



Practice Management Solutions for Financial Advisors

# Practice Update 2004: The Exceptional Practice

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Results Released:

November 2004

Research Sponsored by:

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CANADA'S NEWSPAPER FOR FINANCIAL ADVISORS

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## Practice Update 2004: Overview

What makes a practice exceptional? A quick scan of top producers' conferences suggests that assets or revenue are two quick answers to the question. But neither of those top-line indicators speaks to the quality of a business, nor to its long-term viability or value. In fact, these indicators say very little about the actual income of the advisor.

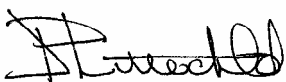
So to better understand what makes a practice exceptional, Advisor Impact undertook a detailed study that looked beyond the top-line indicators. What we found is that no single indicator of success is enough. A high growth business can be highly unstable. A highly stable business can be unprofitable.

Our study results show that an Exceptional Practice simultaneously excels in four areas, each of which contributes to short-term income and long-term value. The Exceptional Practice is growing, profitable, stable, and productive. Put another way, the Exceptional Practice is one that is profitable today, continues to grow, operates efficiently, and has loyal clients. Of the 300 detailed surveys we received in our study, fewer than 20%, or 50 practices, made the cut.

Our goal, in addition to providing the industry with new benchmarks, is to help advisors think like business owners, to apply the same rigorous standards of analysis to their practices as they would to the businesses in which they invest their clients' wealth. The story is not in the benchmarks (or averages), which are the natural outcome of any research. The real story is in the spreads, the vast differences that exist among practices on key indicators of success. Those spreads tell us that it is possible to create practices that will not only provide us with a good living today, but also have the potential to fund an advisor's retirement in a meaningful way. However, it's time to get realistic about the value of our practices and the things that we need to do to improve the picture of the future.

The research was conducted between April and July, 2004. Both hard copy and on-line surveys were submitted, and each respondent received a detailed and confidential practice analysis.

This important study would not have been possible without the very generous support of AIM Trimark Investments, a firm dedicated to helping financial advisors run more effective businesses. Nor would it have been possible without the continued support of Investment Executive, and we thank both companies for their contributions.



Julie Littlechild,  
President, Advisor Impact

## A note from AIM/Trimark

Dear advisor:

AIM Trimark is pleased to sponsor this year's Practice Update 2004: The Exceptional Practice.

I'm excited to give you the opportunity to discover the best practices of advisors across the country – advisors just like yourself. Through these examples, you can reflect on what makes them successful, and implement these leading-edge concepts in your own practice so you can best serve your clients, both now and in the future.

As you read the Practice Update, keep in mind that AIM Trimark's PD Network has the tools you need to help you work through some of the themes, challenges and opportunities outlined in the Update. As your business partner, AIM Trimark has a vested interest in the success of your business, because after all, your success is our success. We want you to use your time more profitably, so instead of searching for best practices that you can apply to your business, we're bringing them to you; we encourage you to consider them at your convenience.

I hope you enjoy reading this year's Practice Update. If you'd like to find out more about the many ways AIM Trimark can help you build your practice into an exceptional one, please contact your sales team or visit **[advisor.aimtrimark.com](http://advisor.aimtrimark.com)**.

Sincerely,



Drew Wallace  
Executive Vice President, Sales  
AIM Trimark Investments

## About Advisor Impact

Advisor Impact works with financial services firms to improve productivity and profitability. To that end, the firm provides research, training and tools to help advisors, wholesalers and accountants build a foundation of profitable and loyal clients. With offices in New York and Toronto, Advisor Impact works with financial advisors, broker/dealers and investment management firms across North America and the United Kingdom. The company was founded in 1998 and formed a strategic alliance with Moss Adams, LLP ([www.mossadams.com](http://www.mossadams.com)) in 2002.

Advisor Impact's expertise is supported by its on-going research among advisors and investors. In addition to the advisor research summarized in this report, Advisor Impact surveys tens of thousands of investors annually, through its Client Audit program. As a result, the firm has unparalleled insight into how clients view their advisors, their expectations with respect to service, and gaps with respect to products and services.

Advisor Impact offers the following programs for advisors:

The **Client Audit** helps financial advisors gauge client satisfaction and identify specific cross-selling, referral and consolidation opportunities among existing clients.

The **Business Success Kit** is a practical guidebook and toolbox to help advisors improve practice efficiency and productivity.

**Practice Management Workshops** address many critical practice management issues to provide advisors with the ideas and tools to streamline their practices, structure effective teams and build for the future.

For more information on Advisor Impact and its programs, visit [www.advisorimpact.com](http://www.advisorimpact.com),  
e-mail your request to [info@advisorimpact.com](mailto:info@advisorimpact.com), or  
call 416.489.2016 or 877.686.0660

## Participant profile

Three hundred advisors across Canada took part in Practice Update: 2004; the following table shows the profile of those advisors. The data is presented to show both average and median responses, as well as the responses for planners and brokers<sup>1</sup>. There is a large difference between the average and median numbers when all participants are viewed together. The primary reason for this difference is the wide range of advisors that took part in the study. They ranged from very senior to very new, and from those with very large businesses to those with very small businesses. This range suggests that the median is the best number for a typical advisor to consider in interpreting the results.

This table shows the participant profile as of December 31, 2003:

	Average	Median
Assets under administration	\$34,506,762	\$19,000,000
Gross revenue*	\$316,484	\$186,500
Number of client households	294	215
Average assets/household	\$161,365	\$86,667
Average gross revenue/household*	\$1,559	\$923
Turn rate (revenue/assets)	1.1%	1.0%

\*This number is revenue from all sources, before expenses and payout to head office.

\*\* This number is gross revenue per client household (before expenses and payout to head office).

