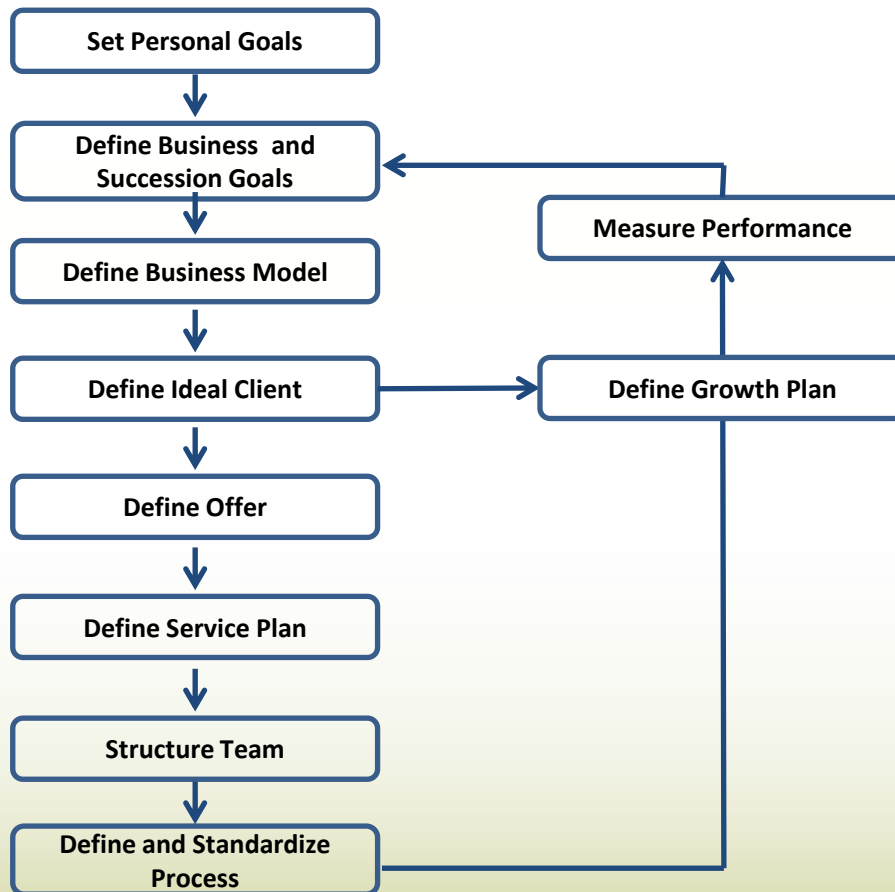
- Advisers, like any other professional, endeavor to grow their businesses by identifying individuals and families who are good candidates for their services. However, advisers are not clearly defining who they serve. The study shows:
 - Only 25% of advisers have a formal definition of their ideal client which describes the best candidates for their services
 - Only 38% of advisers who have defined their ideal client say 75% of their current clients fit their definition
 - Advisers are more likely to set an asset minimum (43%) than to have a definition of their ideal client
- With these benchmarks in place, the FPA Research and Practice Institute will begin conducting quarterly studies in 2014 that will provide deeper analysis on the gaps in advisory businesses.

Response and Methodology

- 2,376 respondents completed the on-line survey, from October 1-15, 2013, taking an average of 27 minutes.
 - 1,954 of those respondents were advisers and 422 were a mix of junior advisers, support staff and non-adviser management.
 - Results for the last three groups have been isolated and reported separately. They were asked a separate sub-set of questions.
- The margin of error on adviser data is +/- 2.21% 19 times out of 20.
- A profile of respondents is provided at the end of this report.

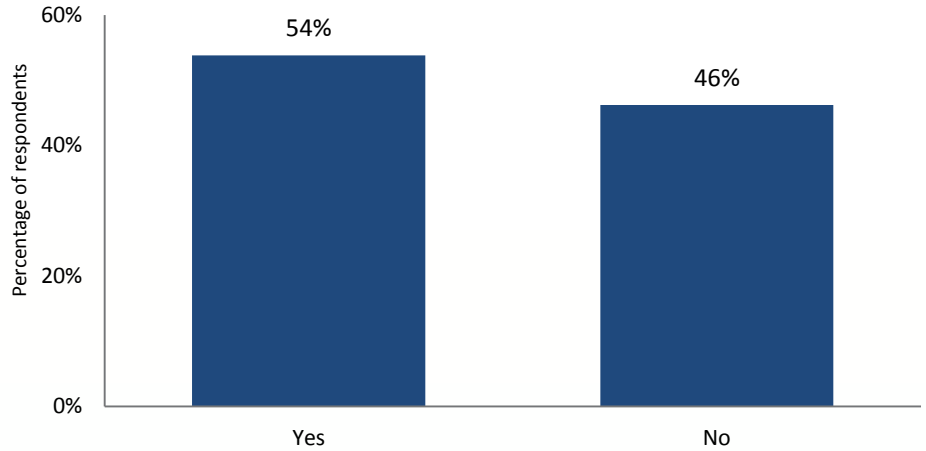
Practice Management Model

- The study findings, and implications for building and improving advisory businesses, are structured around the following components of a robust practice management model.
- The model is designed to highlight the ways in which the different elements of practice management are connected, suggesting that effective practice management demands alignment across all key areas.

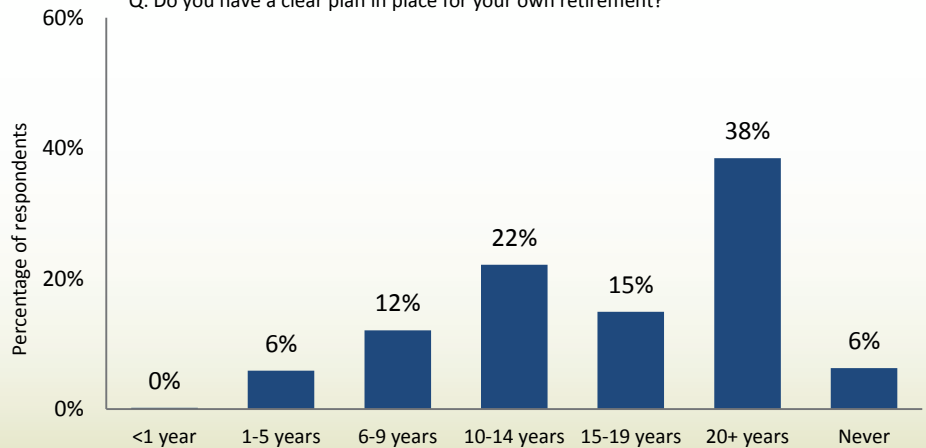


1. Set Personal Goals

- Personal goals drive business goals, suggesting advisers need to start with a clear vision of their own future.
- Nearly half of advisers say they don't have a clear plan in place for their own retirement.
- The adviser's retirement horizon has almost no impact on outcome; those who have a plan are no more or less likely to be retiring sooner.
- Age does not have an impact on the likelihood to have a plan until advisers are 65+. The percentage is unchanged for all age segments at 52-53%, jumping to 66% for those who are 65+
- **Implications:** Defining long-term goals will help advisers make the best choices for all aspects of their businesses. Your business plan should reflect what you are trying to accomplish in your life.



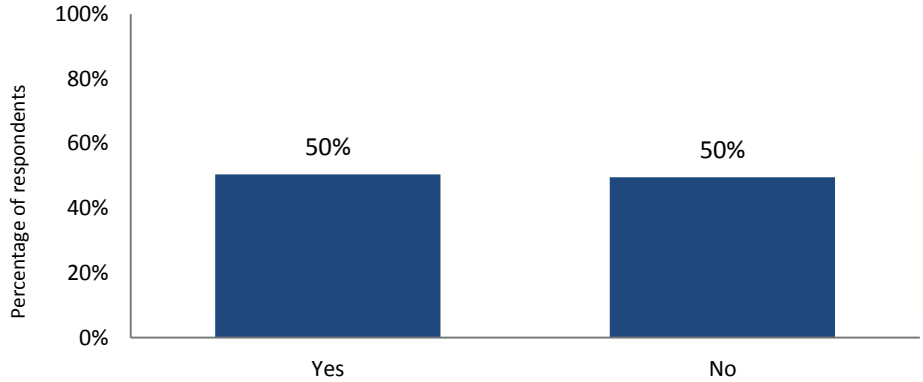
Q: Do you have a clear plan in place for your own retirement?



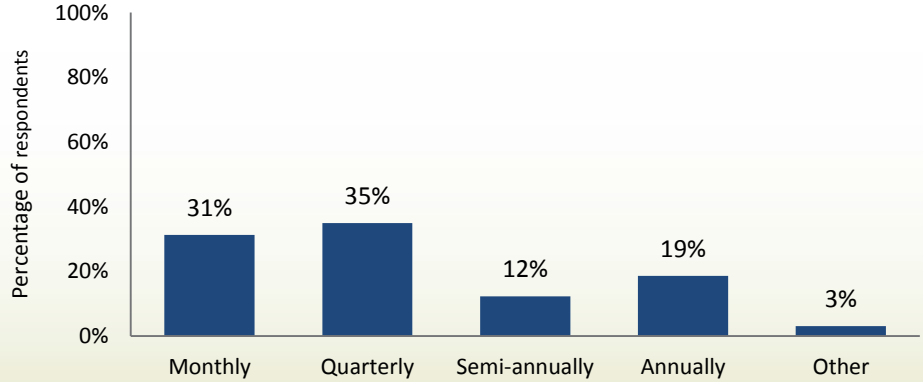
Q: When do you plan to retire?

2. Define Business and Succession Goals

- With personal goals established, advisers can craft a business plan that will allow them to reach those goals.
- Half of advisers say they have a formal, written business plan; however, 67% say that have an effective business planning process in place (somewhat or completely agree).
- As expected, larger firms are more likely to have formal business plans. Of interest is that younger advisers are the most likely to have a plan, at 61%.
- The majority of advisers, who have a plan, review progress relatively frequently. The plan is a 'living plan' for about a third of those who have a plan; they review monthly.
- **Implications:** In the absence of a clear business plan, many advisers may be 'operating without a compass'. A clear plan is a foundation to all other aspects of practice management, providing a filter for strategic choices.



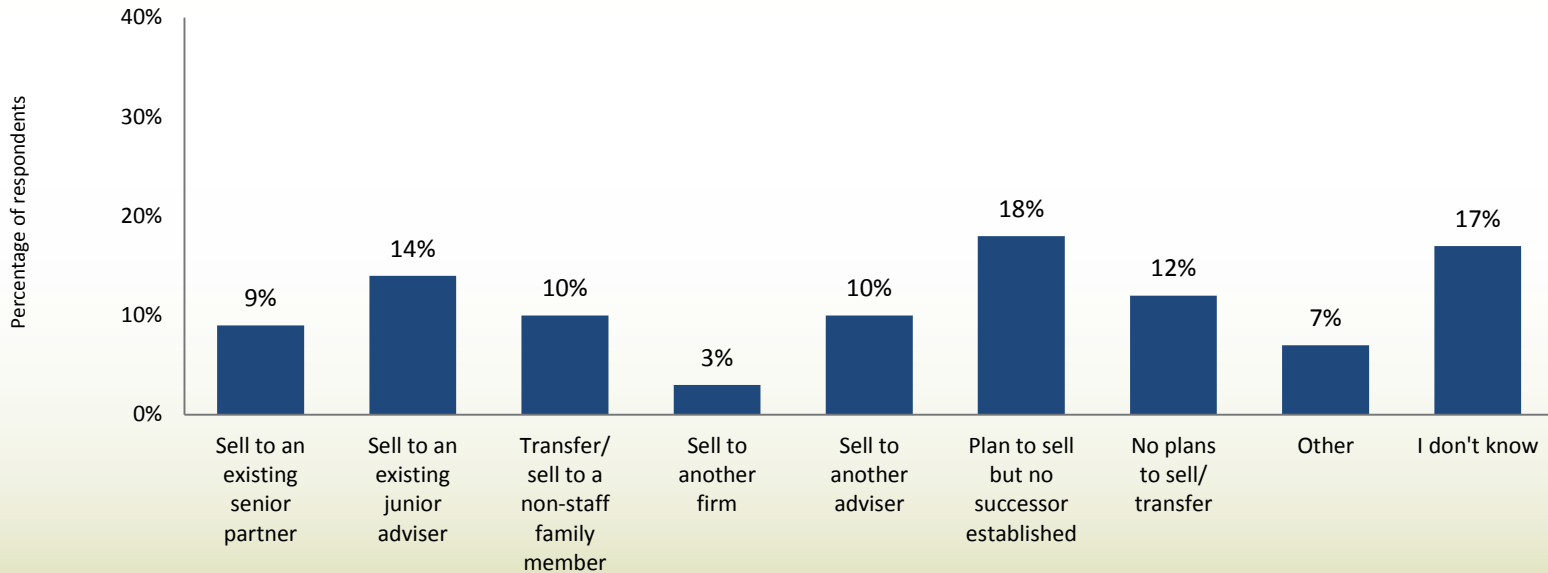
Q: Do you have a formal, written business plan?



Q: How often do you review performance against your plan/goals? (n = advisers with a business plan)

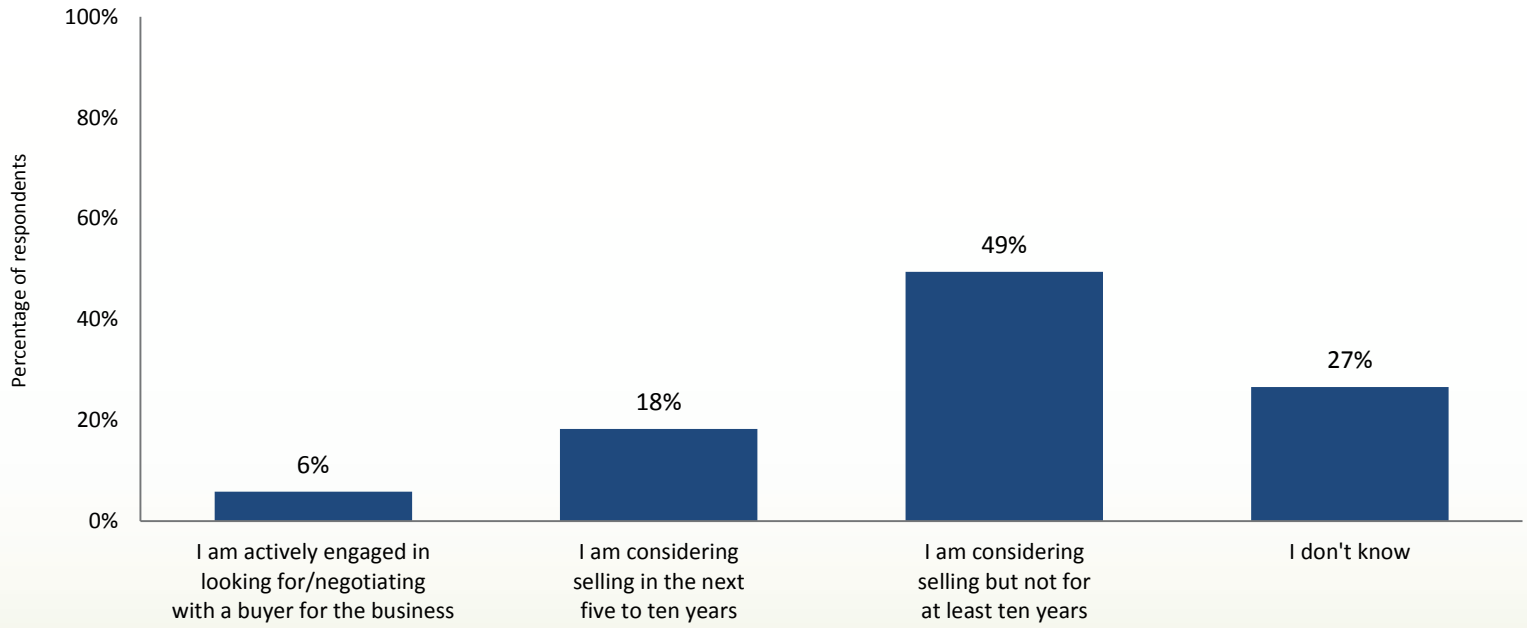
Succession Planning

- Only 25% of advisers say they have a formal succession plan in place. The percentage with a formal plan increases slightly to 31% at age 60-64 and 41% at age 65+
- 35% of advisers have not identified a preferred path. Of those who are planning to sell, 6% are actively looking for a purchaser, 18% in the next 10 years and 49% in more than 10 years.
- **Implications:** A majority of advisers are not building a business with a clear view to exit. Having a clear vision may impact how you grow the business today, even if you do not plan on retiring for many years.



