

IS MY ADVISORY FIRM NORMAL? 6 KPIS TO TRACK & COMPARE

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MICHAEL E. KITCES

MSFS, MTAX, CFP®, CLU, ChFC, RHU, REBC, CASL

Head of Planning Strategy. Buckingham Wealth Partners

Chief Financial Planning Nerd. Kitces.com

Co-Founder. XY Planning Network, AdvicePay,

fpPathfinder, New Planner Recruiting



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5 NUMBERS TO KNOW

- 1) Revenue.** Gross revenue, including any platform fees passed thru to clients.
- 2) Owner's Compensation.** Total dollars paid to owners; W-2, guaranteed payments, *and* profits.
- 3) Clients.** Total client households being served.
- 4) Advisor Headcount.** Anyone who is responsible for managing relationships or delivering advice.
- 5) Staff Headcount.** Total Full-Time-Equivalents (FTEs) supporting the practice.

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MEASURING FIRM SIZE

How big is your advisory firm?

AUM

Revenue

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What is the revenue of your advisory practice?

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OWNER PROFITABILITY

It's not what you generate, it's what you keep...

	Traditional	Solo (EBOC)
Gross Revenue	100%	100%
Direct Expenses*	40%	0%
Overhead	30%	30%
Profits	30%	70%

*Direct Expenses: Advisors responsible for revenue, CIOs/portfolio managers, business development staff

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What is your EBOC (Earnings Before Owners Compensation)?

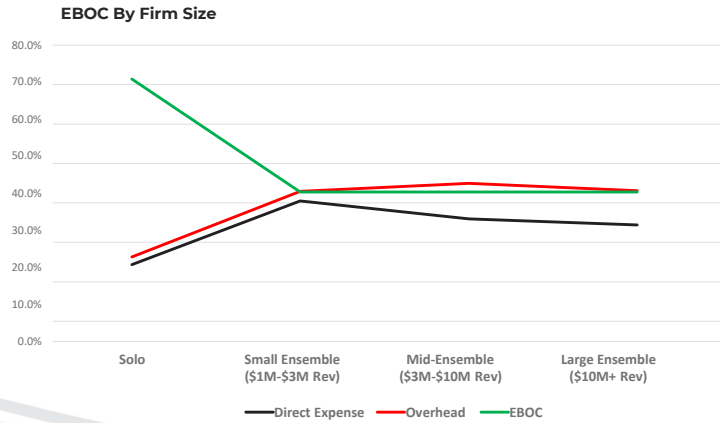
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OWNER PROFITABILITY

Scaling EBOC...



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ADVISORY FIRM PROFITABILITY

It's not what you generate, it's what you keep...

	Current	Solo (EBOC)	Solo (Adjusted)
Gross Revenue	100%	100%	100%
Direct Expenses	35%	0%	40%*
Overhead	40%	30%	30%
Profits	25%	70%	30%

*Solo Direct Expenses: What would it cost to hire an advisor to service (and attract?) clients as you do?

