

TURNING YOUR PRACTICE INTO A BUSINESS *CREATING PROFITABLE, MANAGEABLE & SUSTAINABLE ENTERPRISE VALUE*

AN aRIA CASE STUDY
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OVERVIEW:

We live in an age of instant gratification. Our news and information is simplified and condensed into digestible nuggets. We celebrate athletes who take shortcuts to success and tacitly encourage our kids to emulate them. Across the board, in all aspects of society, hard work and long-term planning seem to have taken a back seat to immediate rewards. And, unfortunately, the world of wealth management is no exception.

As advisors, we work incredibly hard on behalf of our clients. It's only natural that we should want to enjoy the fruits of our hard work. But for too many advisors, the focus is **entirely** on compensation – determining how much revenue can be converted into net income and extracted out of the business in a given year. Sadly, what we fail to realize is that by redirecting just a modest amount of energy and resources towards the creation of “*enterprise value*,” we could be establishing the foundation for a much larger payoff down the road.

The aim of this case study is to help you begin thinking about how to turn your practice into a business – to start viewing your firm as an asset NOW, rather than waiting until your ownership transition is clearly visible on the horizon. Because creating “enterprise value” is a process, not an event. And far too many advisors who operate “*lifestyle practices*” find themselves deeply disappointed that their firms don't have anywhere near the market value they expected.

If you want your practice to be the most valuable asset on your balance sheet, then you've got to start running it like a business.

CREATING ENTERPRISE
VALUE



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a process, not an event.

THE 3 DRIVERS OF ENTERPRISE VALUE

PROFITABILITY	Does the business have a long-term track record of consistent earnings?
MANAGEABILITY	Are there documented systems and processes in place?
SUSTAINABILITY	Can the business survive the departure of the founder/principal?

KEY TAKEAWAYS:

- 1 Your firm must be more than just you. If it's going to have real enterprise value, there has to be some type of infrastructure and a mechanism for knowledge-transfer.
- 2 Identify the unique thing(s) you contribute to your practice that nobody else can contribute at the same level, then offload everything else to others.
- 3 Select the individuals that you want to be part of the long-term future of your firm, and lock them in.

INTRODUCTION & EXECUTIVE SUMMARY:

Just recently, I spoke with an advisor who has spent the better part of the past two years battling significant recurring health issues, and by significant I'm talking about concerns that left the individual bedridden and uncertain whether or not he would ever be able to return to work. Over the course of our conversation, he sheepishly admitted that he still had not locked in any sort of succession plan.

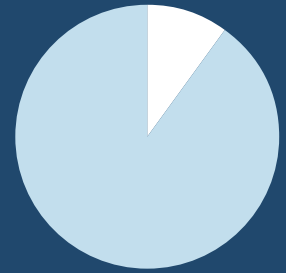
My questions to him were harsh, but born out of a genuine deep concern.

"Doesn't it seem incredibly irresponsible and hurtful to the people you most care about – your family, your clients and your staff – if two weeks from now you're lying in bed again but this time you DON'T get up? Is it fair to your family that the value you think you've created will never be realized? Is it fair to your clients that they will be left without adequate council? And is it fair to your staff that they will likely be out of a job?"

Enterprise value typically goes hand-in-hand with scalability. And to achieve that, you need to start building organizational depth. You alone cannot be the sole repository for your firm's intellectual capital, nor the principal point of contact for every client relationship.

You need to focus on the one or two specific aspects of your job that you truly excel at, whether it's asset management or rainmaking, and begin offloading all your other responsibilities. Yes, it's difficult

FOCUS VS. DELEGATION



■ WHAT TO FOCUS ON
■ WHAT TO DELEGATE

Ask yourself, what are you exceptional at that no one else can really do? Then start parsing off the other 90% of responsibilities that need to get done.

to let go. But it's the only way you're going to build talent in other individuals and other areas of your firm – talent that not only will contribute to your enterprise value, but will also set the stage for continued growth. In fact, more often than not you'll find out something very interesting once you begin to divest yourself of responsibilities. Other people within your organization can actually perform those tasks better than you!