Q: What do you plan to do with your business/clients when you retire?

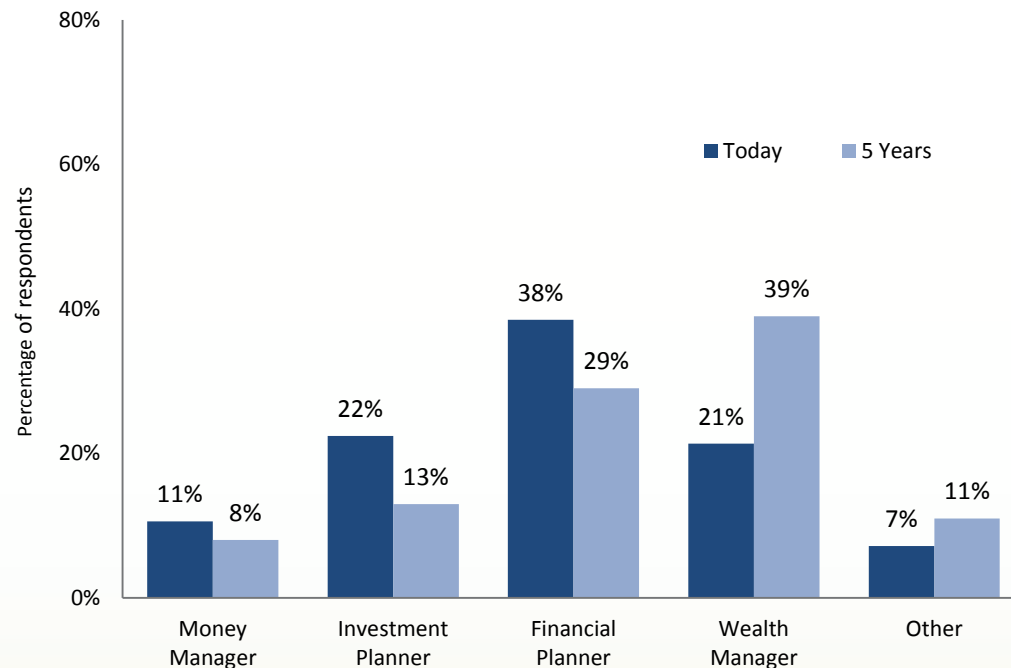
Plans for Selling Business



Q: Which of the following best describes your current plans with respect to selling your business? (n = advisers planning to sell business)

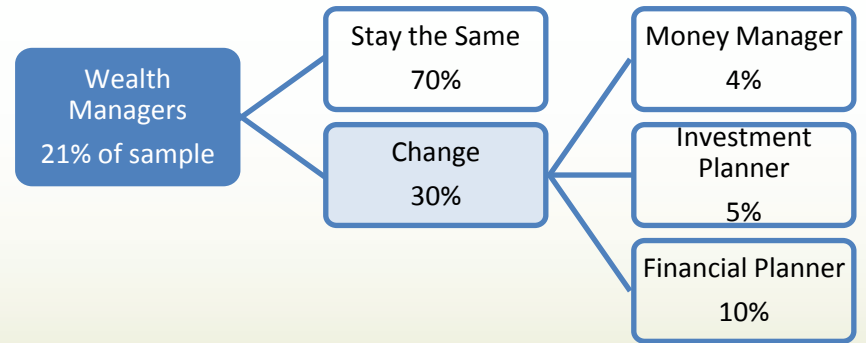
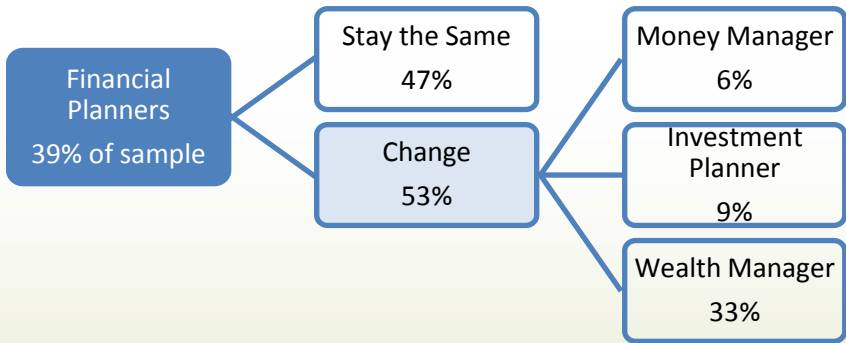
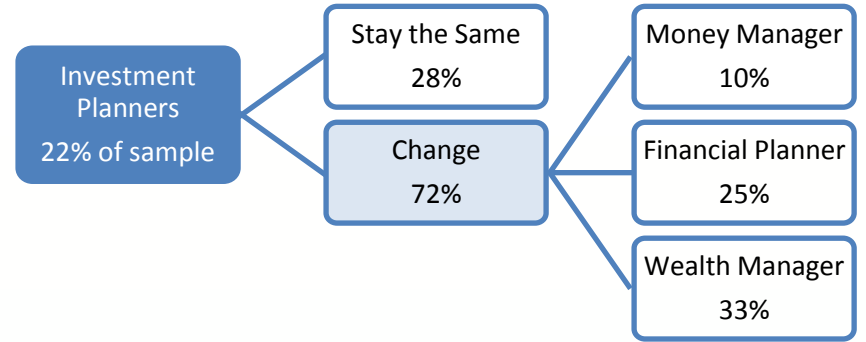
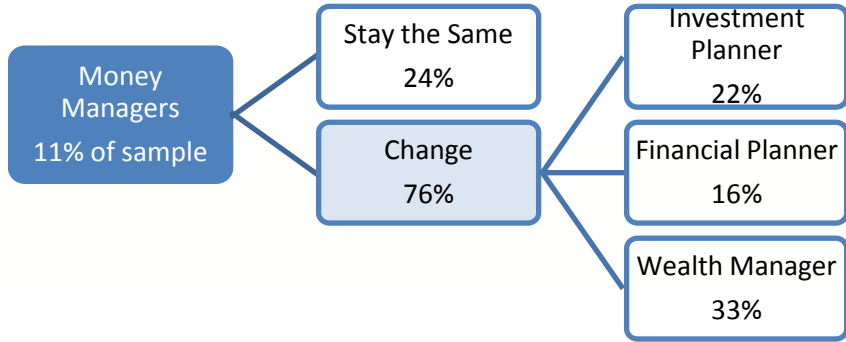
3. Define Business Model

- A key component of the business plan is determining the business model, a definition that provides insight into the range of services that you provide.
- Today, the largest percentage of advisers identify themselves as financial planners.
- There is a strong shift toward wealth management as is evidenced on the next page.
- **Implications:** Advisers who offer financial planning or wealth management services will face increased competition and will need to find ways to clearly differentiate themselves.



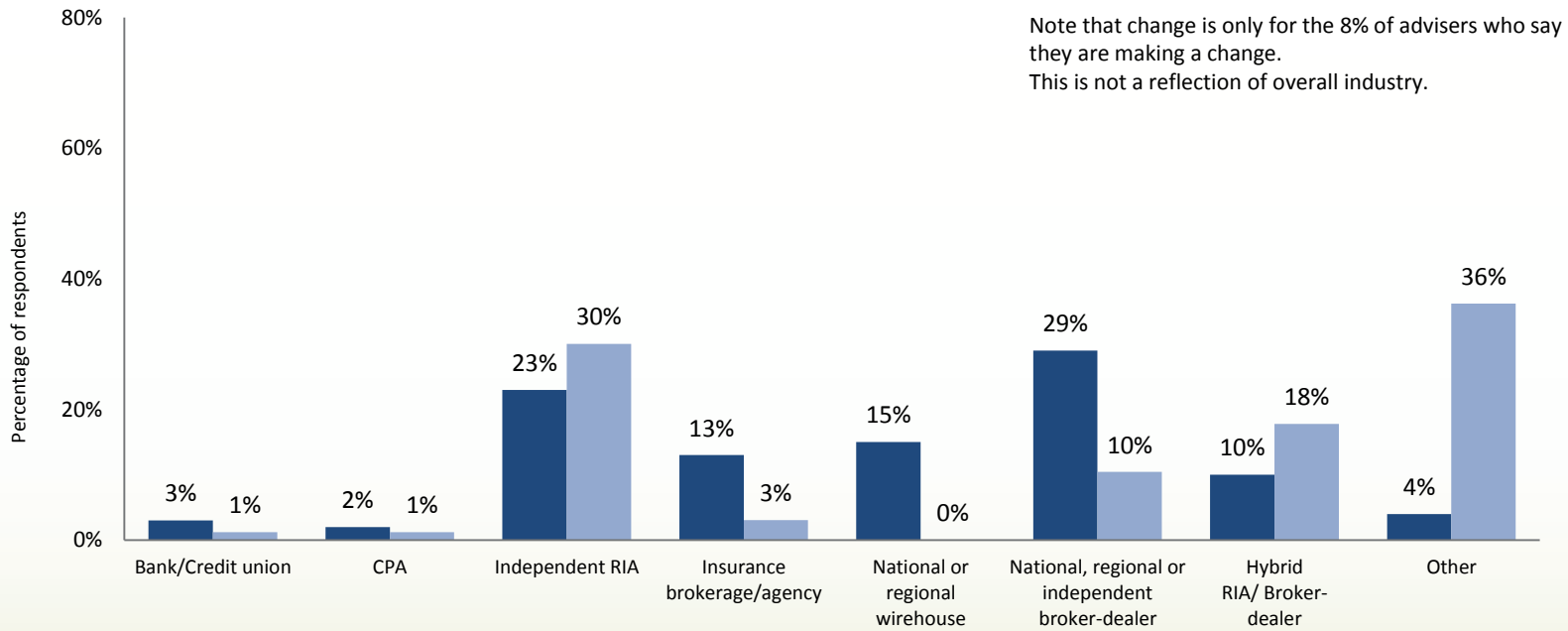
Q: Which of the following titles best reflects how you describe your business today and how will you describe your business in five years?

Trend: Shift to Wealth Management



Q: Which of the following titles best reflects how you would describe your business today and how will you describe your business in five years?
Delta = Other

Channel Overview



Q: Which of the following best describes your business model/firm?

Q: Within which type of organization do you plan on working in the next five years (n=those that anticipate changing)?

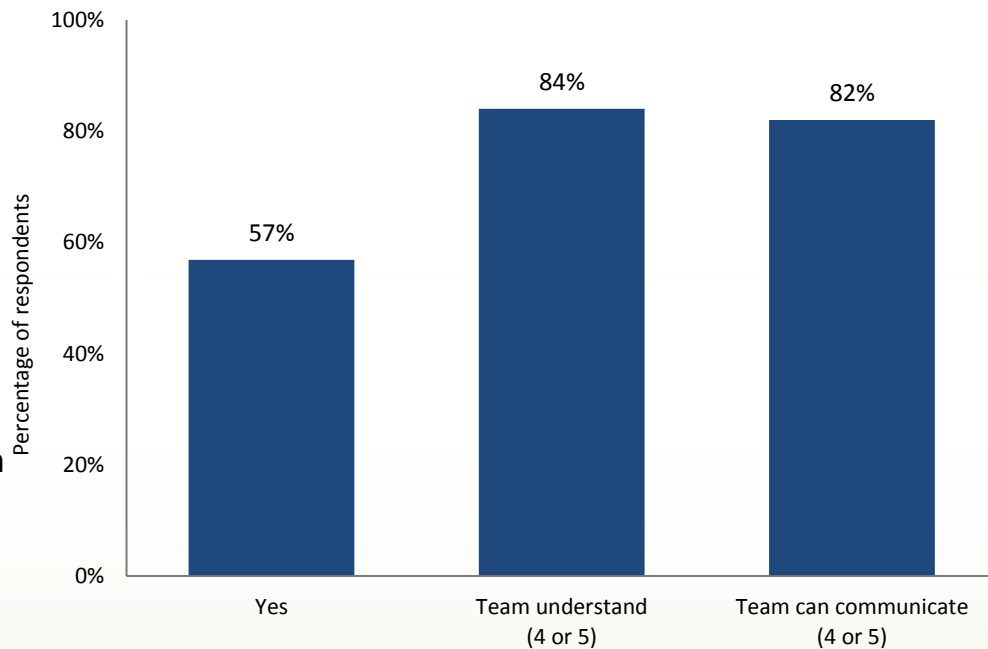
Revenue Composition: Present and Future

	Present (2012)	Future (2013 est.)
Fees charged on AUM	46%	49%
Fees from 401(k) Plans	4%	4%
Commissions on investment products	21%	18%
Commissions/trailers on annuities	9%	9%
Commissions/trailers on insurance	9%	9%
Hourly fees/retainer charged for financial planning, estate planning, tax planning, and/or consulting	7%	8%
Other	4%	3%

Q. How did your revenue break down last year and how do you anticipate it will break down next year?

Value Proposition

- Related to choice of business model is the ability for advisers to clearly define, articulate and communicate a clear value proposition.
- A small majority of advisers say they have a documented value proposition although more than three quarters suggested that they somewhat or completely agree that they have a clear value proposition. The gap is likely based on the formality of the plan (e.g. documentation).
- When in place, they generally feel their team can both understand and communicate that proposition.
- **Implications:** A clearly defined value proposition helps advisers to effectively communicate their ‘story’ to current and prospective clients.