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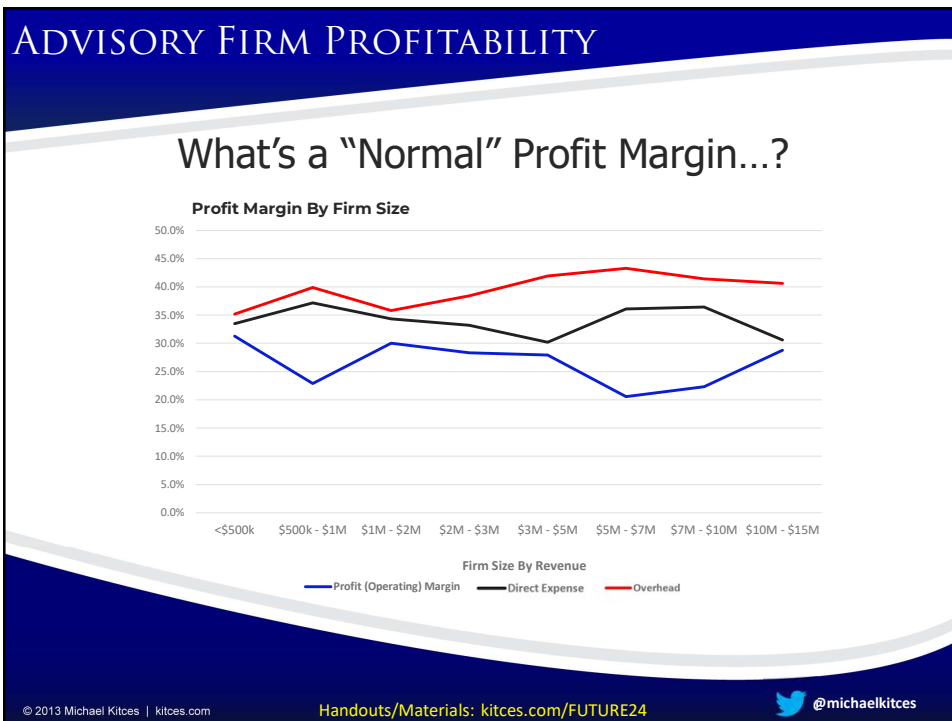
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What is your profit margin?

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ADVISORY FIRM PROFITABILITY

Profit Margin Takeaways...

- A "normal" margin depends on firm size & stage
 - There are standard inflection points (>\$500k, >\$5M)
- EBOC declines as the owner pays to replace themselves, and then flat as the firm grows from there
- Overhead expenses are "remarkably" stable (usually!) and don't scale much either...

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ADVISORY FIRM PROFITABILITY

Most Expenses Are Staff Expenses

	Current	Staff
Gross Revenue	100%	
Direct Expenses	35%	35%
Overhead	40%	20%
Profits	25%	

Total Staffing: 55%
Total Expenses: 75%

Staffing costs
as a percentage
of total costs:
 $55\% / 75\% = 73\%$

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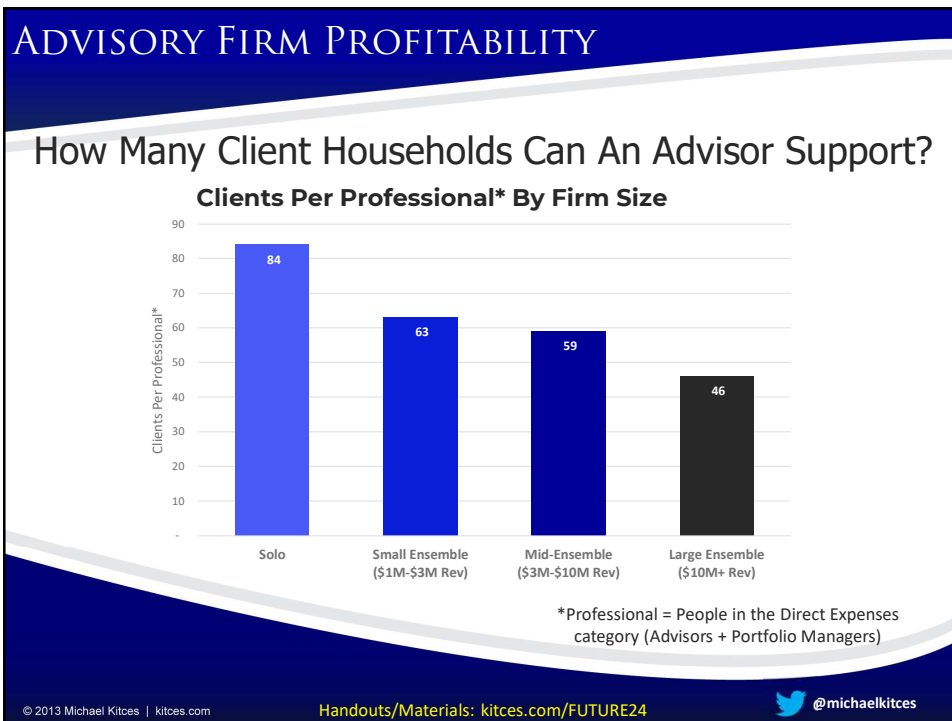
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What is the average number of client households per advisor at your firm?