If your advisor/client relationships are still built on a one-to-one model rather than a collaborative team delivery model, change them. While these types of highly-personal relationships may provide some client retention benefits, they come with a very heavy potential cost:

- As a single advisor, you simply can't emulate the specialized expertise (e.g., estate planning, tax planning, asset management, insurance) that a team approach affords
- Clients come to perceive no real value in the firm beyond you
- As the sole provider of advice, you assume a far greater amount of professional liability
- In the event of your unexpected departure, the ability of the firm to retain your clients will be negligible

More effectively managing your firm's human capital, however, is only one side of the enterprise value equation. The other essential element is your ability to systematize your organizational processes and procedures to ensure a standardized, repeatable client experience regardless of who within your firm is delivering services. This not only leads to better, less volatile relationships, but positions the business for profitability by providing greater leverage that can be translated into growth. It's in this area – helping advisors create the internal structures that will empower their businesses to continue on for years to come – that Stratos Wealth Partners has become exceedingly adept.

SHIFT TOWARDS THE TEAM



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FIRM OVERVIEW:

At Stratos, we provide advisors and their clients with a distinctly different wealth management experience. One that effectively elevates all aspects of the financial and investment management experience for clients seeking more personalized concierge level service and innovative thought leadership. As a Registered Investment Advisor, Stratos provides access to a wide range of financial products and strategies available in the marketplace today without the restrictions and conflicts of interests commonly found in most large brokerage firms and investment banks. We empower advisors with the infrastructure, resources and support that affords them the freedom to focus on what they do best—advising their clients. By eliminating some of the day to day tasks, our advisors are redirecting their energy towards meaningful growth strategies. Today, Stratos has more than 20 practice acquisition opportunities in its pipeline approaching closure with more on the horizon.

Today, we have a national network of distinguished, experienced financial advisors and financial planning practitioners spread throughout the country, with securities offered through LPL Financial, Member FINRA/SIPC.

CHALLENGE:

Several years ago, the principal of a large and by most standards highly successful advisory practice came to us for help. To say that it's unusual for an advisor who's generating well in excess of a million dollars in annual revenue from more than \$200MM in AUM to be concerned about his business, would be an understatement. But that was precisely the impetus that motivated this advisor to contact us.

While he had been phenomenally successful in building the business over a ten year period, he had reached a point of maximum personal capacity, and after a great deal of personal reflection realized that he had reached a fork in the road. He could continue traveling down the current path of running his lifestyle practice, generating a comfortable living from his revenues but knowing that the business had for all intents and purposes reached its capacity for growth and would likely cease to exist upon his retirement. Or, he could completely re-engineer the firm to become a scalable, process-driven entity that's no longer exclusively dependent on his intellectual capital.

“We empower advisors with the infrastructure, resources and support that affords them the freedom to focus on what they do best—advising their clients. And that, in turn, allows their clients to focus more time and energy on their own passions in life.”

The former course would have been easy, providing the financial means to live a more than comfortable lifestyle, in addition to feeding his ego by remaining the indispensable cog that drives the entire engine. But it wasn't comfort and ego that had built a successful practice. It was his passionate belief in doing right by his clients and in going the extra mile on their behalf. The prospect of walking away one day, whether by choice or by necessity, and leaving his clients to fend for themselves, was simply untenable. He wanted not only to be able to continue growing the business, but to ensure that it would flourish without missing a beat when the time came for him to exit.

Growth would require both quantitative changes (e.g., more staff, more clients) and also qualitative changes, including a decentralization of management, a process for the development of future leaders and the concerted delegation of functional responsibilities, and the systemization of organizational structures and processes. He had several strong Client Service/Relationship Management people, one or more of whom could be potential successors. But the majority of the firm's financial planning and asset management expertise still remained locked away inside his head.

SOLUTION:

The first thing this advisor did was to undertake an honest and careful assessment to separate those things that nobody else could do for the practice from those tasks that others could do just as well, and in some cases even better, as he could do himself. The former became his sole focus moving forward, while the latter were earmarked for immediate delegation.