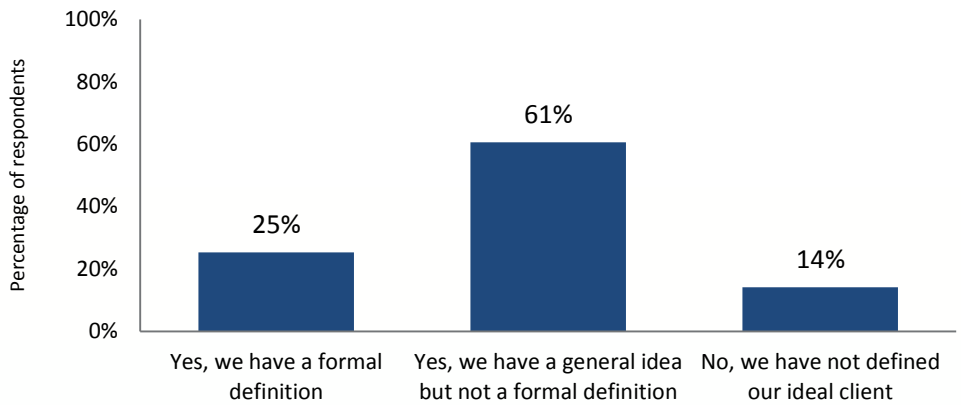


Q: Do you have a documented unique value proposition, or equivalent, to communicate your value to existing and prospective clients?

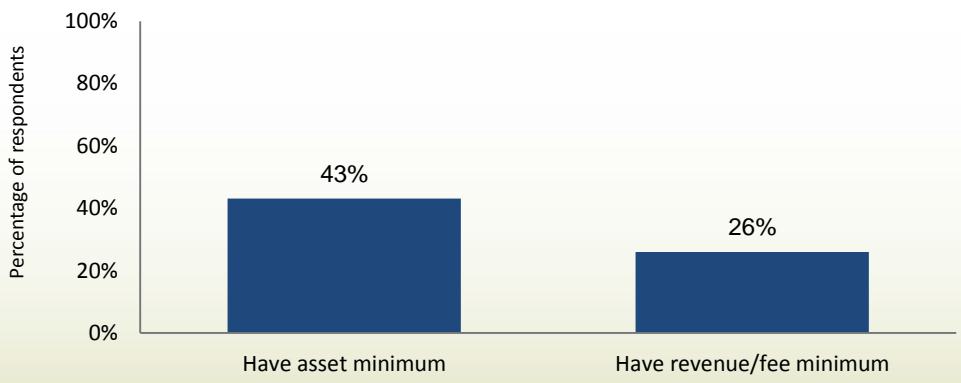
Q: To what extent do you agree that your team fully understands and can communicate your value proposition?

4. Define Ideal Client

- By defining your ideal client, you can then define the appropriate offer and service model. Your business model may inform your choice of ideal client.
- Only a quarter of advisers say they have a formal definition of their ideal client, although a substantial majority (86%) say they have a general idea of the kinds of clients with whom they want to work. More than 80% would describe their definition of the ideal client as 'clear'.
- 38% of advisers say that 75% or more of their clients fit that definition of the ideal.
- The largest firms (\$500m+) are more likely to have a formal definition and greater success in attracting (or accepting) clients that meet that definition.
- Advisers are more likely to set an asset minimum (43%) than define their ideal client.
- **Implication.** Absent of a clear definition of the idea, advisers may be accepting clients who are not appropriate and/or profitable for the business.

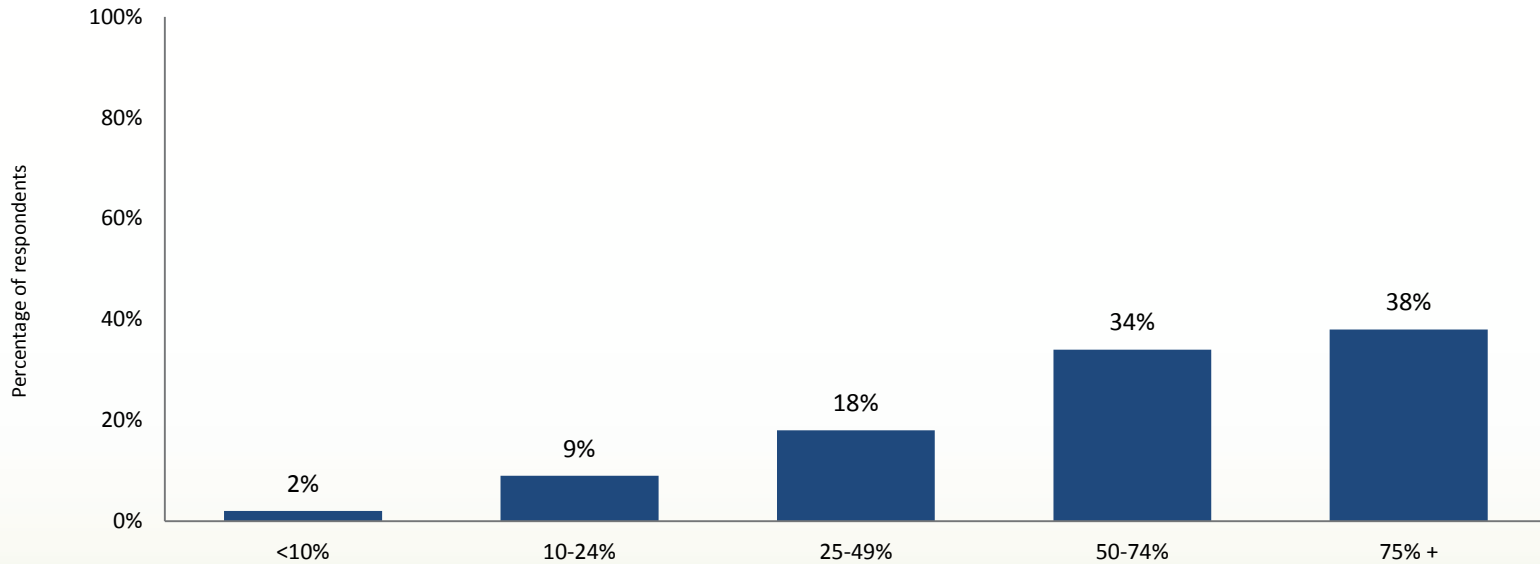


Q: Do you have a clear definition of your ideal client?



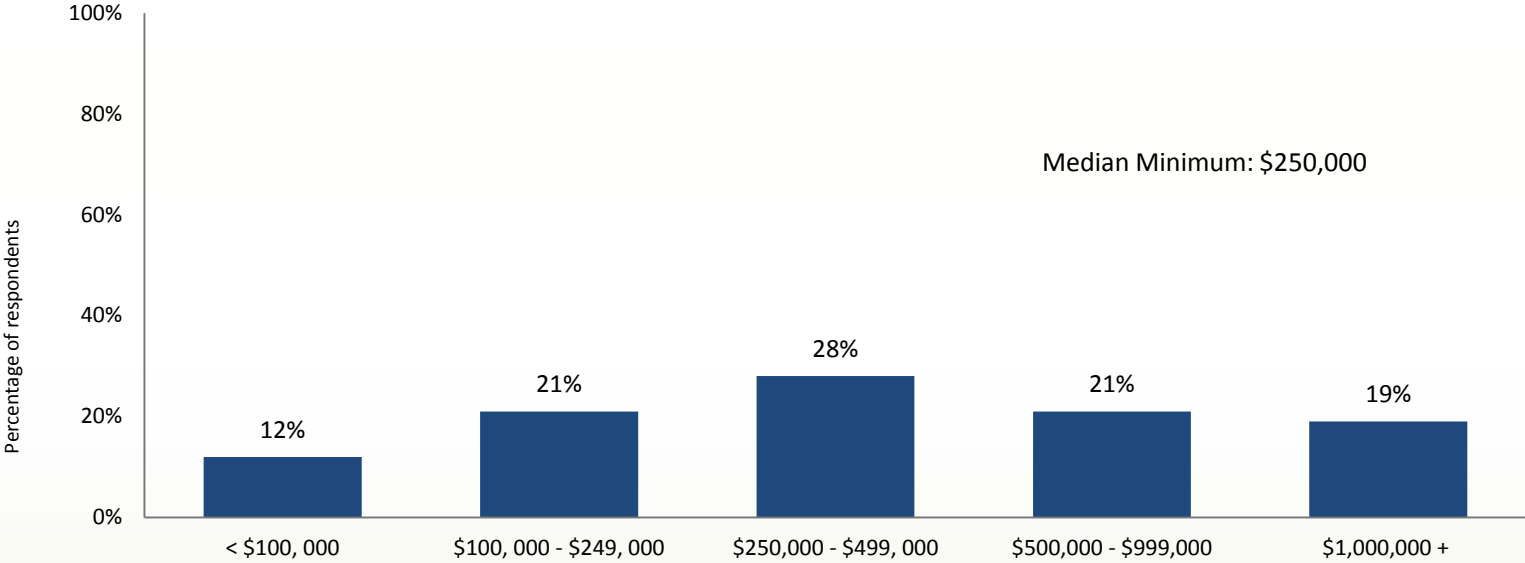
Q: Today, do you set an asset/revenue minimum for new clients?

Clients Meeting Ideal Client Definition



Q: What percentage of your clients would you say meet your definition of the ideal client? (n = advisers with definition of the ideal client)

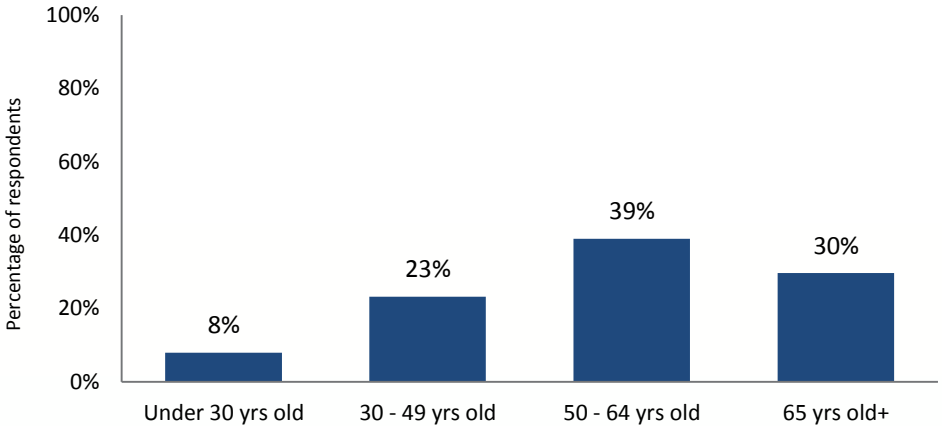
Minimum Assets for New Clients



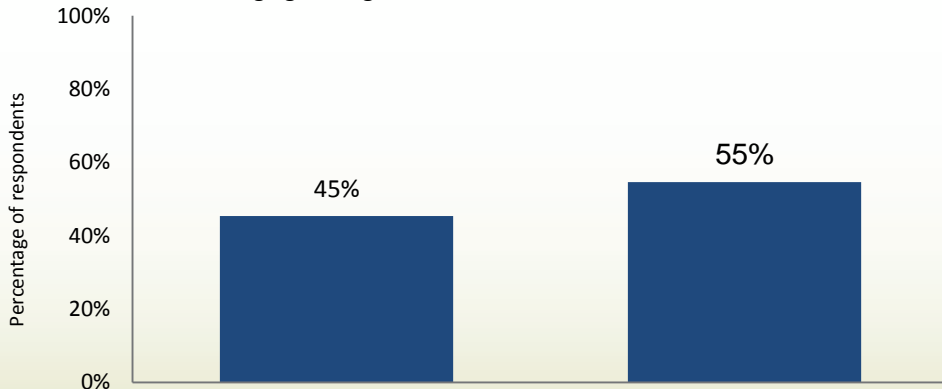
Q: What is your asset minimum for new clients? (n = advisers that set asset minimum)

Trend: Aging Client Base & Targeting Younger Clients

- Two-thirds of clients are 50 years and older, with close a third at 65 plus.
- Less than half of advisers indicated they are actively targeting younger clients.
- **Implications:** Advisers may experience client attrition if they are not building relationships with their aging clients' family in order to capitalize on the impending transfer or wealth. Actively targeting younger clients would help mitigate some of the client attrition risk.



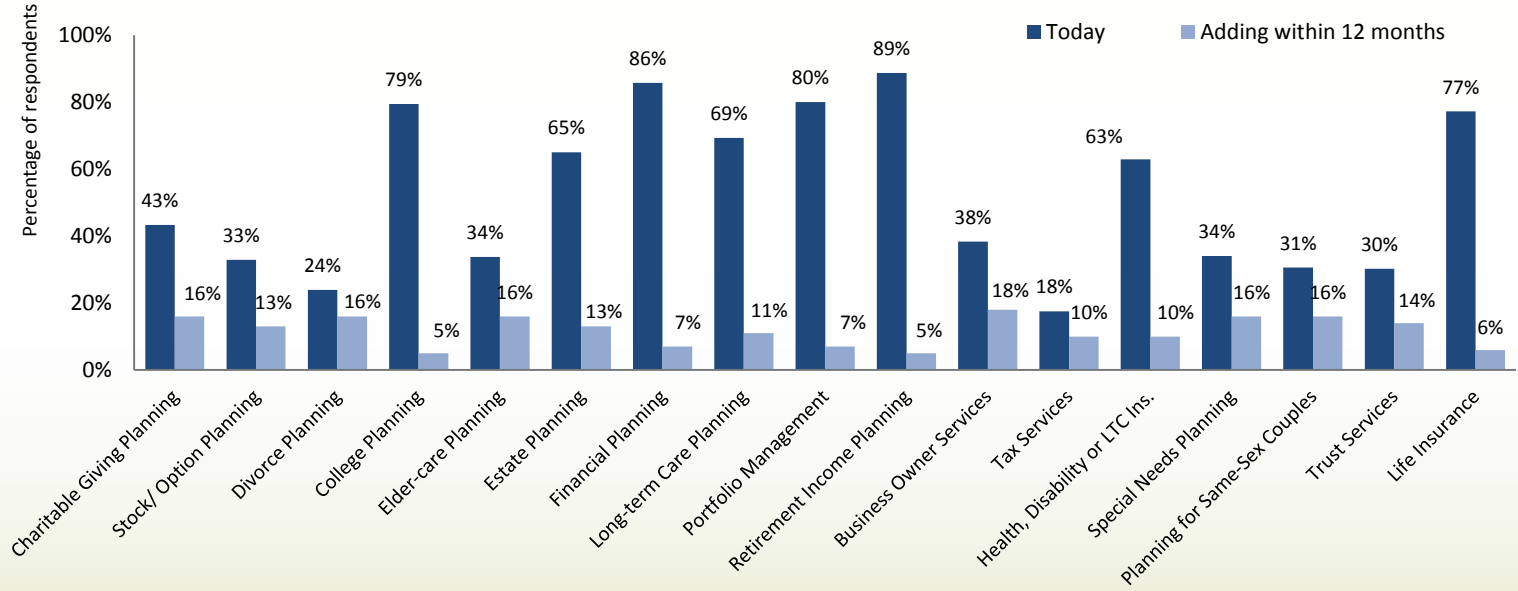
Q: What percentage of your individual clients do you estimate fall into the following age categories?