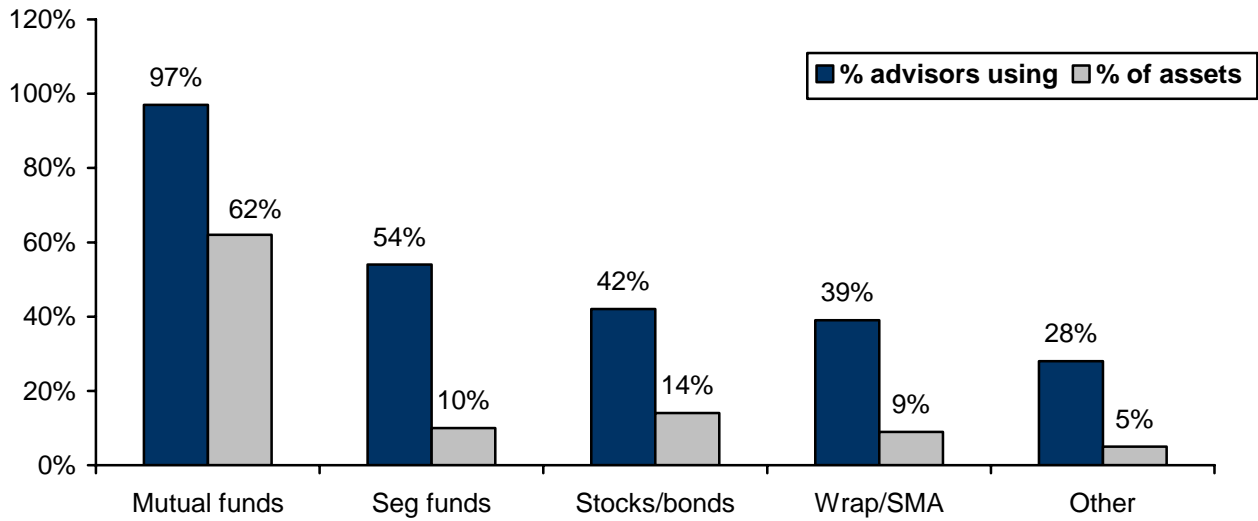
By Channel:

	Broker	Planner
Percent of respondents	24%	76%
Assets under administration	\$70,489,314	\$23,989,965
Gross revenue*	\$593,904	\$230,833
Number of client households	221	317
Average assets/household	\$362,088	\$101,175

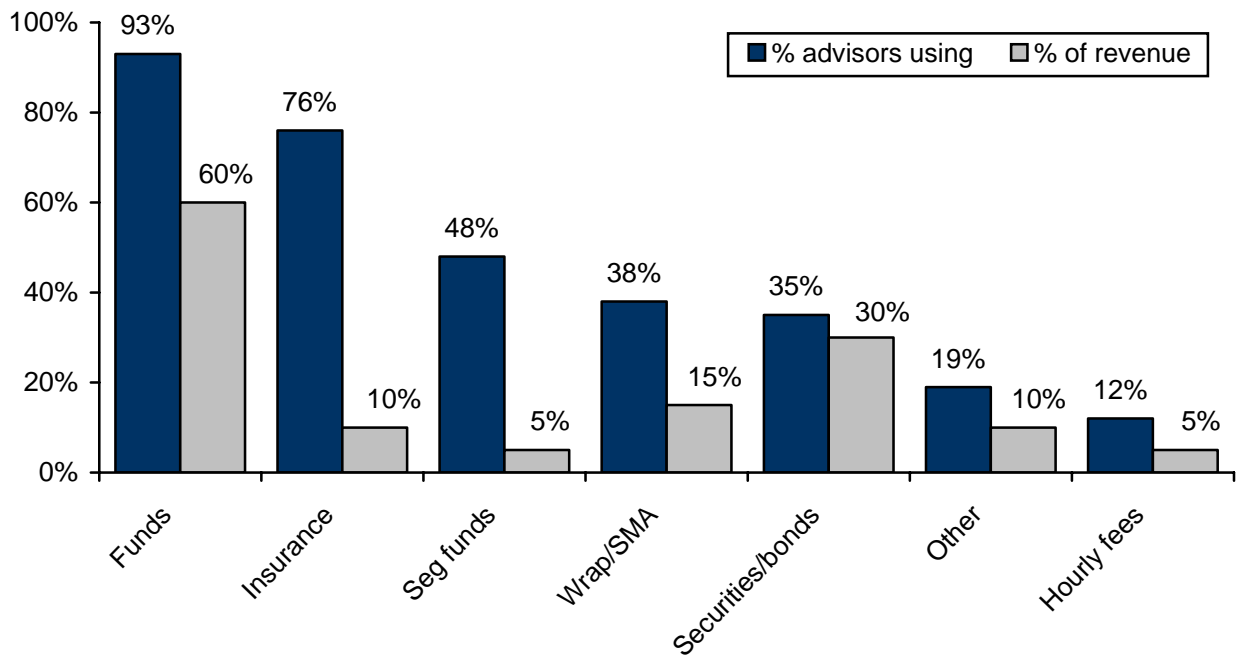
\*This number is revenue from all sources, before expenses and payout to head office.

<sup>1</sup> Note that because more than 70% of respondents are planners, the margin of error is higher for the broker population. The data from the planner/broker split is more descriptive.