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ADVISORY FIRM PROFITABILITY

Clients/Advisor Takeaways...

- Having tiers of advisors (Senior & Associate) is more cost-effective for servicing, but it still takes advisors to do the work!
- Advisory firms tend *not* to increase their client/advisor ratios even as they grow and gain resources... why?

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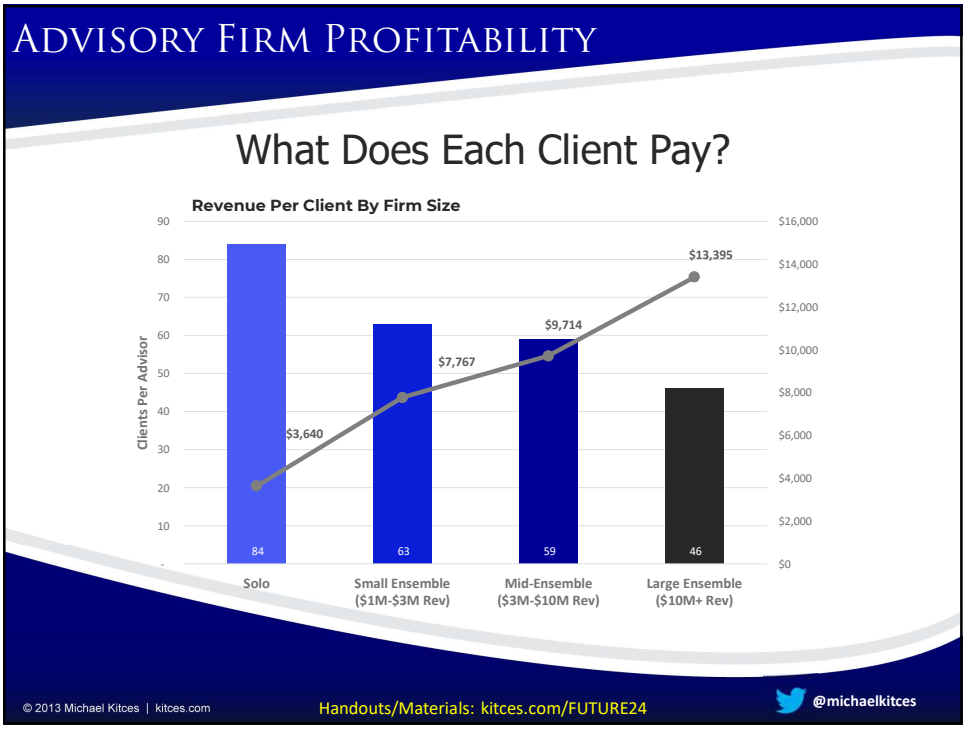
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What is the annual revenue per client at your firm?

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ADVISORY FIRM PROFITABILITY

Revenue/Client Takeaways...

- Advisory firms generally don't "scale up" with *more* clients, they lift their revenue/client by crafting an offering that attracts and retains *higher-fee* clients
- "Everyone" has problems w/ older/smaller clients as they grow
 - Charging <75% of your average rev/client **loses money** unless...
 - Service at lower cost (Associate advisors... who rotate?)
 - Provide less service (fewer hours... if you can help yourself?)
 - You overcharge a few big clients to subsidize all the rest?

