10 Steps

To increased Practice Profitability

KEY MANAGEMENT GROUP
Unlocking Your Potential

Consolidation and organic growth in our industry have transformed practices from solo practitioners to substantial team structures. This shift has brought new challenges in managing growth while watching the bottom line. Our data shows that practices become less efficient and less profitable with top line revenue growth. It is also likely that this trend will lead to profitability being more heavily weighted in future practice valuations. The good news is that you can achieve both top and bottom-line growth with a strong focus on efficiency. The steps below provide a basic outline, and our practice valuation provides the detailed data to support the 10 steps.

01

KNOW YOUR METRICS

Know your expense, profitability and efficiency metrics and how they compare to a practice of similar size (this analysis is part of our practice valuation). Many advisors are satisfied with their earnings and don't pay much attention to their P&L. This can result in leaving money on the table and decreased practice value.

02

SET TARGETS

Set goals for expense/profit ratios as part of your strategic planning. Like most things in business, P&L improvements don't "just happen", they need to be actively managed. You should identify two or three initiatives each year that support these goals.

03

STEP BACK

Take a step back and set aside time to work on the business each month. Even if it is only an hour or two each month, you need to put on your CEO hat and review the big picture performance. It is helpful to look at your business from the point of view of an investor or future buyer.

04

GROW REVENUE

Grow your revenue through an increased average client size and not through increasing the quantity of clients (quality VS quantity). Improving client segmentation is the best way to improve profitability. Our data shows a clear correlation between good client segmentation, efficiency and profitability.

05

DON'T INEVST IN SERVICING LOW END CLIENTS

Don't hire associate advisors to only service the bottom end of your book. Contrary to popular practice, this is a leading cause of inefficiency and poor profitability. Clients with less than $100k in AUM produce only 7-9% of revenue in a typical practice. Associating a significant expense (client facing advisor) with a low producing part of the business is inefficient at best.

06

CONSIDER OUTSOURCING

Consider outsourcing services to support growth. Outsourcing can appear to be expensive until you factor in all the time and resources required to train and manage staff; and then it looks like a smart decision. For most advisors, managing staff is the most difficult task in running a small business so outsourcing can be a great alternative.

07

CREATE EFFICIENCIES

Look for efficiencies in every step of your client service model. We all do things that we recognize as inefficient, and still we continue to do them. Shifting your focus to the value of your time can greatly increase your ability to identify inefficiencies. Breaking down each service into hourly earnings can be very enlightening.

08

CONSIDER PARTNERSHIPS

Consider teaming and partnerships as ways to use staff more efficiently and to reduce excess capacity. Sharing staff can greatly reduce expenses by leveraging capacity or expertise. You may also find efficiencies in marketing and other important areas of your practice.

09

REMOVE UNPRODUCTIVE CLIENTS

Remove clients from your practice that are not productive or you don't enjoy working with. Advisors who take inventory of their client group on a regular basis generally build a higher quality practice. Enjoying your work more isn't a bad side effect either.

10

DON'T MAKE ASSUMPTIONS

Don't assume that growth will fix your P&L. This is a common misconception and our data supports the opposite result; larger practices have decreased profit margins. You must manage efficiency and profitability with growth.