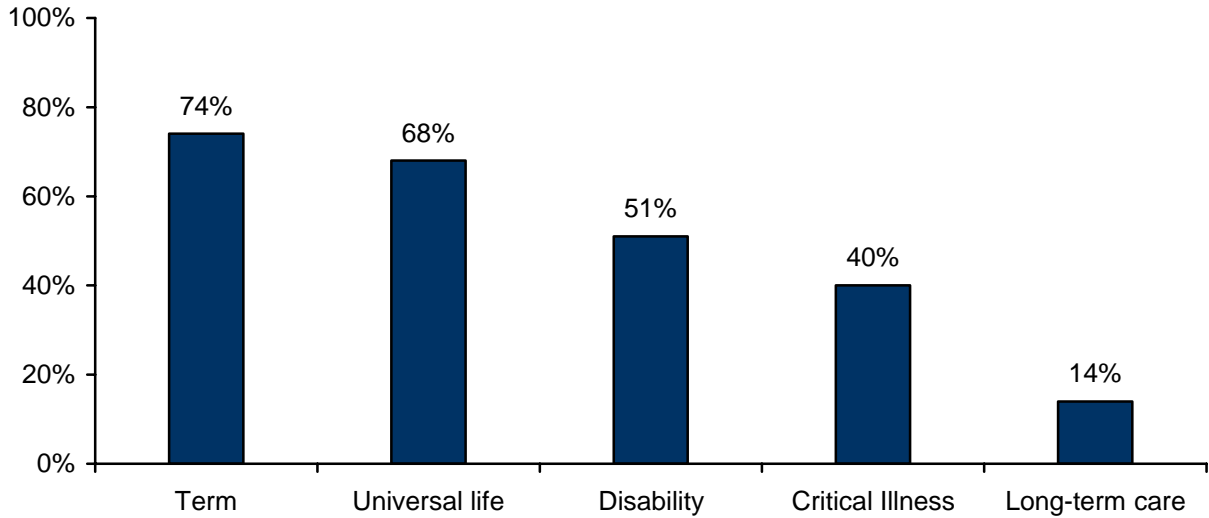
On average, the assets of the participants broke down as follows.



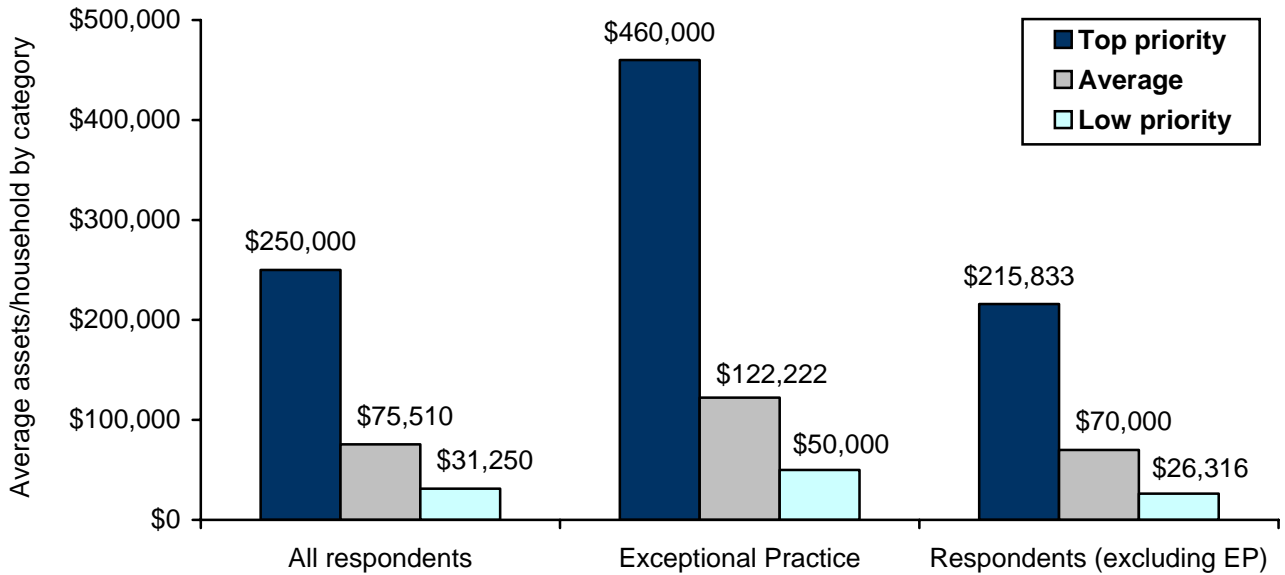
The breakdown of revenue shows an increase in revenue from insurance and a continued increase in the use of wraps or separately managed accounts (SMAs). The asset figures (and therefore the revenue figures) are influenced by channel. For example, we would expect to, and do, see a much higher percentage of assets in both individual stocks/bonds and in SMAs and wraps, among brokers.



As a final point regarding the profile of participants, we would note that while insurance is made more generally available across the board, penetration on these products remains generally low.<sup>2</sup>



As we would expect, advisors manage a wide variety of clients. This variation is underscored when we consider median assets per clients from high to low priority.



<sup>2</sup> Penetration information is based on Advisor Impact’s Client Audit research.

# Key Findings: The Exceptional Practice

The Exceptional Practices are those that are driven by and simultaneously excel in all four aspects of long-term success—they are growing, profitable, stable, and productive. In other words, these practices are not only successful today, but also are being managed to achieve long-term value and to lay a foundation for enduring success.

Note that the information on Exceptional Practices is based on a small subset of 50 survey respondents and is designed to be descriptive of this group of advisors.

At first glance, the profile of the Exceptional Advisor looks similar to that of any group of top producers. They have higher assets and generate more revenue. The traditional definition of a top producer, however, is generally focused on the top line. Exceptional Practices look good from the outside, but they also have healthy bottom lines and generate that revenue more efficiently. At the same time, they focus on building loyal client relationships.

***The exceptional practice generated 104% more revenue, but 130% more profit than the average practice, and they achieved that with only 12% more clients and considerably higher expenses.***

	All respondents	The Exceptional Practice	Respondents excluding EP*
Years in business	13	14	13
Assets under administration	\$34,506,762	\$60,538,868	\$27,049,968
Gross revenue	\$316,484	\$524,919	\$356,834
Client households	294	323	288
Average assets/household	\$161,365	\$287,527	\$133,056
Profit (before payout to head office)	\$250,166	\$455,466	\$197,990
Profit margin (before payout to head office)	68%	73%	67%

\* ‘Respondents excluding EP’ shows all respondents excluding those in the Exceptional Practice category. This column is the best direct comparison to the Exceptional Practice column.

