

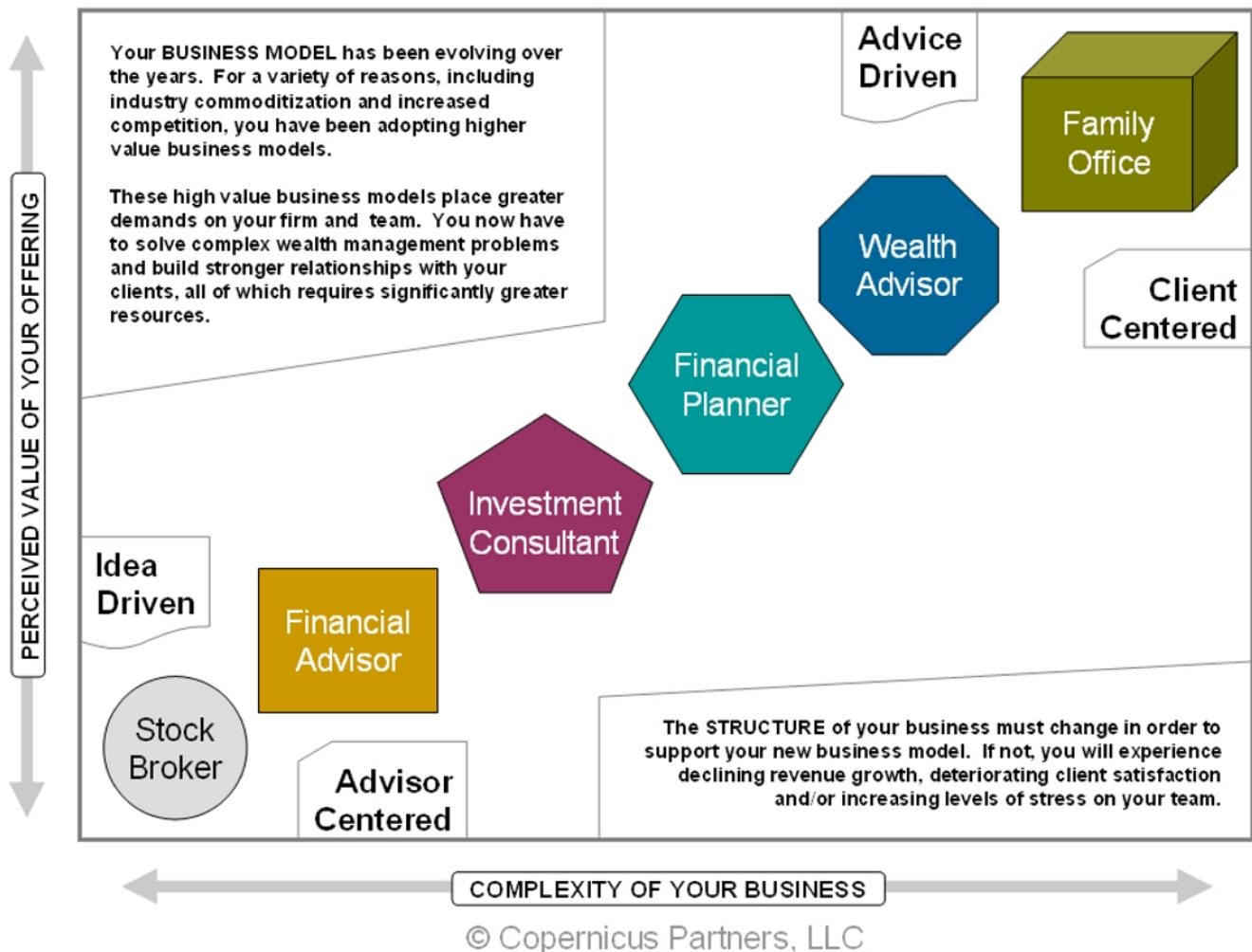
Evolution of the Advisor Business Model

By Stephen A. Saenz

Only the strong survive...

Most advisors today are in the process of evolving toward some form of wealth management consulting. Helping advisors evolve has been the primary focus of my coaching and consulting practice for several years now. This “evolution” and especially the implications it has on practice structure¹ will be the subject of my next paper, but I want to make several points now that are relevant to this discussion. The diagram below provides some context we can use to evaluate where wealth management fits in with the other terms advisors use to describe what they do.

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See next page for an explanation of this chart...

¹ Structure refers to things like the number of clients you have, what you do for your clients, size and make-up of your team, and strategic partnerships you establish with internal and external advisors. This will be the subject of my next paper, which will be out sometime this fall.

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Points to consider...

- ❑ People use these terms very loosely and interchangeably. The term “financial consultant,” for example, is used by many organizations today. Ask ten people (inside or outside the financial services industry) what a financial consultant does and you will get at least ten different answers!
- ❑ This, in turn, poses a significant marketing challenge for investment professionals everywhere. The typical investor has no idea what distinguishes a financial consultant from a financial planner. They don’t have a clue that a financial advisor at one firm may be vastly different from a financial advisor at another firm. What kind of dispersion do you think you would find (in the quality of advice and service) if you interviewed 100 different advisors, even if they all worked for the same firm?
- ❑ The proper structure for your business depends on the model you are trying to build. It also depends (to a large extent) on the number of client relationships you are trying to manage.
- ❑ The resources required (people, time, knowledge, skills, technology, etc.) to run a process-driven, advice business effectively are far greater than a transaction-driven, idea business.
- ❑ Most advisors have been evolving (adapting) along this “food chain” for years. The problem is they have been trying to do it with old (outdated) structures. As your business evolves, your structure must change in order to support the demands of the new, more complex business models.
- ❑ Most organizations today are asking their advisors to evolve up the food chain, but are not providing them with the necessary tools or infrastructure to build the more complex business models. This is not an indictment of the industry. It is simply a by-product of trying to manage a major firm (with a lot of moving parts) in a fast-changing, increasingly commoditized world!
- ❑ Commoditization is moving up the food chain. In order to thrive, you will have to stay one step ahead of your competition!