Q: Today, are you actively targeting younger clients?

5. Define Offer

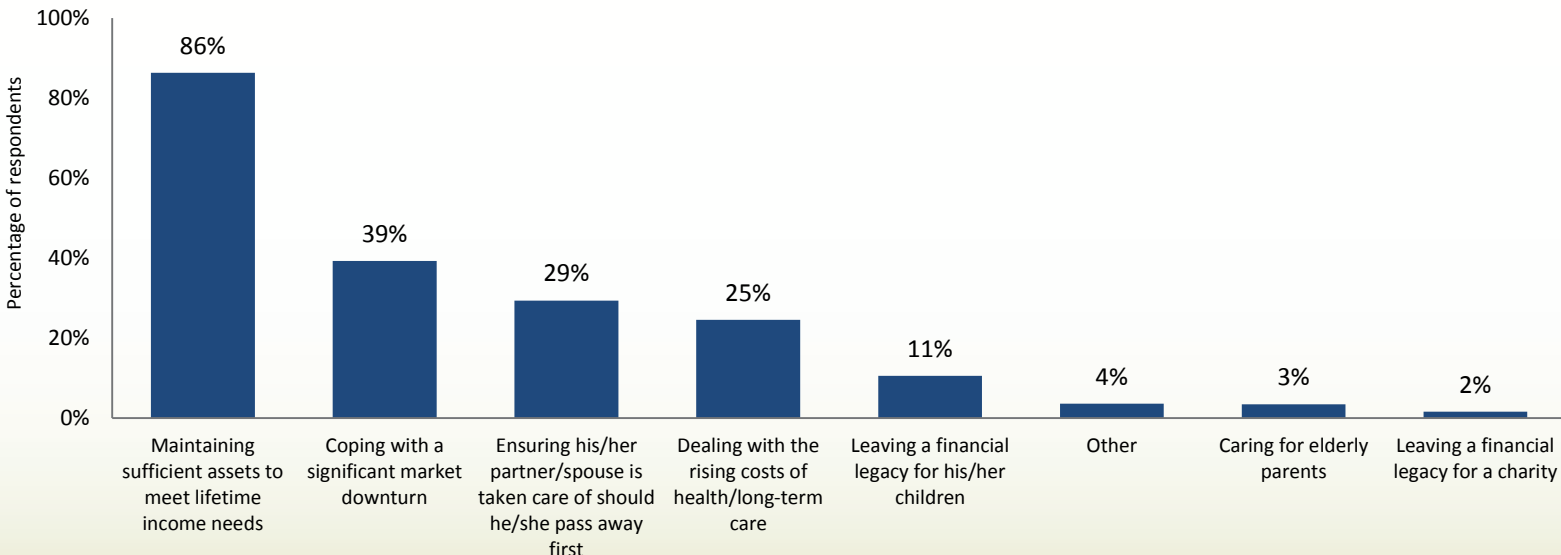
- Your ideal client will inform the scope of your offer, defined as the scope or range of services that you provide.
- Increasingly, advisers are offering a very wide range of services to meet the needs of their clients, with an emphasis on adding specialist planning services. This may reflect the shift toward wealth management and will make it harder to compete on the basis of range of services.



Q: Which, if any, of the following services do you provide today and which do you plan on adding in the next 12 months? Please select all that apply (multiple select for response codes).
 (n = advisers that are not 'Money Manager')

Client Concerns

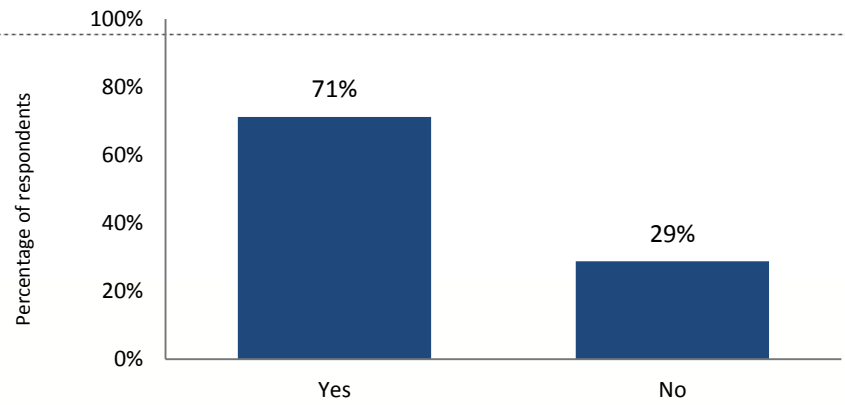
- Your offer may also reflect the specific needs and concerns of your target clients. Client needs typically stem from financial concerns/worries. Maintaining sufficient assets to meet lifetime income needs tops the chart in terms of perceived financial concerns for clients. This suggests, for example, that having a process to include both partners/spouses in the planning process and incorporating family wealth management may be important.



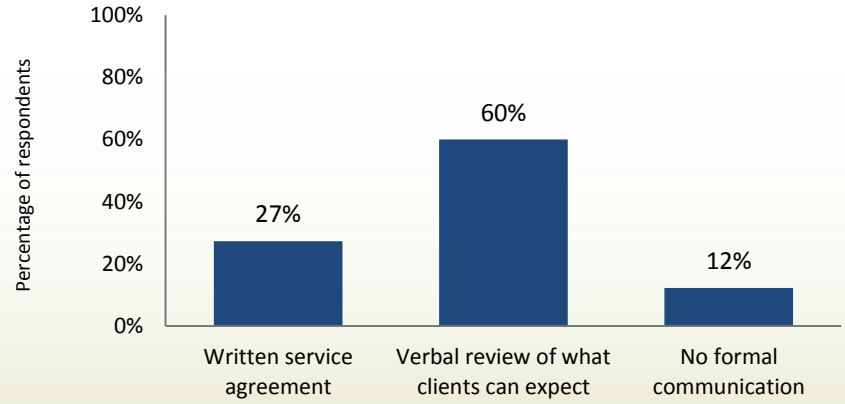
Q: What do you consider the biggest financial concerns/worries for your clients today (from your clients' perspective)? Please select top two concerns (multiple select for response codes).

6. Define Service Plan

- Your offer should inform your service plan, defined as the specific ways in which you will deliver service (e.g. frequency of contact).
- A majority of advisers (71%) have defined service standards for their clients. The same number indicate they have a process in place to track success in meeting those goals.
- While a positive result, there is room for improvement on some of the activities surrounding such a definition.
 - 61% have segmented clients based on value (which would support a tiered service plan).
 - Only 27% have a formal, written service agreement (which would help to manage expectations).
- **Implications:** Advisers have effectively defined service but may not be communicating that to clients, potentially leading to mismatched expectations.

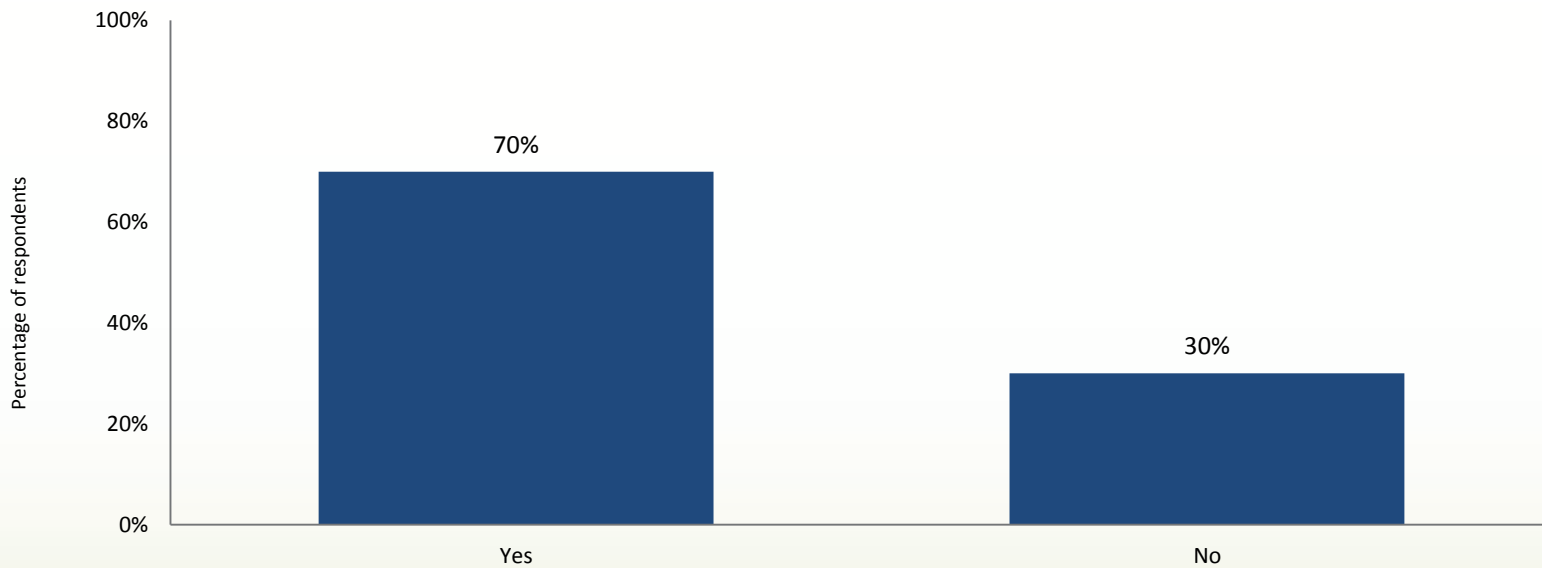


Q: Do you have clearly defined service standards for your clients (e.g., you have quantified the number of reviews that your clients can expect to receive)?



Q: How, if at all, have you communicated your service standards to your clients? (n = advisers with defined service standards)

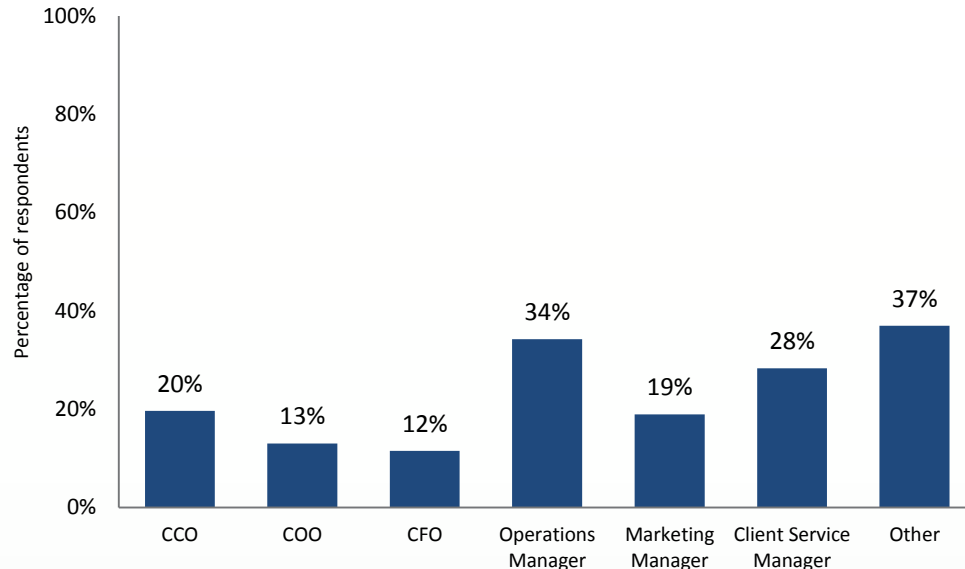
Tracking Against Client Contact Goals



Q: Do you have a process in place to track your success in meeting your contact goals? In other words, would you know if you were falling short on a contact goal? (n = advisers with defined service standards)

7. Structure Team

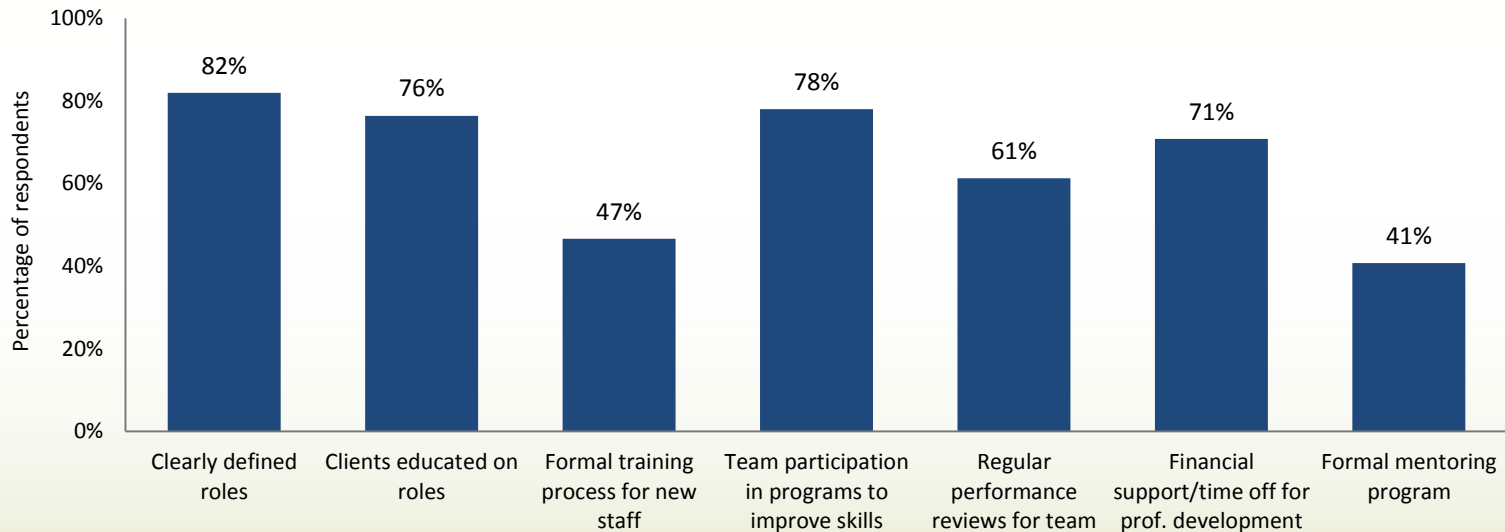
- Service level should inform team structure by defining the types of activities that need to be performed. The overall business plan will also dictate both the size of the team and the roles that you need in place.
- Team composition is also something that advisers should consider, particularly in light of an increased focus on finding younger clients. Advisers who focus on lowering the average age of clients may also need to focus on lowering the average age of advisers on the team.
- The average team size of respondents is 4, although there is a substantial range.
- A relatively small proportion of advisers have non-adviser management roles, with Operations Manager being the most common.
- Next hires are most likely junior advisers (35% of those hiring) as well as client service and admin support.