These numbers demonstrate that the Exceptional Practice achieved that status in roughly the same time as the average advisor. It is also important to note that the split between brokers and planners is roughly the same for both groups, so the higher assets and revenue are not influenced by channel.

## Getting to Exceptional

The more important question relates to what these Exceptional Advisors do differently. Those differences fall into five key areas, which are summarized quantitatively in the table on the next page:

1. Focus on client loyalty
2. Defined client selection
3. Structured business planning
4. Strategic delegation
5. Controlled investment

Note that the statistics in the next section compare the Exceptional Practices to all respondents excluding the Exceptional Practices (which is different from the industry average).

### Focus on client loyalty

- Exceptional Advisors have a lower attrition rate. On average, they lost 1% of clients, compared to an average of 3% for the overall group.
- Exceptional advisors are more likely to get feedback from their clients, with 36% conducting satisfaction surveys compared to 21% for other advisors.

### Defined client selection

- Exceptional Advisors are more likely to establish a minimum asset level for new clients: 61% of Exceptional Advisors set an asset minimum, compared to 40% of other advisors.

### Structured business planning

- Exceptional Advisors are more likely to have a written business plan—80% of these advisors had a plan, compared to 60% of other advisors.

### Strategic delegation

- 46% of Exceptional Advisors work with a junior advisor, compared to 25% of other advisors.
- With or without a junior, Exceptional Advisors are considerably more likely to delegate some client contact: 70% of Exceptional advisors delegated some client management responsibilities, compared to only 36% of other advisors.

### Controlled investment

- Exceptional advisors achieved higher profit margins while investing over \$50,000 more in their businesses.
- At the same time, their expenses grew by a much smaller percentage (11% compared to an average of 31%), demonstrating both cost control and, likely, greater capacity and efficiency.

The following table highlights some of the key data relating to the Exceptional Advisor and how he or she runs the business.

	All respondents	The Exceptional Practice	Respondents Excluding EP
Attrition rate (unplanned*)	3%	1%	3%
Investment in practice	\$75,714	\$117,774	\$65,943
Investment in practice as percentage of gross revenue	24%	22%	33%
Increase in expenses	27%	11%	31%
Percent conducting client satisfaction surveys	23%	36%	21%
Team size (excluding advisor)	1.8	2.5	1.6
Percent working with junior	25%	41%	22%
Percent that delegate either some relationships or meetings	42%	70%	36%
Percent that set minimum asset level for new clients	43%	61%	40%
Percent with a written business plan	65%	80%	60%

*\* Note that unplanned attrition rate refers to the percentage of clients lost, excluding those that were either fired or transferred to another advisor.*

Optimism appears to be a by-product of Exceptional Advisor status. While 30% of all respondents believed they could sell their practice for \$1,000,000-plus, the number jumped to 43% for those in the Exceptional Practice category.

In the following sections, we'll focus on the four key drivers of long-term success, presenting the general data (across all respondents) from the study.

# Growth

Exceptional practices focus on growth throughout the lifecycle of the business. While growth may be a greater issue for new advisors, it continues to be an important issue for those senior producers who are looking to build long-term value into their practices. A disciplined and methodical new business development program is critical to maintaining and building long-term value.

**The Top Line**

- The average respondent added 25 new clients and \$5,000,000 in assets last year; 74% of new clients were referred by a client or centre of influence.
- That level of growth cost the average respondent \$10,000 and 10% of his or her time.
- Only 20% of advisors feel they have somewhat or completely optimized existing client relationships (cross-selling and consolidation).
- While the average respondent is focused primarily on adding new clients, Exceptional Practices are focused more on improving practice profitability and managing existing client relationships.

**The Implications**

In general, advisors seem to be overlooking or missing the ‘low-hanging fruit’ when it comes to new business development. While overall growth was good, compared to previous years, there is a clear opportunity to grow existing relationships and increase average revenue per client. Advisors do not believe that they are optimizing their existing client relationships and are not generating referrals from a large percentage of otherwise satisfied clients. The opportunity for organic growth from existing clients is supported by Advisor Impact’s Client Audit research.

**Growth Rates**

At first glance, it would appear that average assets per advisor grew 18% in the last year, from about \$29,000,000 to about \$34,000,000. However, performance on this driver of success varied greatly from one advisor to the next. The average increase is composed of advisors who lost assets and those who grew by a substantial margin. For example, the range of asset growth was -71% to +400%. The following table shows the average of all individual growth rates.

	Average: All respondents	Median: All respondents	The Exceptional Practice*
Assets under administration	36%	22%	24%
Gross revenue	20%	11%	12%
Number of client households	16%	7%	6%
Average assets per client household	22%	16%	19%

\* We would expect these numbers to be lower for the Exceptional Practice because they are working from a larger base of business.

## Sources of New Business

Referrals continue to be the primary source of new business for advisors. About half of new clients were introduced through an existing client.

	All respondents	The Exceptional Practice	Respondents excluding EP
New clients	25	22	26
From client referrals	53%	56%	43%
From centre of influence referrals	21%	26%	21%
From other prospecting	23%	16%	27%

**While the percentage of new clients from client referrals is fairly high this only translates to about 5% of clients actually providing referrals. Most advisors agree that there is a larger opportunity to tap into client referrals.**

Despite the high percentage of business that is generated from existing clients, most advisors consider new clients the best source of new business in the coming year.

*Q: In 2004, where do you see the greatest opportunity to grow your business? Please rank order, with 1 being the biggest opportunity and 3 being the smallest opportunity.*

	Best opportunity	Second best opportunity	Third best opportunity
Adding new clients	<b>46%</b>	22%	31%
Cross-selling existing clients	32%	<b>43%</b>	24%
Additional assets from existing clients	24%	35%	<b>40%</b>

## Optimizing Existing Client Relationships

It is interesting to note that while cross-selling and consolidation are not considered the top drivers of new business going forward, most advisors do not feel that they have effectively optimized existing client relationships. The challenge extends to the Exceptional Practices.