Let’s have some definitions...

At the risk of raising some eyebrows, I will try to define the various terms used in my Evolution of the Investment Advisor Business Model. Please keep in mind that the criteria and comments below are based on one man’s opinion. As stated above, I hope this paper will spark a healthy dialogue within our industry. The ideal outcome would be that, as an industry, we figure out a way to standardize the various definitions we use every day to describe what advisors do for a living (if for no other reason than to help our clients and prospective clients make some sense of it all).

See next page for business model definitions...

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Business Model / Target Client Size ²	Brief description of what they do for a living...	Additional Comments ³
Stockbroker or Bond broker \$10M to \$1MM+	<ul style="list-style-type: none"> Position build; find something you believe in; sell it to as many people as possible. Drop tickets; you're only as good as your last idea; how am I going to make my month this month??? Often have customers instead of clients and are usually one of several brokers. 	<ul style="list-style-type: none"> Good ones know more about picking stocks than most analysts; they have a real feel for the markets; this is a rapidly dying breed, but they are worth their weight in gold! Unfortunately, most are lousy at picking stocks and have a reputation for being obnoxious salespeople. Rarely work with the client's serious money. "Throw me a bone mentality" is a self-fulfilling prophecy!
Financial Advisor or Consultant \$10M to \$1MM+	<ul style="list-style-type: none"> Job description varies from unadulterated product pusher to someone who acts as a true consultant. The good ones help their clients develop long-term plans and strategies to achieve their unique goals and objectives. 	<ul style="list-style-type: none"> The original catch-all job title. It's so generic it's confusing. Maybe that's why it's so widely used in the F/S industry. It's safe! My former firm went with the term "Financial Consultant" in 1985 (replacing "Account Executive") shortly after I got in the business. Two years later, I had my insurance and real estate licenses and was sitting in focus groups in NYC on financial planning.
RIA or Money Manager \$100M to \$100MM+	<ul style="list-style-type: none"> Manage portfolios for a fee; may use individual securities, funds or combo. Larger firms do their own research; smaller ones usually buy it or wing it. 	<ul style="list-style-type: none"> In recent years, many financial planners have become RIAs in an effort to cash in on the lucrative "asset management" business. This has created two distinct "species" of money managers – the pros and the amateurs (institutional vs. retail).
Investment Management Consultant \$100M to \$100MM+	<ul style="list-style-type: none"> Use the investment management consulting process: investment policy, asset allocation, manager search, and performance measurement. Emphasize modern portfolio theory to construct "efficient" portfolios. 	<ul style="list-style-type: none"> In recent years, many financial advisors/consultants have adopted this model due to the advent of "wrap programs." This has created two distinct "species" of consultants – the ones who know what they're doing (i.e., act as true consultants to their clients) and the ones who basically act as marketing reps for a few of their favorite money managers (many more of the latter).
Financial Planner \$25M to \$5MM+	<ul style="list-style-type: none"> Use a planning process to develop a roadmap for client's financial needs including: budget, college, debt, estate, insurance, investments, retirement. Primary goal is to create wealth. 	<ul style="list-style-type: none"> The original planner was fee-based and "product neutral." Technology has lowered the price (per pound) of financial plans, resulting in a shift (stampede) toward "asset management." Ironically, financial consultants are moving toward the financial planning model. The plot thickens and the waters get muddier!
Wealth Management Consultant \$5MM to \$100MM+	<ul style="list-style-type: none"> Address all areas that affect an individual's (or family's) wealth, including asset accumulation, protection, preservation, distribution and debt mgmt. Primary goal shifts to "create and protect," with an emphasis on protect. Tends to work more closely with internal or external advisors than other models. 	<ul style="list-style-type: none"> Replace dollar-cost averaging with cashless stock option financing and you basically have the difference between financial planning and wealth management consulting (sort of). Problems are generally more complex than those addressed by investment management consultants and financial planners Some call it a "holistic" approach to working with clients; terms like "life planning" and "values-based planning" often creep into the conversation.
Family Office \$100MM to \$1B+	<ul style="list-style-type: none"> Provide all wealth management services plus may offer "concierge" type services such as record keeping, travel planning, domestic care, etc. Primary goals shift to protecting assets and creating a legacy; issues like family stewardship and governance are often addressed. 	<ul style="list-style-type: none"> If you replace stock collars with dog collars (i.e., you take care of the pets while the client is on vacation) you basically have the difference between a wealth management consultancy and a family office (just kidding). Family members' assets are usually transferred into a separate and private entity (the family office), which is managed by one or more individuals. These include accountants, attorneys, chief financial officers, investment management consultants, etc.

² Target Client Size figures are intended to be general guidelines only (actual results may vary)

³ This column contains some tongue & cheek comments which were intended to lighten up an otherwise weighty topic