Q: Which, if any, of the following dedicated management roles do you have on your team (not played by an adviser who also has client management responsibility)?

Team Training

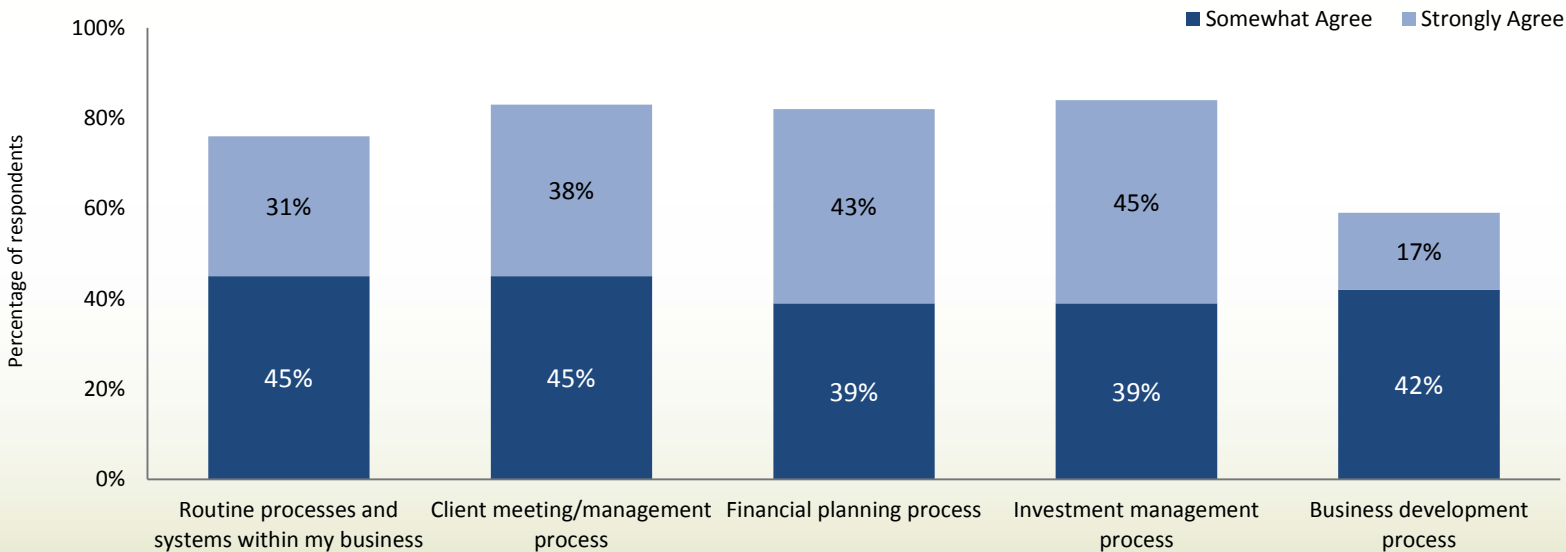
- Advisers indicate they have good processes in place regarding defining roles, however are less likely to have formal training or mentoring for new staff.
- Implications:** Advisers may need to consider how to integrate professional management as well as incorporate training and mentoring programs and performance reviews for team members.



Q: Please rate the extent to which you agree or disagree with the following statements: (Somewhat or strongly agree)

8. Define and Standardize Process

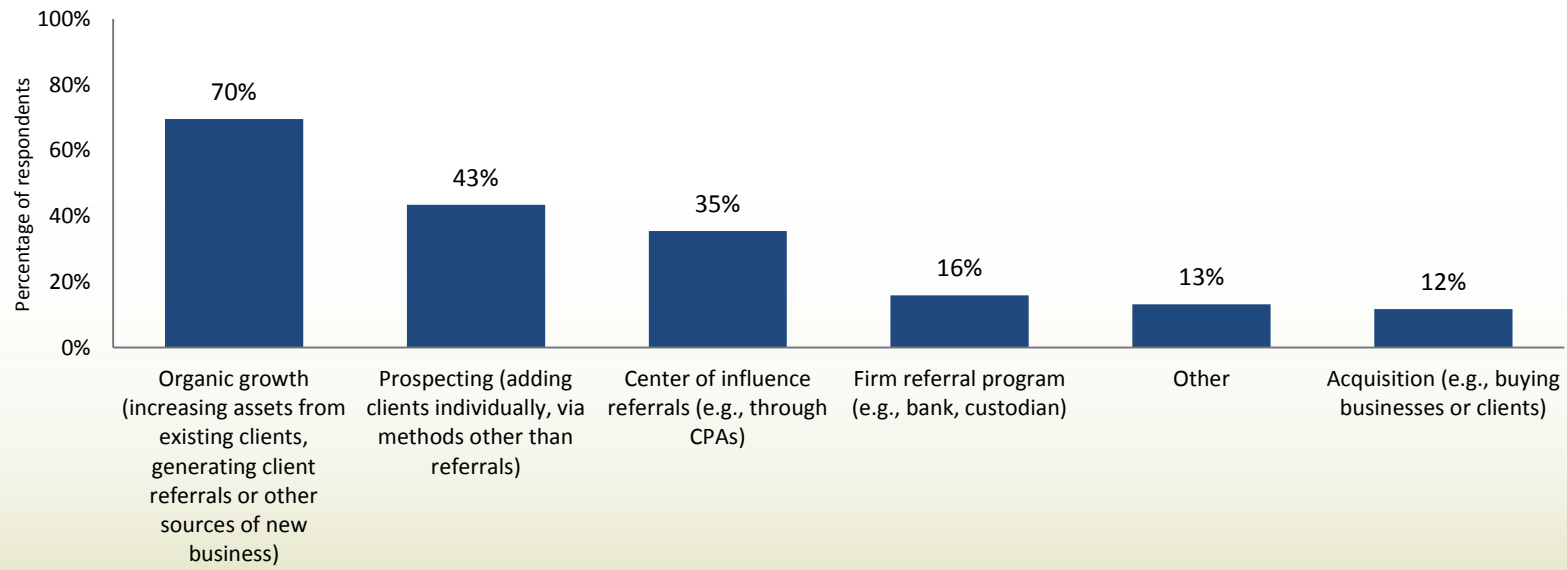
- In addition to structuring the team, advisers should also consider defining process to allow team members to be as efficient and productive as possible. In general, advisers feel they have effectively defined and automated processes within their business. 42% of advisers say they have a written operations manual.
- However, 41% of advisers have not established a standardized business development process.
- Implications:** Advisers should continue to focus on standardization and may want to consider if/how the business development process can be more defined.



Q: To what extent do you feel you have established standardized routine processes in each of the following areas? (Somewhat or strongly agree)

9. Define Growth Plan

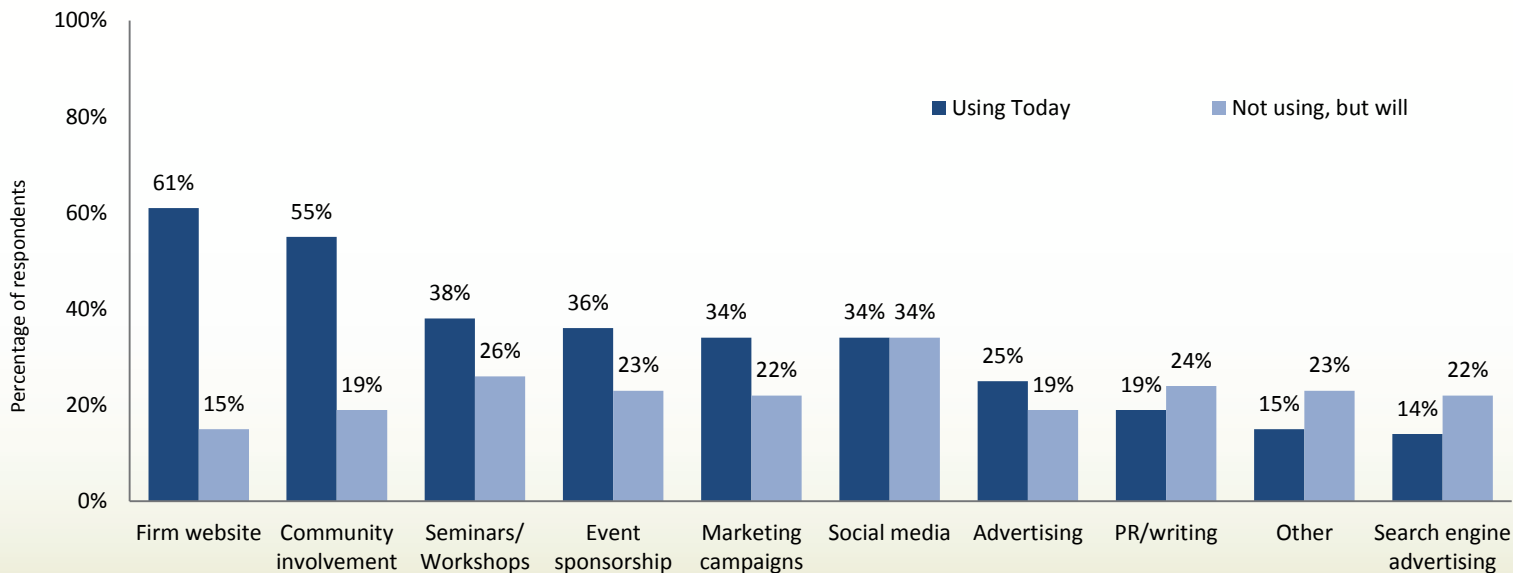
- The average firm saw a median growth rate of 10%, however there is a substantial range. Median net new clients was 13. The majority of new clients were referred by existing clients.
- On average, firms indicated they invested 14% of total expenses in growth/promotion.
- Organic growth was the dominant driver, including additional assets and client referrals, however a relatively high percentage of advisers identified COI referrals and prospecting as also playing a role.



Q: Which, if any, of the following played a significant role in your growth during the last two years and which will play a significant role going forward (multiple select for response codes)?

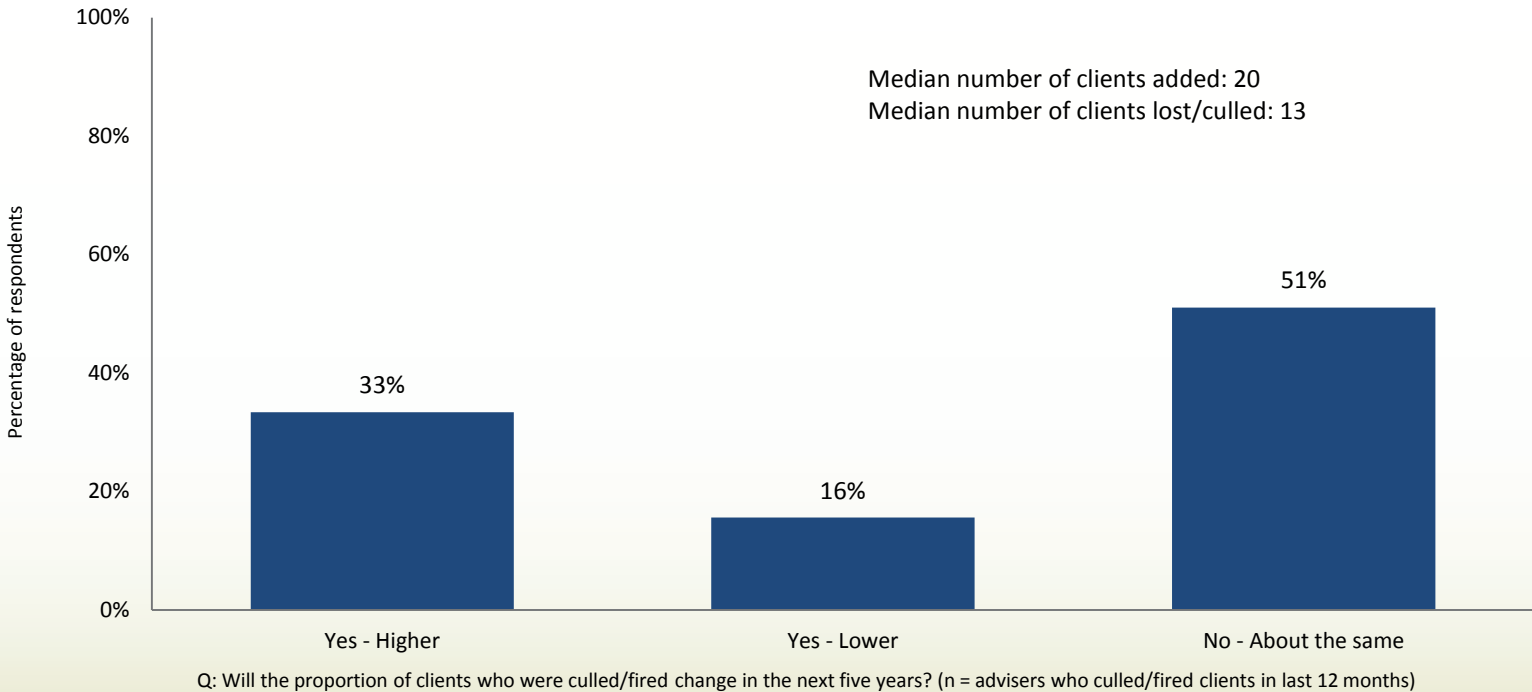
Growth Tactics

- Firm website and community involvement are the top tools/activities used to drive growth.
- The dominant tools/activities for future growth are social media and search engine advertising.
- **Implications:** Advisers may need to reduce the number of tools they use to drive growth and pay particular attention to gaining expertise in using social media..