*Q: Do you feel that you are optimizing your existing client relationships (i.e. have you maximized existing client revenue by introducing clients to the full range of products/services that you provide)?*

	All respondents	The Exceptional Practice	Respondents excluding EP
Average optimization rating (out of 5.0)	2.9	3.0	2.9
Percent optimizing 'somewhat' or 'completely'	20%	21%	20%
Percent optimizing 'little' or 'not at all'	22%	14%	24%

## Client Selection

Less than half of respondents clearly define their client selection process, or do not link that definition to an asset or revenue minimum. That number increases substantially for Exceptional Practices, which clearly affects profitability (outlined in the next section of this report).

	All respondents	The Exceptional Practice	Respondents excluding EP
Percent setting a minimum for new clients	43%	61%	40%
Average minimum (if set)	\$152,684	\$241,964	\$123,616

# Profitability

Profitability continues to be a key challenge for financial advisors. The culprit is declining operating profit margin, a problem that is easily masked or ignored during strong markets. In order to understand profit margin, it is important to focus on the cost of managing client relationships on a segment by segment basis, rather than looking only at the overall practice. Understanding practice profitability will tell you if there is a problem. Understanding client profitability will tell you where the problem is and what to do about it. The reality is that the majority of advisors do not have a clear picture of the cost of managing client relationships. As a result, many client relationships may be unprofitable, which means that profitability likely is not being maximized in your practice.

## The Top Line

- The average respondent generated \$250,166 in income, before payout to head office, representing a 68% profit margin.
- The average advisor invested 32% of gross revenue back into the business.
- Expenses grew 27%, on average, between 2002 and 2003, compared to a 20% increase in revenue for the same time.

## The Implications

- Advisors can attack the profitability problem either by focusing on increasing average revenue per client or ensuring that the cost of client management is aligned with the value of the client. That process may include focusing on:
  - ⇒ improving share of wallet (percent of household assets managed)
  - ⇒ focusing on family wealth management
  - ⇒ organic growth, through cross-selling and referrals
  - ⇒ understanding and managing costs at the client level.

At first glance, problems with profitability appear to be focused on cost control. For most advisors, costs grew faster than, or at an equal pace with, revenue. Cost control may well be a problem for some advisors. However, the problem can also be structural—that is, the overall cost of service delivery is too high given the value generated by some or many clients.

***The average client of an Exceptional Advisor generated about \$700 (gross) more, in profit, than that of the average advisor.***

Below is an overview of key profitability ratios. Brokers and planners are split out, in this case, because there is a wide divergence with respect to costs, a large part of which is influenced by the differences in payouts and cost structures. Note that the Exceptional Practice category is a combination of brokers and planners.

	Brokers	Planners	The Exceptional Practice	Respondents excluding EP
Average income*	\$559,662	\$150,882	\$455,466	\$131,185
Percent of revenue invested in business	8%	40%	27%	33%
Investment in business	\$39,190	\$88,205	\$117,774	\$65,943
Increase in expenses	44%	18%	11%	31%
Increase in revenue	31%	17%	12%	22%
Profit margin**	92%	61%	73%	67%

\* Total revenue less expenses (before payout to head office)

\*\*Before payout to head office

If we assume that an average planner pays 20% of gross revenue to head office and a broker pays 50% of gross revenue to head office, then average income for planners would be about \$97,000 and for brokers that number would be about \$257,000. Those numbers are considerably closer when we look only at top producers in the industry.

For a small business, it is unusual to equate the owner's income with 'revenue less expenses', however only 20% of advisors pay themselves a defined salary. That number jumps to 26% for Exceptional Advisors. If advisors are going to focus on profitability, in a meaningful way, then they will need to either pay themselves a defined salary or, at the very least, establish a proxy that will allow them to complete real profitability analysis.

## Investing in your Practice

Practice expenses are a key part of the profitability picture. While Exceptional Practices invest more in their businesses, it is roughly the same percentage of revenue as the average practice, so the answer is not as simple as investing more money in running the business. In fact, one of the key differences is simply that each client relationship is more profitable for the Exceptional Practice.

	All respondents	The Exceptional Practice	Respondents excluding EP
Total investment: 2002	\$70,672	\$112,510	\$61,163
Total investment: 2003	\$75,714	\$117,774	\$65,943
Change in expenses*	27%	11%	31%

\* As with asset growth, overall expenses appear to have increased by 7%, however some practices grew a great deal more and some a great deal less. These numbers reflect the average of all growth rates for those advisors providing a response for both years.

Expenses broke down as follows:

	Investment in 2003	Percent of total investment
Salaries and benefits (excluding senior advisor)	\$32,176	42%
Premises	\$7,443	10%
Office expenses	\$6,874	9%
Other expenses	\$5,729	8%
Marketing, advertising and promotion	\$5,505	7%
Client appreciation/communication	\$5,444	7%
Travel and entertainment (non-client)	\$3,880	5%
Equipment purchases and leases	\$3,390	4%
Training and development	\$2,344	3%
Professional fees	\$2,030	3%
Insurance	\$1,702	2%

### **The Cost of Client Management**

As indicated earlier, client profitability is perhaps a more important concept than practice profitability. Very often advisors are profitable, overall, but are losing money on some clients. Understanding the scope of this missed opportunity demands that advisors understand the cost of managing client relationships across segments, including the cost of time invested in those relationships.

This is not a simple process and demands considerably more information than was gathered in this year's study. However, in Practice Update 2003, this was the primary focus.

Based on the information gathered in Practice Update 2004, we can see that the average cost per client is about \$240. This does not include the time of the advisor and also excludes the cost of growing the business. As a result, many advisors are losing money on their smallest clients, once all costs have been formally allocated to those relationships.

***For more information on assessing client profitability, you can order a Business Success Kit from Advisor Impact. Details are on the web site at [www.advisorimpact.com](http://www.advisorimpact.com).***

## Stability

There is a fine balance between growing a business, profitably, and ensuring that your clients are loyal. It is important, therefore, to view other indicators of long-term success, such as growth or profitability, in the context of stability. A high-growth business is not a positive in the face of growing client attrition.