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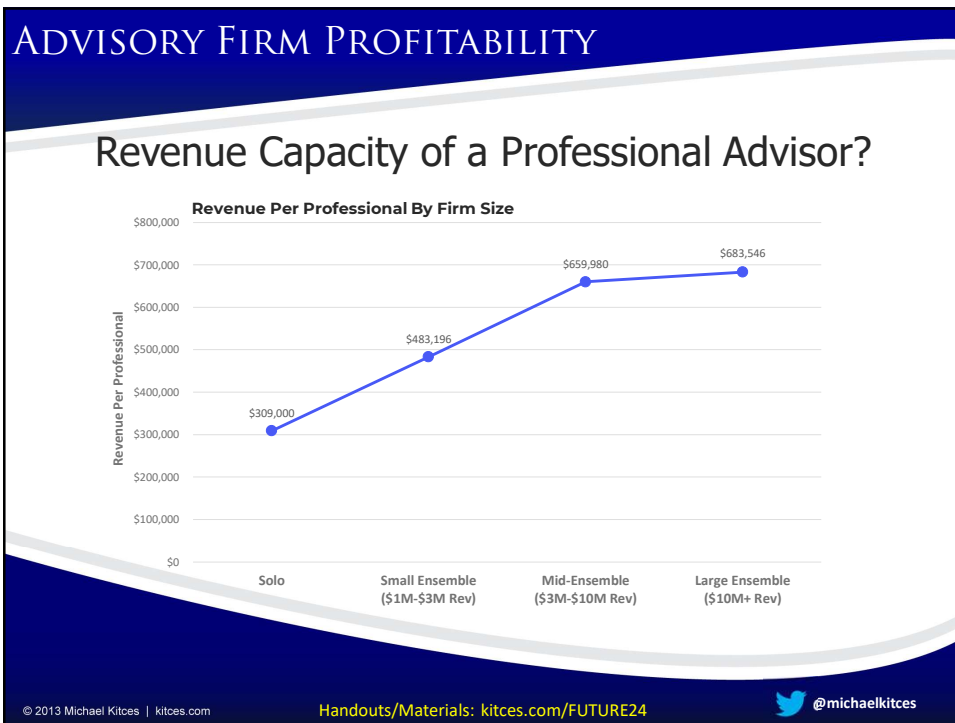
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What is the revenue per advisor at your firm?

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ADVISORY FIRM PROFITABILITY

Revenue/Professional Takeaways...

- The "Great Equalizer" of advisor productivity
 - 10 big clients, 80 medium clients, or 300 small clients?
- Ultimately an indicator of the advisor's hourly rate
 - Divide by $\sim 1,300$ (2/3rds of the working hours in a year) to approximate \$/hour
- Do your advisors really have a capacity problem, or a $< \$250/\text{hour}$ pricing problem?

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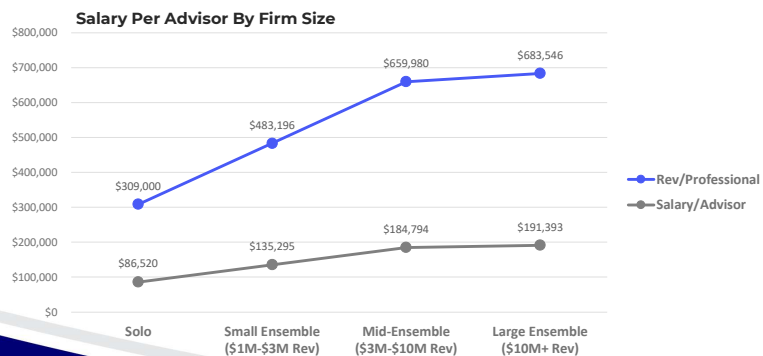
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ADVISORY FIRM PROFITABILITY

Revenue/Professional Takeaways...

- If Direct Expenses are 'only' 35% of Revenue... then Rev/Pro defines the 'maximum' salary the firm can afford to pay a service advisor at capacity!