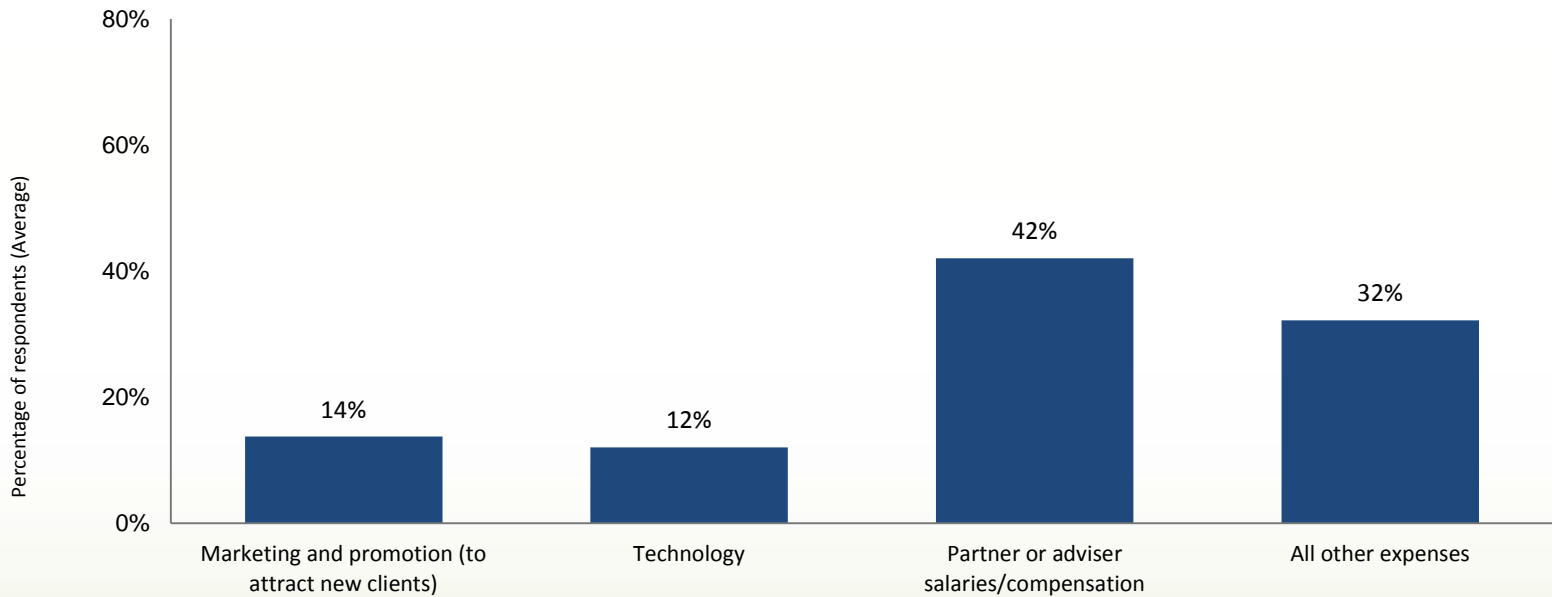


Q: Which, if any, of the following do you use to drive growth in your business today and which do you not use now but plan to start using in the next five years (multiple select for response codes)?

Net New Clients Today



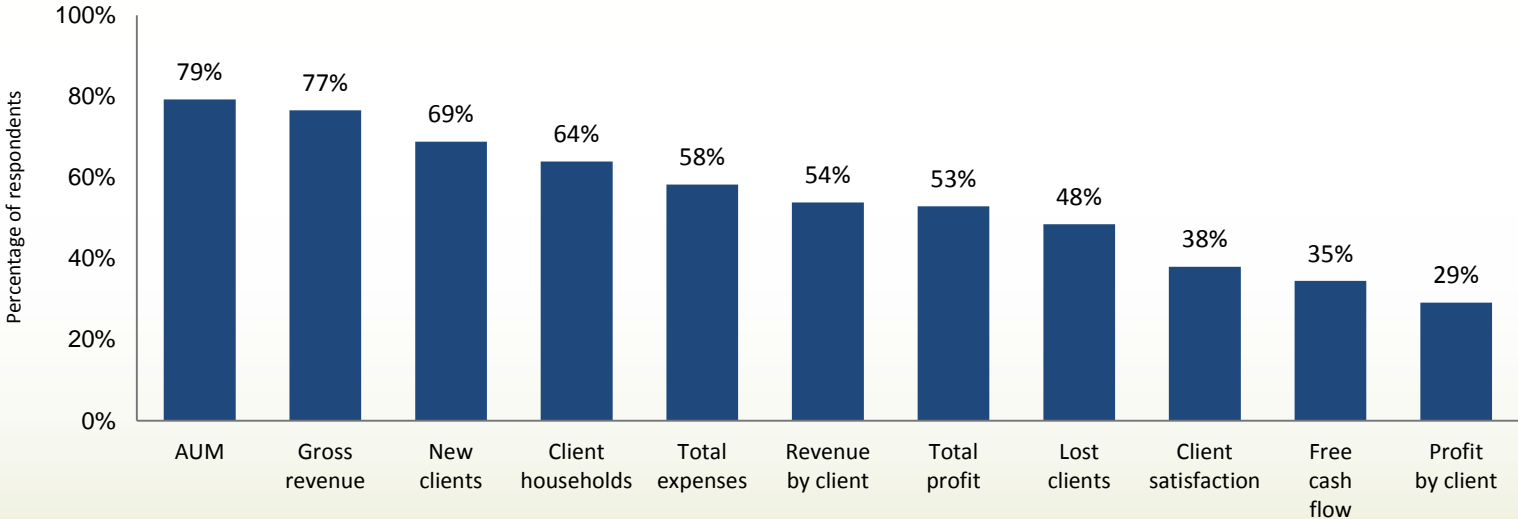
Investment in Marketing



Q: In order to analyze the data further please identify what percentage of your 2012 expenses was invested in the following?

10. Measure Performance

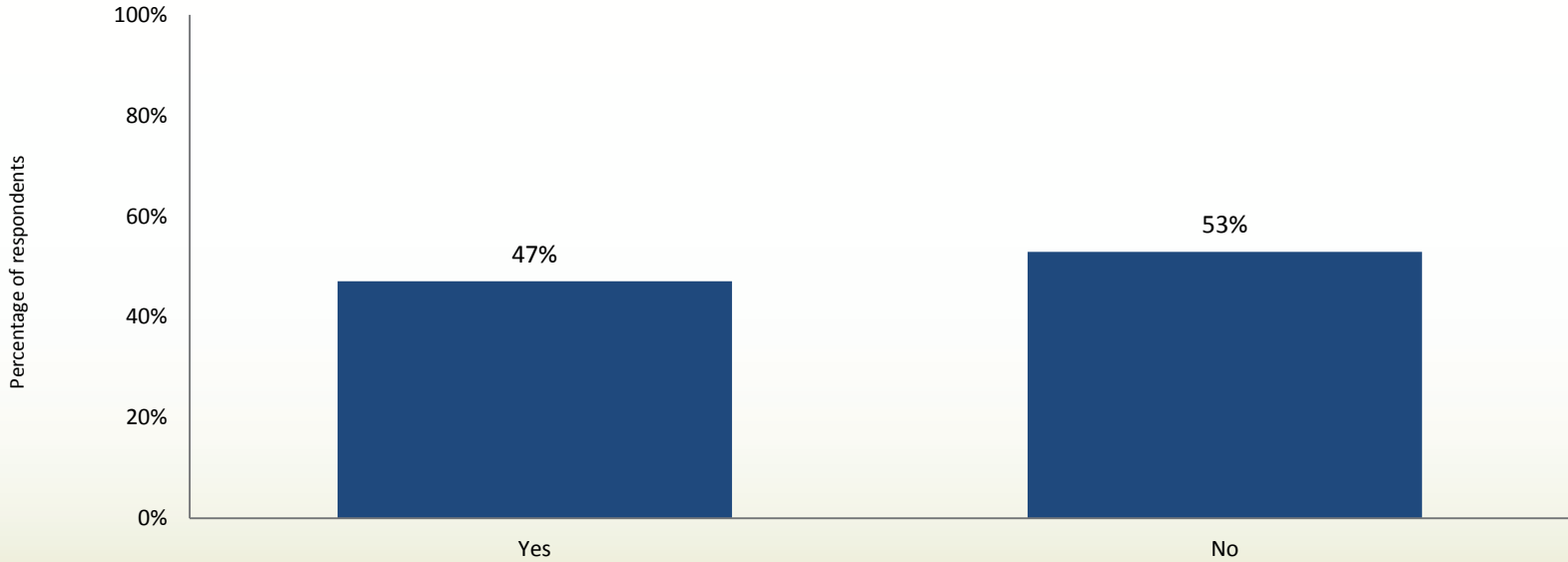
- While advisers routinely track traditional growth metrics, there is little analysis on profitability and client satisfaction.
- While 63% of advisers say they gather feedback from clients, only 22% do so using a written survey. Six percent are using advisory boards.



Q: Which, if any, of the following do you track in your business (multiple select for response codes?)

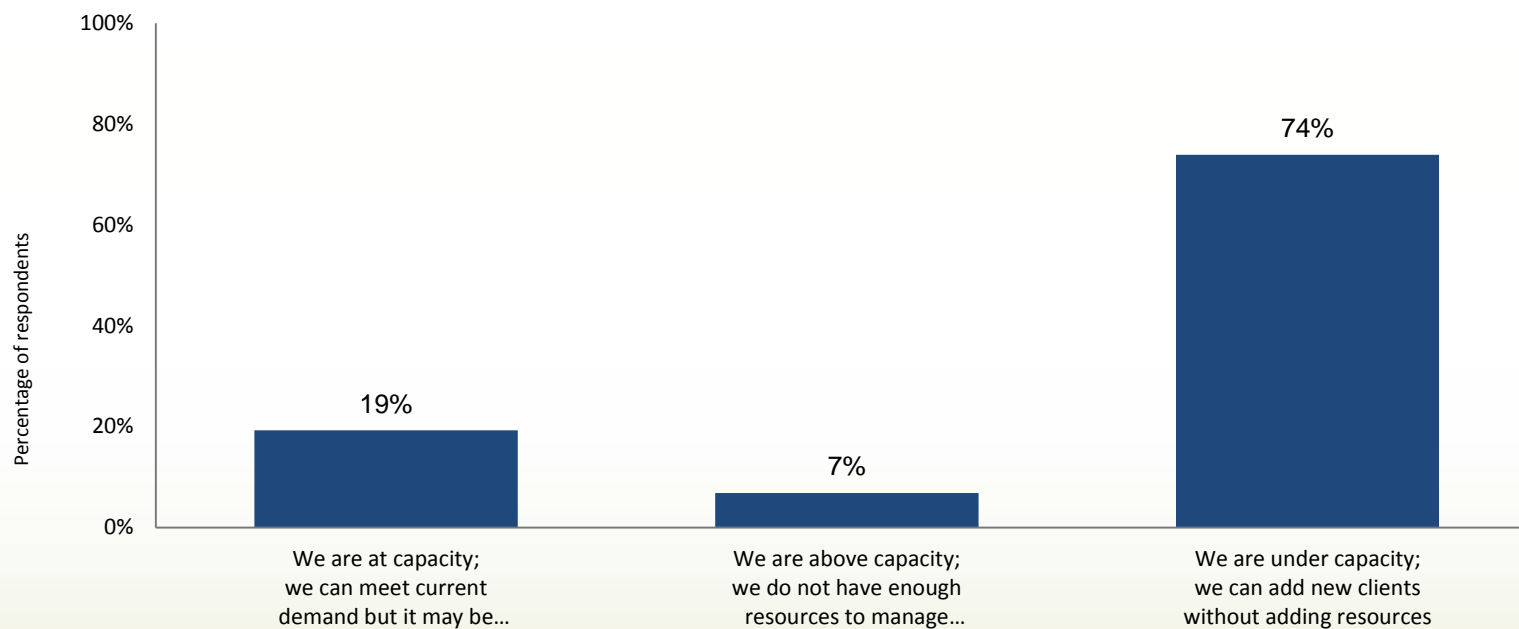
Capacity Analysis

- Fewer than half of advisers have formally assessed capacity. 71% believe they are operating under capacity and can comfortably add new clients.
- **Implications:** As part of improving overall planning, advisers would be well served by assessing key indicators of financial health in their businesses.



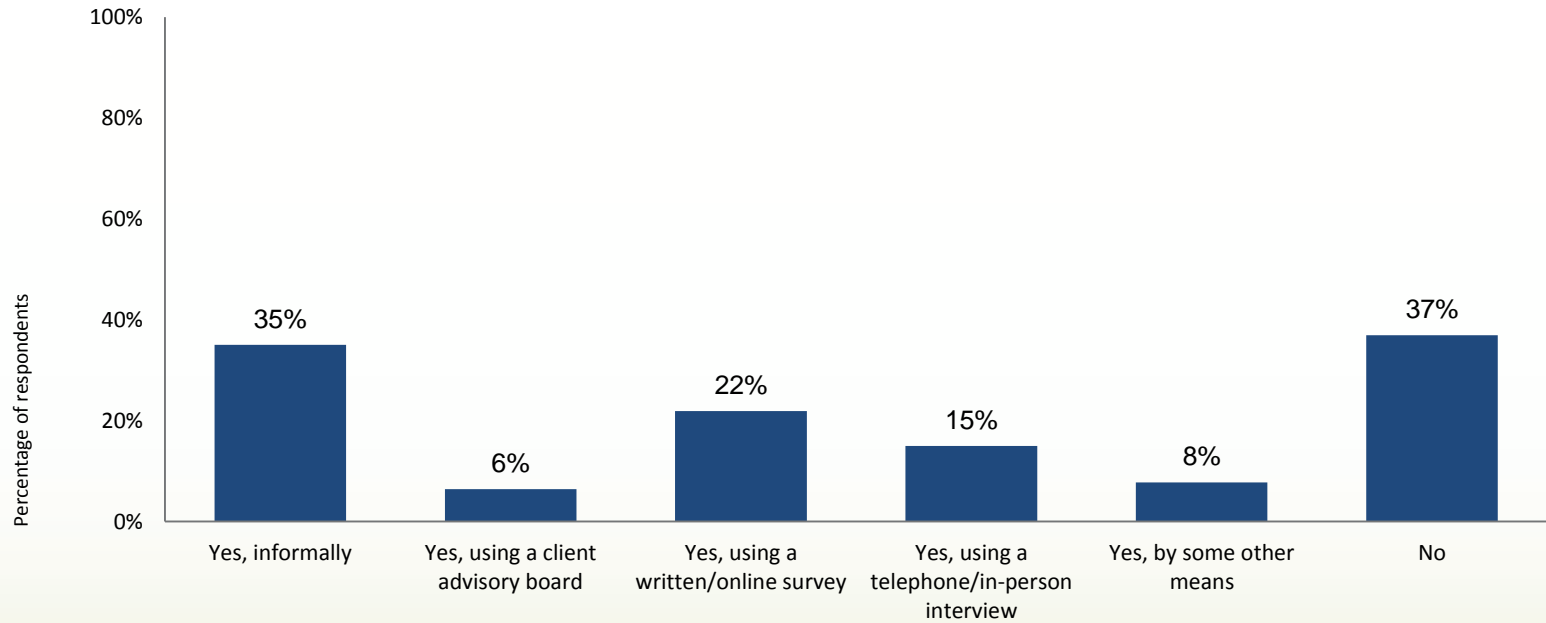
Q: Have you formally assessed capacity in your business? In other words, do you know the number of clients that you can effectively manage with current resources?

Managing Growth



Q: Based on that analysis, which of the following best describes your business capacity today? (n = advisers that have assessed capacity)

Use of Client Feedback



Q: Have you asked clients for feedback (e.g., a written survey) in the last two years? Please select all that apply (multiple select for response codes).

Assessing Gaps

- On the following page, we provide an assessment of practice management gaps for financial advisers.
- On a range of issues, you will see both the importance rating and the performance rating. The gap is the difference between the two.
- Those in red are those with the most significant gaps and are, therefore, key priorities for the industry.