A stable practice is, therefore, one that has a low level of client attrition, is able to follow through on its commitment to client contact, and has a clear strategy in place for the future, including a business plan and a succession plan.

We believe that the right ‘offer’—the package of services that advisors offer to their clients—is also critical to the long-term stability of the business. In this section we’ll also examine the scope of services provided to clients.

### The Top Line

- The average respondent lost 16 clients last year; 10 of those were transferred or fired.
- The attrition rate is 5%; the average unplanned attrition rate is 3%.
- The average respondent met, face to face, with fewer than 60% of his or her clients last year.
- 21% of advisors have a written succession plan, and 65% have a written business plan.
- Fewer than 25% of respondents had conducted a satisfaction survey in the last two years.
- In order to meet client communications goals, the average respondent would have to devote almost 70% of his or her time to meeting with clients. This does not include reactive time.
- While a majority of advisors offer financial planning services, the scope of actually developing comprehensive plans is quite limited.

### The Implications

- Advisors must recognize that clients are demanding a more comprehensive service, built around a clear plan for retirement.
- Foundation is critical: Effective businesses must have a written business plan, an exit strategy, and must consistently gather feedback from clients.
- Advisors must assess their contact goals against available resources and ensure that they are able to deliver on the promises made to clients.

## Key Ratios

The table below shows the key results with respect to client attrition, a primary indicator of client loyalty. It is important to note that we have split planned and unplanned attrition as many advisors are actively culling their client bases.

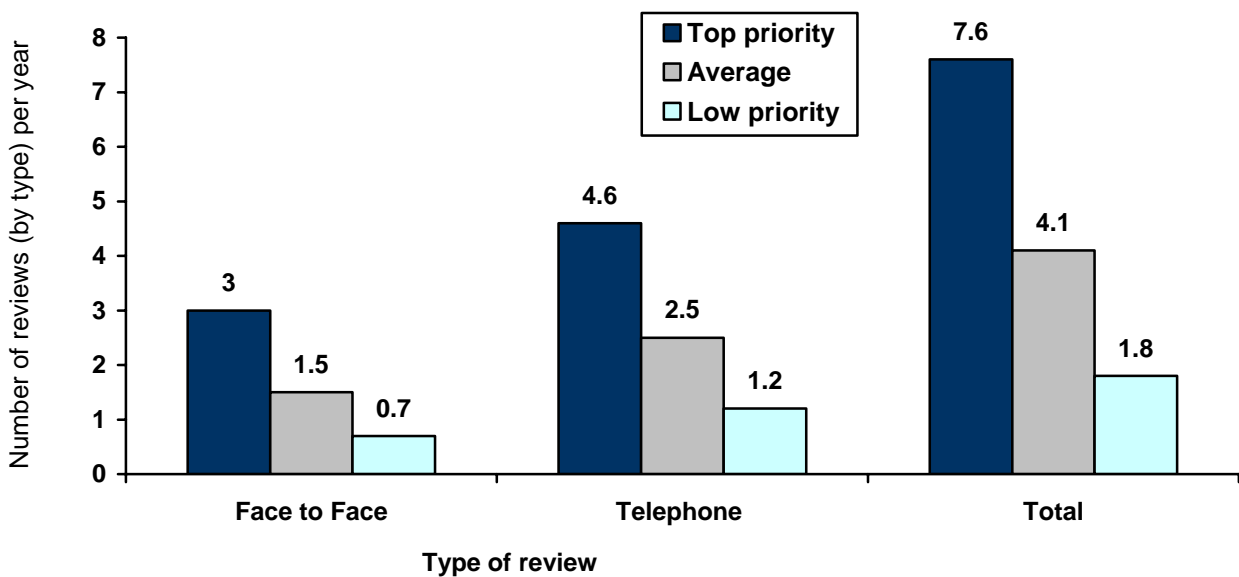
	All respondents	The Exceptional Practice	Respondents excluding EP
Clients lost last year for whatever reason	16	12	17
Attrition rate (% of clients lost)	5%	4%	5%
Clients lost (excluding those 'fired' or 'transferred')	6	4	6
Attrition rate (excluding those 'fired' or 'transferred')	3%	1%	3%

Although client management and optimizing client relationships are key goals of many advisors, only 23% have surveyed their clients to get a more precise understanding of satisfaction and needs. That number jumps to 36% for Exceptional Advisors.

## Client Contact and Communications

In other research studies with investors, direct client contact is identified as one of the primary drivers of client loyalty. A common theme in our advisor research is that most businesses do not have the resources to physically deliver on the direct contact goals that they set for clients. As a result, things fall through the cracks and there may be a disconnect between client expectations and service delivery. It is clear, from research conducted by Advisor Impact among end-clients, that the key issue is managing expectations, rather than the actual number of contacts.

The table below shows the contact goals for the average respondent to the survey.



We conducted a simple analysis, using average meeting times and based on the average number of clients in each category. Based on that analysis, the average respondent would have to devote almost 70% of his or her time to direct client contact, leaving 30% of the average week for all reactive time and for building and managing the business. It goes without saying that this is not happening.

***The average advisor does not have the resources to deliver on their own baseline client contact goals. Either the goals are too high or more resources are required.***

As a result, advisors meet with a relatively low percentage of their clients and often do not meet their overall goals.

	All respondents	The Exceptional Practice	Respondents excluding EP
Percent of clients met, face to face, last year	58%	67%	57%
Percent of clients met, by telephone, last year	58%	69%	56%

Note that this data does not tell us what, if any, percentage of clients received no direct contact. Last year, advisors estimated this number to be about 25% of clients.

### **The Offer**

According to research conducted by Advisor Impact, the most important drivers of satisfaction with an advisor are the extent to which:

- The advisor is trustworthy
- The account is handled with few errors
- The advisor’s team is knowledgeable
- The advisor understands the client’s goals for the future
- The advisor is proactive in managing the client’s account.