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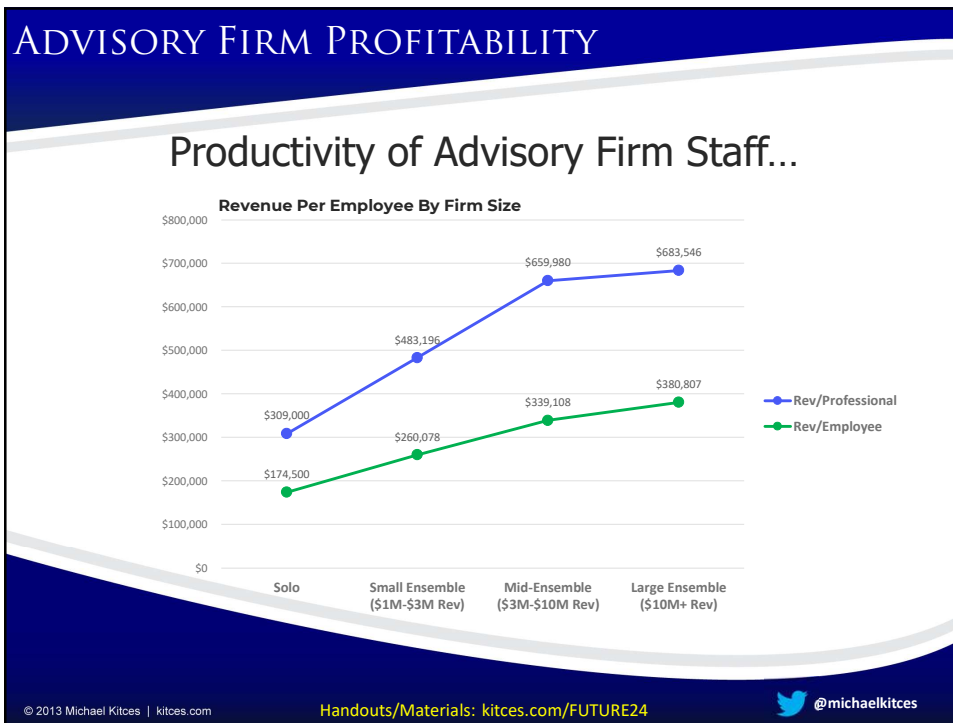
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What is the revenue per employee at your firm?

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ADVISORY FIRM PROFITABILITY

Revenue/Employee Takeaways...

- “Naturally” rises over time as systems & process are built, and roles become more specialized...
 - ...But also because higher-fee clients pay more for the entire offering (better support for higher \$/hour advisors trickles down?)
 - Thus why clients/staff also tends to *decline* as the firm grows!
- Provides a good hiring roadmap
 - Hire a new team member every \$X of revenue.
 - Hiring tends to alternate: 1 advisor, 1 support, 1 advisor, 1 support...

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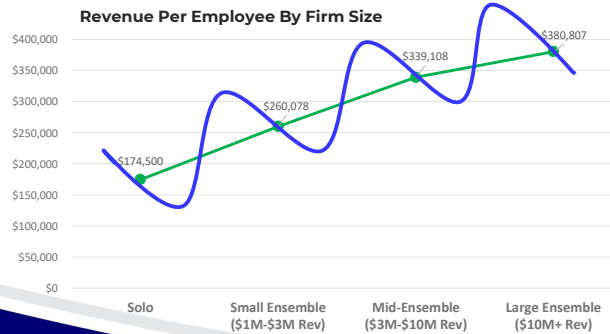
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ADVISORY FIRM PROFITABILITY

Revenue/Employee Takeaways...

- Are you under or over your revenue/employee benchmark?
 - Does it *feel* like you have that much (or little) capacity?
 - If not, is it service creep or pricing (or both)?



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ADVISORY FIRM PROFITABILITY

Your 6 KPIs of Business Health...

- 1) Revenue!
- 2) EBOC
- 3) Profit Margin*
- 4) Revenue/Client
- 5) Revenue/Advisor
- 6) Revenue/Employee

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QUESTIONS?

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