Running a Great Advisory Business: Importance & Gaps

Business Attribute	Importance (Avg. out of 5)	Performance (Avg. out of 5)	Gap (Average)
Efficient/Effective client communication process	4.6	3.9	-0.75
Effective time management	4.5	3.6	-0.94
Clearly defined value proposition	4.5	4.0	-0.44
Effective use of technology	4.4	3.9	-0.50
Feedback from clients on what is important	4.4	4.2	-0.19
Standardized processes in the business	4.4	4.0	-0.43
Effective business planning process	4.4	3.8	-0.63
Process to maximize client referrals	4.4	3.2	-1.21
Effective team management	4.3	3.9	-0.48
Process to maximize center of influence referrals	4.3	3.1	-1.18
Effective delegation	4.3	4.0	-0.30
Process to drive organic growth (cross-selling, additional assets)	4.2	3.8	-0.42
Clearly defined ideal client	4.2	4.1	-0.10
Effective client segmentation process	4.0	3.7	-0.32
Formal succession plan	3.7	3.2	-0.57

* Figures in red indicate the top three attributes based on 'gap' to performance

Q Please review the following statements and identify the importance you would place on each in managing or growing a great advisory business. / To what extent do you agree or disagree with the following statements about your business?

The Future of Practice Management

Findings for Non-Financial Advisers

Non-Adviser Segments

Role	# of Respondents	% of Respondents
Non-adviser manager	126	30%
Support staff	177	42%
Junior adviser	119	28%

Role: Non-Adviser Managers and Support Staff

- Broad range of roles covered in Non-Adviser Manager and Support Staff respondent base, which is indicative of the distribution of roles in the broader industry.

Non-Adviser Managers

Role	% of Respondents
Director/ Mgr Operations	23%
Chief Operating Officer (COO)	15%
Director/ Mgr Business Development	14%
Director/ Mgr Client Service	11%
Chief Compliance Officer (CCO)	5%
Director/ Mgr Marketing	4%
Chief Financial Officer (CFO)	1%
Other	27%

Q: Which, if any, of the following best describe your role? (n = 126)

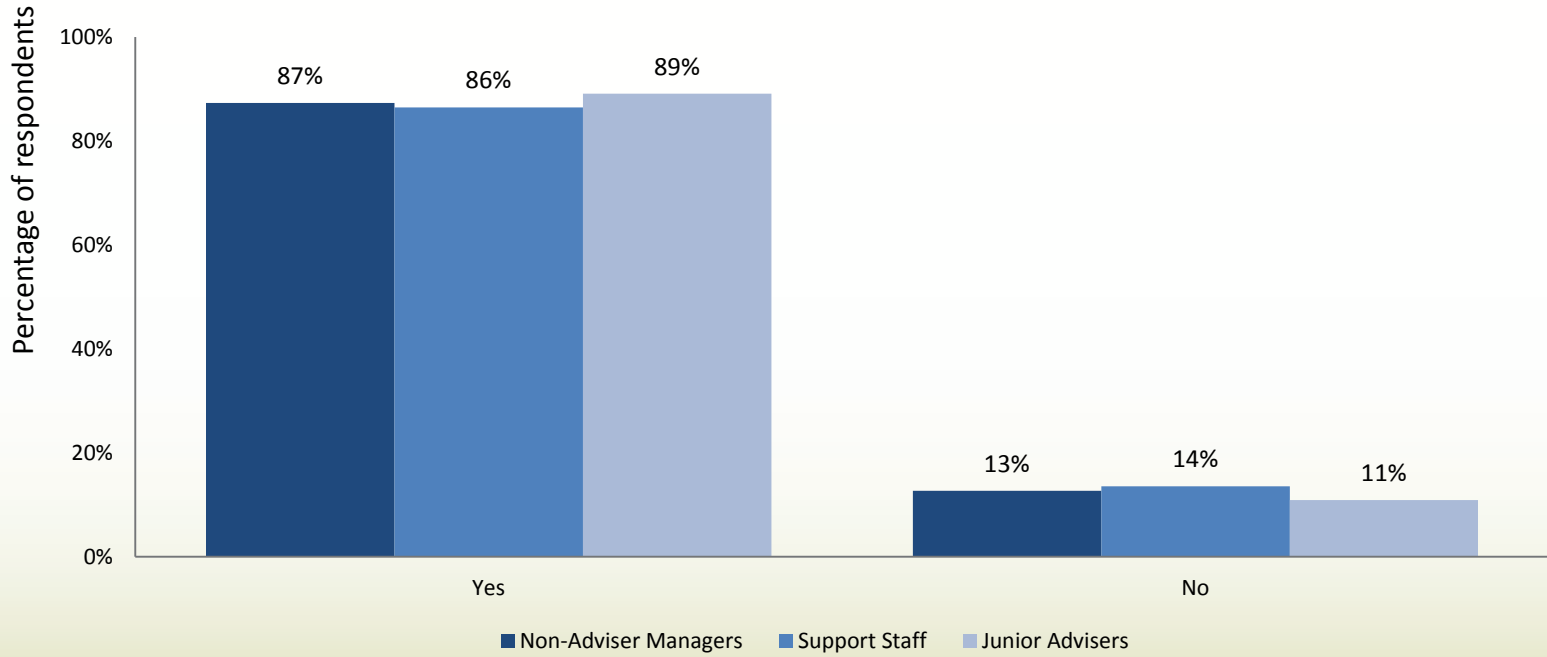
Support Staff

Role	% of Respondents
Client service	44%
Administration	13%
Paraplanner	12%
Analyst	11%
Marketing	6%
Technology support	3%
Other	10%

Q: Which, if any, of the following best describe your role? (n = 177)

Anticipate Staying with Same Firm

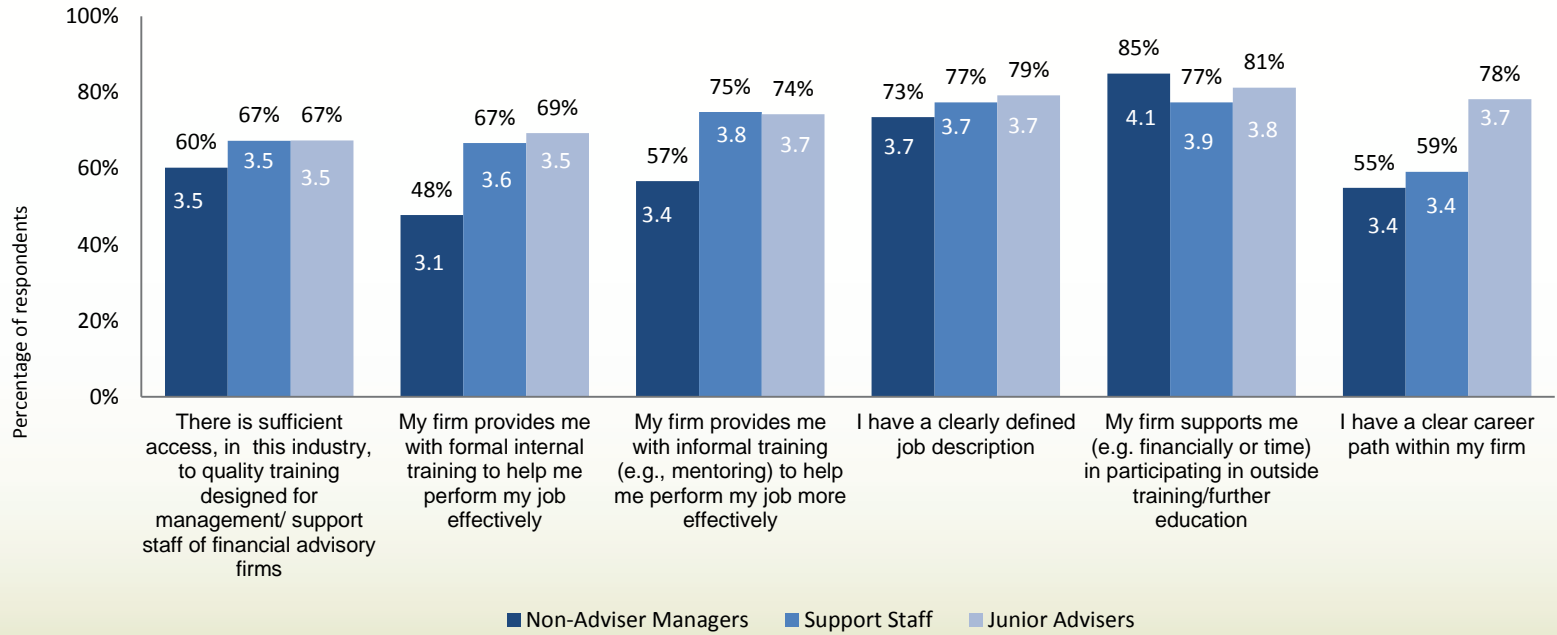
- Non-Financial Adviser respondents are very loyal to their firms; almost all anticipate staying with their same firm for at least the next five years. This helps provide stability to firm operations and client experience.



Q: Do you anticipate working for the same firm in the next five years?

Access to Training

- There is an opportunity to provide more structured training, development and career planning support for Non-Financial Adviser roles, in particular for Non-Adviser Management roles. This will be critical to maintaining continued levels of loyalty.



Q: To what extent do you agree or disagree with the following statements? (Somewhat or strongly agree; average score out of 5)

Running a Great Advisory Business: Performance Gaps

Business Attribute	Non-Adviser Managers Performance Gap (Avg. Performance – Importance)	Support Staff Performance Gap (Avg. Performance – Importance)	Junior Advisers Performance Gap (Avg. Performance – Importance)
Process to maximize client referrals	-1.19	-0.81	-0.96
Process to maximize center of influence referrals	-1.07	-0.63	-0.81
Efficient/effective communication process	-0.89	-0.60	-0.62
Process to drive organic growth	-0.84	-0.28	-0.26
Formal Succession Plan	-0.83	-0.49	-0.56
Effective time management	-0.81	-0.57	-0.80
Effective use of technology	-0.71	-0.58	-0.49
Effective business planning process	-0.68	-0.72	-0.59
Effective Team Management	-0.65	-0.70	-0.46
Standardized processes in the business	-0.55	-0.44	-0.44
Clearly definitely value proposition	-0.53	-0.58	-0.35
Effective delegation	-0.48	-0.47	-0.30
Feedback from clients on what is important	-0.41	-0.30	-0.16
Effective client segmentation	-0.38	-0.45	-0.33
Clearly defined ideal client	-0.32	-0.12	-0.15

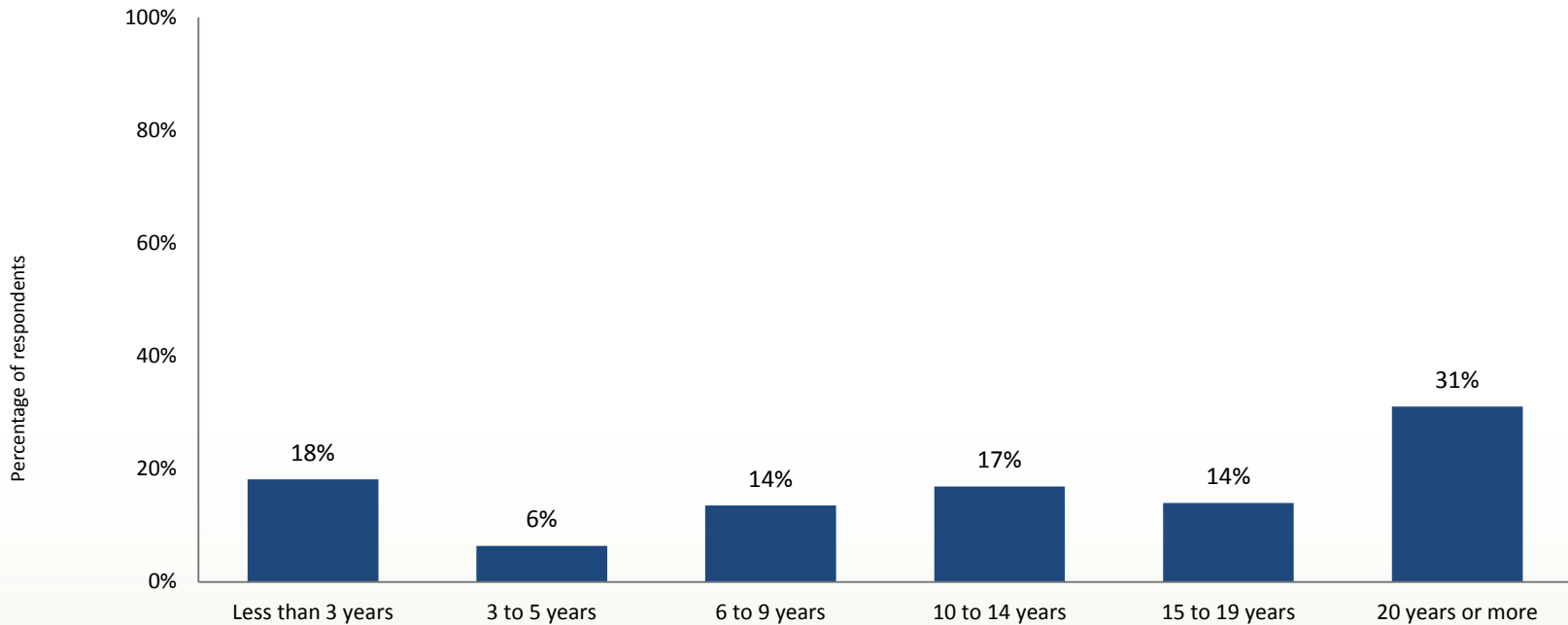
* Figures in red indicate the top three attributes based on 'gap' to performance

Q: Please review the following statements and identify the importance you would place on each in managing or growing a great advisory business. / To what extent do you agree or disagree with the following statements about your business?