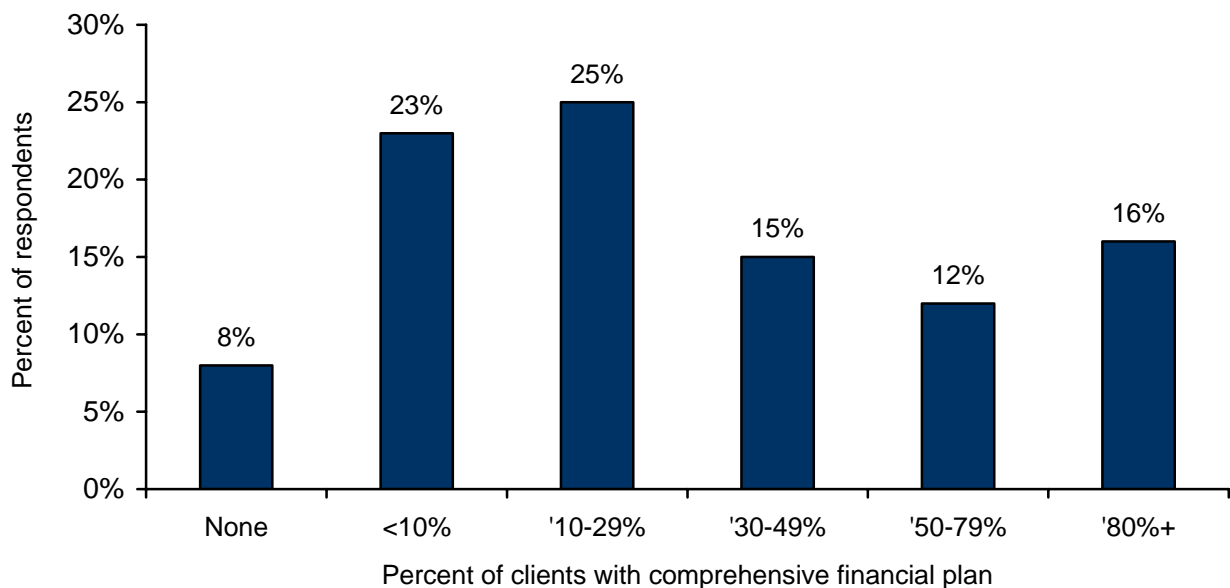
These key drivers speak to the importance placed on advice. It is for this reason that we look at the financial planning process and services offered as a key component of stability.

As the table below demonstrates, advisors generally offer a very wide range of services to all or most of their clients. The offer, in this case, is theoretical. As we can see in the following tables, execution may differ.

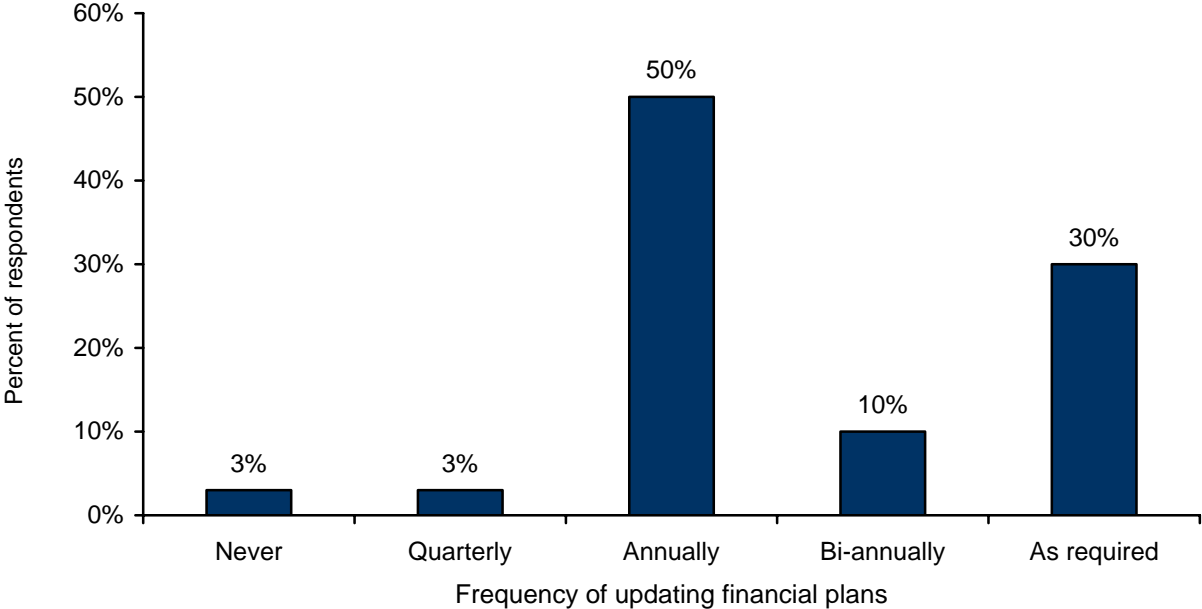
	Routinely provided/offered to all or many clients	Provided/offered only to top clients	Not Provided
Retirement projections	85%	12%	3%
Insurance planning	81%	11%	7%
Tax planning	62%	25%	12%
Cash flow management	54%	23%	23%
Comprehensive financial planning	53%	41%	5%
Group RRSPs	39%	12%	49%
Group benefits	34%	10%	56%
Charitable giving	32%	33%	35%
Tax preparation	17%	11%	71%

Note that these numbers represent the total group of respondents, which includes both brokers and planners. Channel no longer defines the services that are offered to clients as the responses from brokers and planners are very similar.

The previous table suggests that modular plans are the dominant format for advisors, although there is no real standardization with respect to deliverables. The scope of planning is perhaps more interesting. As the table below shows, while more than half of advisors offer comprehensive planning to all or many of their clients, only 16% of advisors have plans in place for 80% or more of their clients. Comprehensive plans are by no means the norm. It is difficult to say if this is because advisors do not feel that comprehensive plans are necessary for a large percentage of clients, or if they do not feel that they are adequately compensated for providing that service.



