eMoney Summit
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Networking Lounge Q&A

Following his session yesterday, Oct. 22, Michael Kitces joined the Networking Lounge to answer questions from attendees. Please view the recap below, which includes answers he shared. Michael's answers solely represent his own opinions and do not necessarily reflect eMoney's views. Find handouts from his session here.

Q: Can you supply recommendations for the number of family households per lead advisor assuming the average revenue per client is about 10k?

MK: I'd work backwards from revenue per advisor goals. As good baseline is shooting for $600k of revenue per advisor... that leaves me room for healthy comp to the advisor, affordability of staff support/overhead, and can still earn a reasonable profit for the business. That would be 60 clients at $10k of revenue per. From there, I try to introduce more staff leverage. In our data, the median triangle team is doing $1.2M of revenue, which would be about 100 clients at $10k with lead + associate advisor and a support admin. Highly productive firms get higher. I've seen firms as high as 120-160 clients at this level with a triangle team, which is pushing towards $1.6M of revenue per.

Q: How do you account for business development roles in the triangle set up?

MK: You get three options here: 1) the triangle caps out at lower capacity because a portion of its time is being spent doing biz dev; 2) your biz dev leader at the top has a goal of creating clients for their associate advisor, spinning them off to a new triangle, backfilling with a new rising associate advisor, and they wash/rinse/repeat every X years (however many years of biz dev it takes for them to fill the next book); 3) you centralize business development (centralized marketing, centralized partners who do biz dev), and their job is simply to fill the books of service for advisors who receive a salary + bonus to service clients they didn't "hunt" themselves but got handed to service, and you simply hire up triangles as quickly as you can fill them with reasonable capacity.

Q: Where can we find more information on triangle teams?

MK: https://www.kitces.com/blog/advisor-productivity-triangle-teams-3-member-delegation-research-coordination-challenges/. You can see the full Productivity Research at https://www.kitces.com/kitces-report-how-financial-planners-actually-do-financial-planning/.

Q: With your calculation of minimum revenue per client, would you use your gross revenue number after the broker dealer haircut? Then by number of clients x 70%?

MK: I'd suggest using gross revenue (before the dealer's haircut). In the grand scheme, choosing to work with a particular broker-dealer that takes their haircut (vs another one that takes a different haircut, or an independent firm where you have to pay all that yourself) is still a cost of doing business. So, I'd start with true TOP-line (pre-haircut) revenue as a starting point. (You can refine further as you dig more into profitability, but that will give you a good baseline and likely a material segment of clients to work on for some immediate capacity improvement.)

Q: What recommendations do you have for an advisor that needs to right-size their P&L, taking a hard look at some of the expenses they've been accruing and writing off as they start to expand to more than a 1-man show?

MK: Two options I see most commonly here: 1) you take a "1 on, 2 off" approach. From now on, only accept clients who are above your average. Every time you add one, you remove two that are well below average and not able to be serviced as well. Your revenue will still steadily grow (because one above-average is usually still more revenue than 2 below-average), and your client base will slowly right-size over time. If you get a 'big' client, you can do 1-on-3-off. Alternative #2: You do a partial book sale, where you sell a segment of clients at once (to another advisor, to a home office platform if you have a platform that does so). Given that often our smallest clients are, literally, unprofitable or barely profitable, a partial book sale at a reasonable multiple can generate what would have actually been 10+ years of the barely-existent profits from those clients, in one lump sum, and then your capacity is immediately cleared. (And remember, your "C" clients are still some other [usually early-stage advisor's] A clients, so the transition can be very positive for clients as they'll be served by an advisor who is enthusiastic to serve them at that stage, while you earn the value for what you created. It's just in a single partial-book sale transaction instead of small annual profits over time.

Q: What happens when you have the ideal team, but associates want to become lead advisors?

MK: The reality is that most Associate Advisors are not going to stay Associates indefinitely. Often there are admin team members who are happy to stay admin for their career, but people who have chosen the Advisor career track more often have career aspirations to move up and eventually become a lead advisor (in your firm if they can, and outside your firm if there isn't a path to it). So what that means is: 1) your advisory teams will/should have some rotation of associates over time (from the firm's perspective, this is good - it's your pipeline of future talent development, who know/understand your firm and your model and your clients, and often more cost effective than hiring super-experienced super-expensive advisors from the outside); 2) if/when/as Associates are ready to move up, they spin off to their own (triangle) teams eventually. In the short term, your Triangle team might temporarily be a Diamond (you hire the new Associate to backfill before the soon-to-be-old Associate moves into a Lead role), but once the 'old' Associate gets critical mass of clients, they form their own team (which starts out as a dot, then with more client revenue becomes a 2-person line, and then with more-more revenue eventually becomes a 3-person triangle again). How you populate the new Associate Triangle with clients will be specific to the firm's growth strategy - sometimes it's centralized marketing populating them, sometimes they have to get their own clients, sometimes it's the senior advisor from the prior team who's hitting capacity and spins off a Triangle to free up their own capacity and backfills with a new Associate as they move upmarket to higher-dollar clients themselves.

Q: You talked about hiring support staff. How do you align this with the difficulty in hiring qualified staff we have in the current hiring environment? Also, you addressed gross revenue, can you elaborate on what you found net revenue to be if an single advisor were to hire two support staff? How does that differ between the other structures?

MK: Regarding staffing challenges, the key reflection here is "if we're going to be a growing and scaling Professional Services firm providing advice, we have to figure out how to make attracting and retaining talent a core competency." The talent is out there. The questions become: Are we remunerating the position properly? (can we afford to, per productivity metrics and levers to pull?); do we have a hiring process to identify the right people? does our firm and website have a compelling offering that shows them the career opportunity? (defined career tracks, path to upside if that's their goal, clearly defined mission and purpose that attracts them, etc.); do we have systems to onboard and train them to be effective? For most advisory firms, we're typically focused on how to service clients, which matters, but if we're trying to size up and scale a business, we have to build out the human capital capabilities of the firm (which is a learnable thing, but for most of us is a new skillset to learn).