Participant Overview

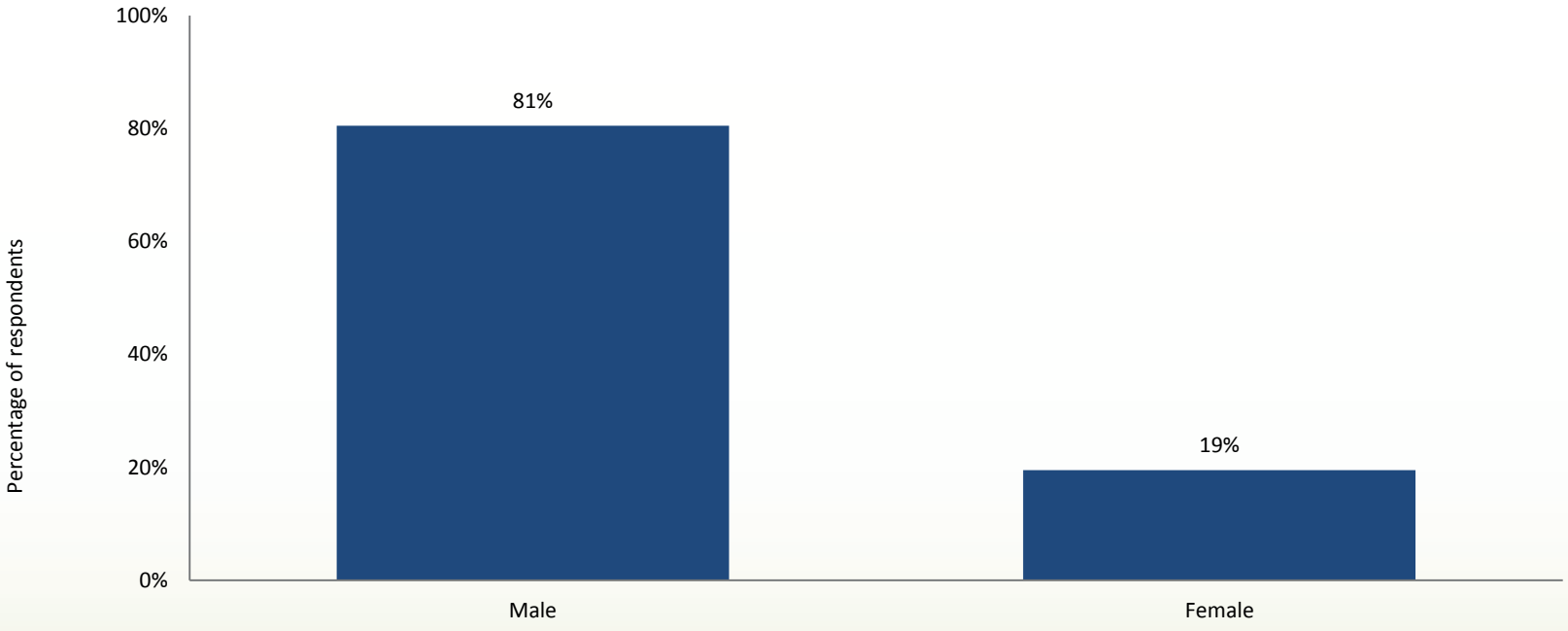
Financial Advisers Only

Participant Overview: Years as Financial Adviser



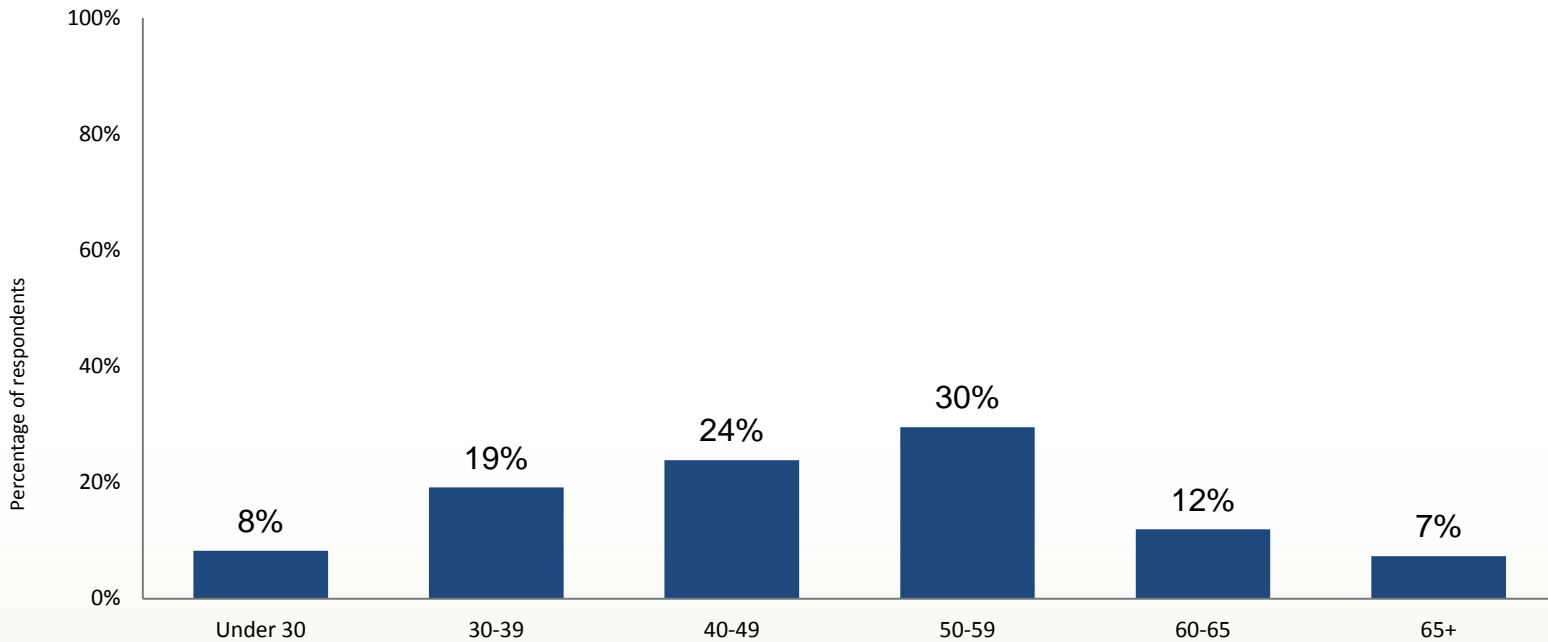
Q: In what year did you become a financial adviser (compute years)?

Participant Overview: Gender



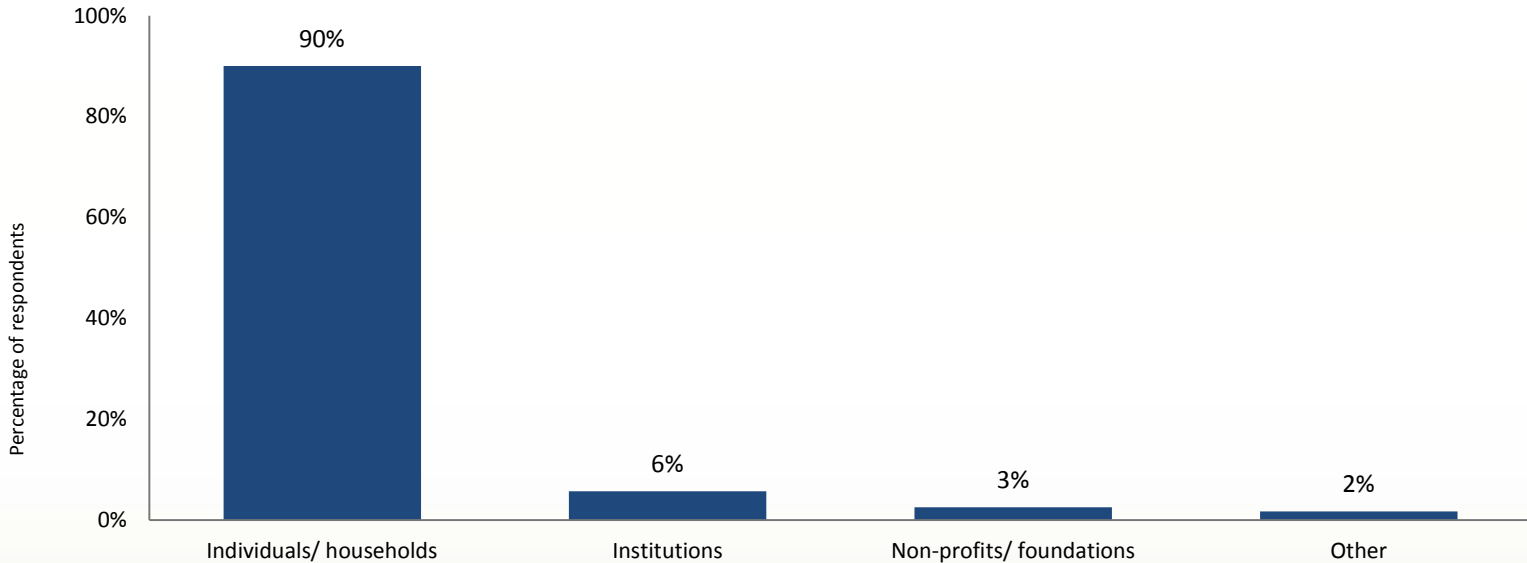
Q: Are you...(male/female)?

Participant Overview: Age



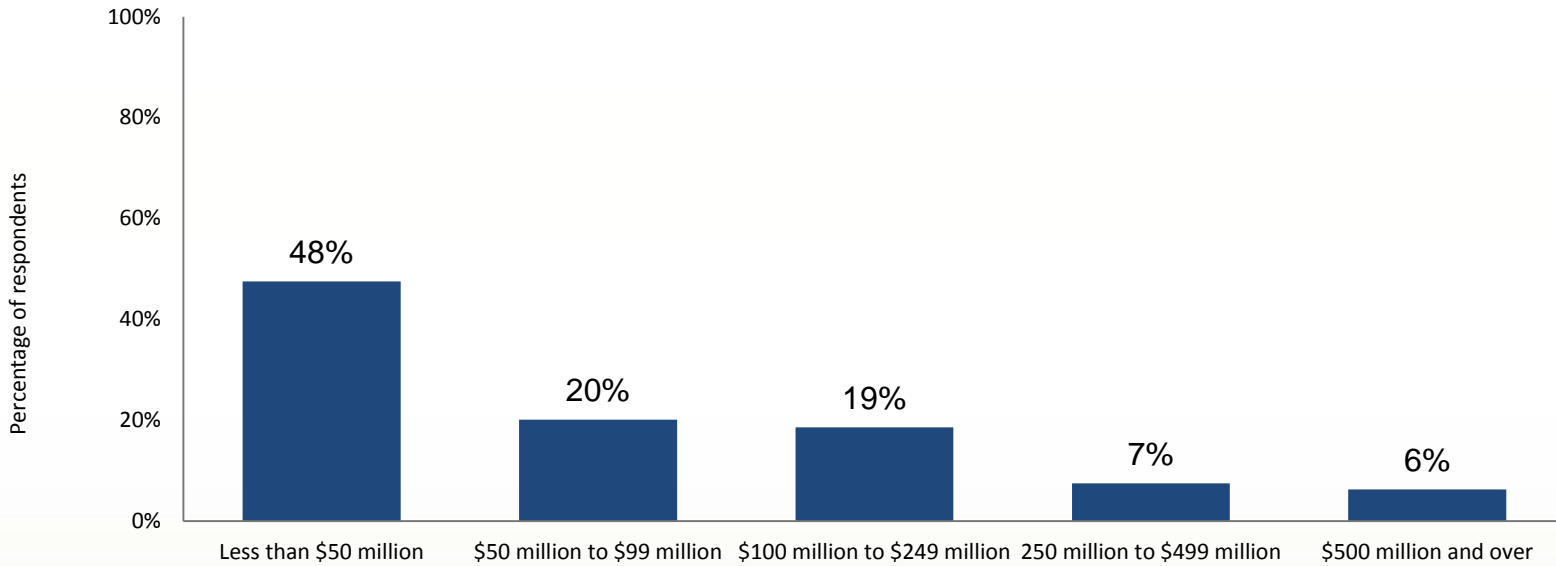
Q: Which of the following describes your age?

Client Breakdown: Type



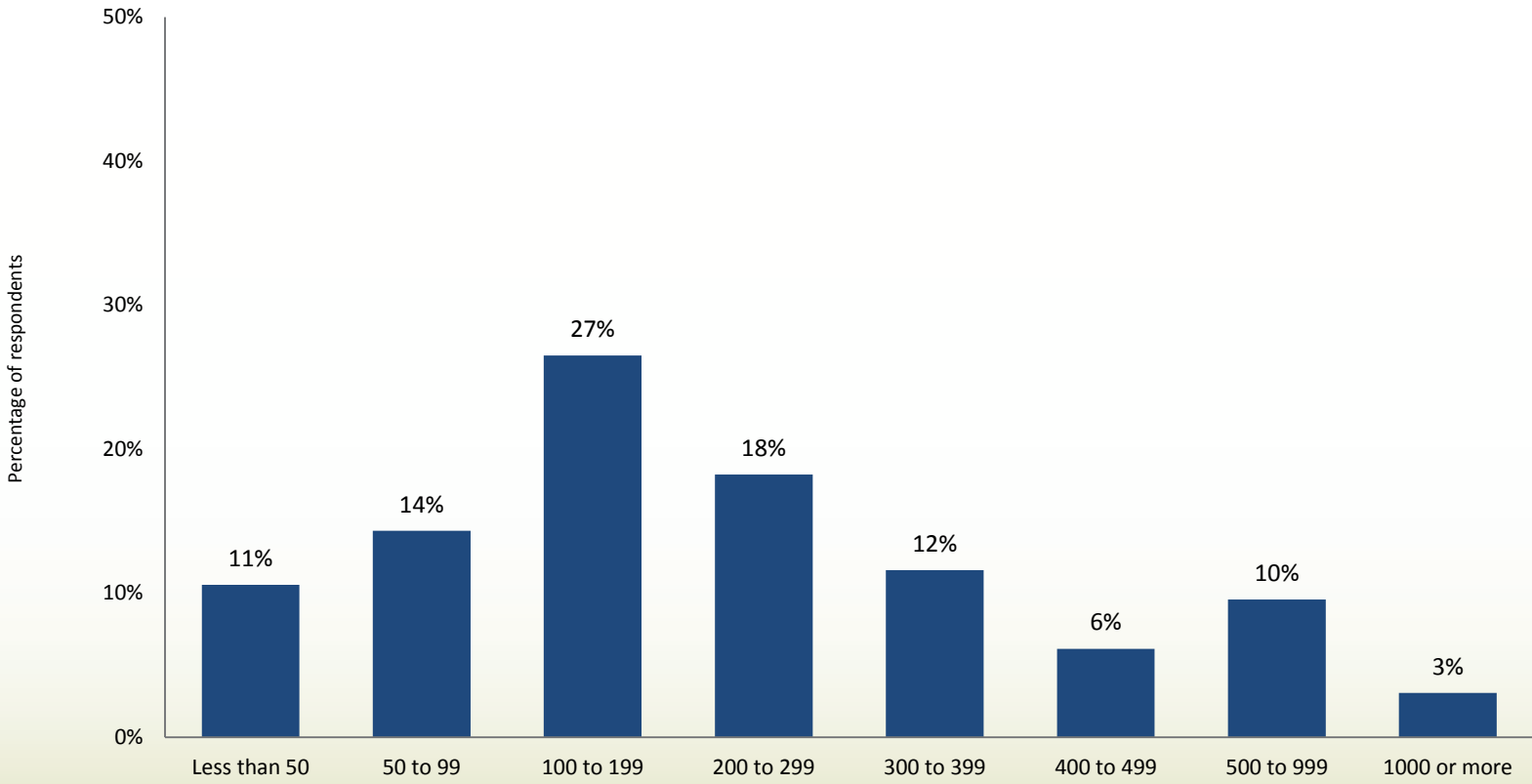
Q: What percentage of your clients do you estimate fall into the following categories?

Assets Under Management



Q: Please provide the following information for your business: Assets Under Management (2012)

Client Households



Q: Please provide the following information for your business: Total Number of Client Households (2012)