The lack of standardization is also underlined when we consider the process of updating financial plans. An annual update is the most common timeline, however just over one-third of advisors do not have an established process (timeline) for updating plans.



It is not surprising, then, that very few financial advisors charge to create or update a financial plan. In fact, only 17% of respondents charge for plans. For the advisors who did charge, the range of fees was quite large, from \$150 to \$8,500. This range highlights the vast differences in the services offered by advisors.

**Business Management**

Practice stability can (and should) also be viewed in terms of business management practices. A practice might be considered more stable, for example, if there is a clear indication of planning for the future. As the next table demonstrates, while Exceptional Advisors are more likely to have a written business plan in place, succession planning is still not widespread.

**Business Planning**

	All respondents	Exceptional Practice	Respondents excluding EP
Percent with written business plan	65%	80%	60%
Years covered in business plan	4	4	4

## Succession planning

It is interesting to note that while Exceptional Advisors are not any more likely to have a defined succession plan in place, they are considerably more optimistic about the value of their practice upon retirement. In our view, succession planning should be a bigger focus, given advisors' expectations about the value of their practices.

Although the advisors surveyed for this study are many years away from retirement, only 21% have a written succession plan. That number jumps to 24% for Exceptional Advisors. Below we examine advisor expectations for the future.

Planned retirement date	All respondents
<1 year	0%
1-2 years	2%
3-5 years	6%
6-9 years	13%
10-14 years	31%
15-19 years	24%
20 years or more	25%

Plans to dispose of the business are not entirely clear for most advisors, as evidenced by the table below. About 27% appear to have a clear plan in place (those selling to a partner or junior)

Plans for business upon retirement	All respondents
Sell to an (as yet) unidentified third party	27%
No plans established	23%
Sell to an existing partner	16%
Sell to an existing junior advisor	11%
Transfer/sell to a child	9%
Sell to an identified third party (not a junior/partner)	7%

While plans are not entirely clear, most advisors have a view on the value of their practice at retirement.

Expected value of practice at retirement	All respondents	Exceptional Practice	Respondents excluding EP
<\$100,000	4%	0%	5%
\$100,000 – 499,000	39%	26%	42%
\$500,000 – 999,000	22%	26%	20%
\$1,000,000+	31%	43%	27%
Don't know	6%	4%	6%

## The Challenges

As advisors look forward to building their practices and achieving these levels of value at the time of retirement, they are generally agreed on the primary challenges they face. Exceptional Advisors are considerably less concerned about attracting new clients and more concerned with creating a stable foundation for quality growth.

### Top three challenges going forward

#### All respondents

Attracting new clients	41%
Improving practice profitability	31%
Managing existing clients	27%

#### Exceptional Advisors:

Improving practice profitability	37%
Managing existing clients	37%
Balancing work and family life	33%

# Productivity

Productivity is a difficult thing to improve and to track, although it is critical to the long-term success of a business. For the purposes of this analysis, we focus on tracking the key ratios that suggest increases or decreases in productivity or efficiency, with an emphasis on the team structure.

## The Top Line

- Exceptional Advisors are considerably more likely to have both larger teams and junior advisors.
- With or without junior advisors, Exceptional Advisors are much more likely to delegate some contact, which may be entire relationships or some client meetings.
- Despite having larger teams, Exceptional Advisors generally manage more assets per team member.

## The Implications

Using a team approach to expand capacity and deliver high levels of service appears to be a key trend among Exceptional Advisors. Other client research, conducted by Advisor Impact, suggests that the majority of clients are comfortable speaking with a team member other than the senior advisor and also that having confidence in the team is a key driver of satisfaction in a relationship with a financial advisor.

## The Team

The structure of the team tends to set Exceptional Advisors apart from the pack. Exceptional Advisors are considerably more likely to have larger teams, with junior advisors and to delegate contact among team members.

## The Roles

Role	All respondents	Exceptional Practice	Respondents excluding EP
Licensed assistant(s)	46%	67%	41%
Non-licensed assistant(s)	36%	54%	32%
Junior advisor(s)	25%	41%	22%
Part time staff	46%	48%	45%

What is perhaps more important is the extent to which Exceptional Advisors use their teams to effectively create more capacity. The scope of delegation is considerably higher among these practices.

	All respondents	Exceptional Practice	Respondents excluding EP
I delegate some meetings, but not entire relationships	21%	35%	17%
I delegate some client relationships	21%	35%	18%
No meetings or relationships delegated	58%	30%	64%

Note that in those cases when advisors do delegate some meetings, it is estimated that they delegate about 20% of contact. When they delegate some (entire) relationships, they delegate almost one-third of client relationships.

## Key Ratios

Efficiency ratios are a helpful way for you to assess your progress over time. The ratios focus on such things as assets per team member. However, it is important to understand that these ratios can and should differ depending on your business model. For example, if you target high net worth clients, you would, and should, have fewer clients per team member than if you target average clients. These ratios are more helpful in tracking your own progress than as a point of comparison with other advisors.

	All respondents	Exceptional Practice	Respondents excluding EP
*Fulltime equivalent (FTE) staff	1.8	2.5	1.6
Number of clients/FTE	118	117	119
Number of clients/professional	214	241	208
Assets/FTE	\$25,270,500	\$31,401,193	\$23,718,905
Assets/professional	\$25,683,621	\$46,234,894	\$21,138,628
Gross revenue/FTE	\$247,767	\$261,094	\$244,219
Gross revenue/professional	\$239,920	\$404,783	\$201,619

\*Full-time equivalent staff (FTE) takes the total number of full-time staff and then expresses part-time staff as a percentage of a full-time person based on the number of hours worked. In this case, FTE excludes the senior advisor, focusing only on team members