Stratos was also able to take on a number of back office and operational responsibilities that the advisor was previously saddled with including compliance and technology platform management. We helped the advisor conduct a thorough segmentation analysis of their clients, determining their maximum relationship capacity, in order to take them down well below that level so that new A-level clients could be onboarded. B-level and C-level clients are moved downstream to junior relationship managers, who will treat the B and C clients like an A-level client.

In order to both retain and incentivize key existing employees, the advisor implemented a well-thought out program that ensures an

opportunity for those individuals to have “skin in the game” if they so desired. An arrangement was made with one critical employee to gradually transfer an equity stake in the firm over time. Additionally, a handful of other key employees who expressed an interest in ownership have begun to set aside a portion of their bonus payments so that there will be a pool of liquidity built up down the road when the owner intends to execute his succession plan.

RESULTS:

What this advisor has accomplished in a few short years is nothing short of the pinnacle of building enterprise value. Today, he’s out there doing what he loves most – preaching the firm’s story and bringing in new clients. As new clients are onboarded, they’re transitioned to a client team consisting of a Relationship Manager, a Financial Planner and a Client Services Representative, all supported by a centralized asset management team overseeing only 4 core portfolio models. The principal now has minimal day-to-day involvement with clients.

As the principal of this firm, he’s essentially created an organization that could, and eventually will, quite easily exist without him. He’s effectively transferred most of the responsibilities of day-to-day operations: asset management, relationship management, financial and estate planning, and compliance to a team of specialists. And in so doing, has evolved what was once an individual practice into a scalable business generating nearly twice the annual revenue as before, poised for continued growth, and with substantial enterprise value.

Yet even on a much smaller scale, many of the elements that make up a process-driven advisory model can be emulated and replicated by even a \$50MM AUM practice through the simple evolutionary transfer of some advisory relationships and the decentralization of intellectual capital within the firm.

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CONCLUSION:

If you want to have a business that's actually going to have value, you have to identify the one or two things that you are contributing that nobody else can do as well, and then figure out how to delegate EVERYTHING else. Not only will it free you up to spend more time doing what you truly enjoy doing, it will allow you to become even more productive and happier in your day-to-day work.

BEST PRACTICES:

- **Treat it like a business** – there should be a bottom-line and a profit. You can't pay yourself all the compensation like you would with a lifestyle practice. You'll still get your money, but part of it needs to be in the form of a profit distribution.
- **Make sure key employees are retained** – anyone interested in buying your practice will want to be certain that firm employees are locked-in and committed to ensuring that the client experience can be continued.
- **Strive to create repeatable systems and processes** – it will help to ensure the continuation of high-quality client service, and improve manageability for as much of your operation as possible.

BUILD VALUE BY DELEGATING

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ABOUT STRATOS WEALTH PARTNERS:

Stratos Wealth Partners is a full-service wealth and financial services firm headquartered in Solon, Ohio, with 170 wealth advisors nationwide. Stratos Wealth Partners is 100% advisor owned which means everyone has a stake, and everyone has the opportunity to earn Partner status. Decisions are made collaboratively by all Partners, stakeholders and employees.

Clients of Stratos Wealth Partners benefit from their planning based culture that provides for a customized investment experience for each and every client and ensures that their needs always come first. While many firms say they put clients' needs first, Stratos Wealth Partners actually does so.

To learn more about Stratos Wealth Partners, visit www.stratoswealthpartners.com.

ABOUT aRIA

aRIA, the alliance for RIAs, is a think tank study group composed of six elite RIA firms that collectively manage more than \$20 billion in client assets, and Advisor Growth Strategies, a leading consulting firm serving the wealth management industry. The group offers insight for advisors considering ways to enhance their firms' enterprise value.

Members include Brent Brodeski, CEO of Savant Capital; John Burns, Principal at Exencial Wealth Advisors; Ron Carson, CEO of Carson Wealth Management Group; Jeff Concepcion, CEO of Stratos Wealth Partners; Matt Cooper, President of Beacon Pointe Advisors; Neal Simon, CEO of Highline Wealth Management; and John Furey, Principal of Advisor Growth Strategies, LLC. The group meets regularly, releasing thought leadership pieces of interest to both independent and wirehouse advisors interested in exploring long-term growth strategies.