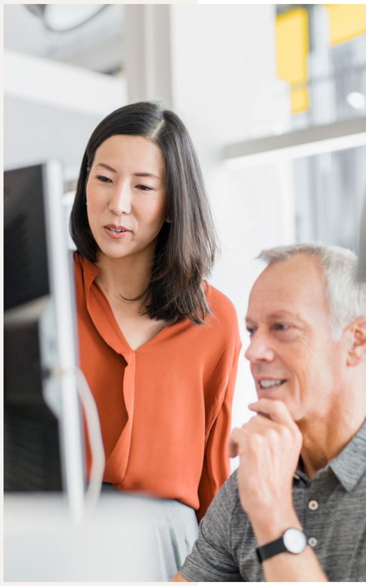
Commonwealth

Is It Time to Pivot?

Identifying Inflection Points in Your Business

Do you run a solo practice but need greater scale to avoid hitting the growth ceiling? A multiadvisor co-op that wants to evolve into an integrated ensemble? Or maybe a growing firm trying to build a large-scale enterprise with a dominant market share?



If you find yourself at any of these critical junctures in your financial advisory career, it's likely you'll need to pivot by teaming up with others and hiring just the right talent to propel your business.

From Solo to Lead Firm

If you run a solo practice, the good news is that you can operate in a flexible manner, often with a lean infrastructure. However, when the size of your practice becomes unmanageable, you may not have the time needed to devote to growing your business.

Inflection Points

- **Overextension:** You can end up managing too many client relationships.
- **Lack of time:** You need sufficient time to proactively manage your clients' wealth or focus on marketing.
- **Reactivity:** You don't have time to proactively reach out to clients and focus solely on reacting to needs and issues.

Pivot Action

If the size of your solo practice has become unmanageable, hiring a nonproducing service advisor could be an ideal pivot. This will allow you to spend more time on your A and B clients and strategic priorities—and have someone else manage other client relationships and tasks.

Adding an associate can increase revenue by:* **76%**

From Co–Op to Integrated Ensemble

In a co-op, multiple advisors share resources, such as rent and staff, but manage their books individually. But when ownership and compensation are based on siloed practices, there's no financial incentive to grow the firm. And, from a succession standpoint, each advisor could decide to sell outside the firm, putting its long-term legacy at risk.

Inflection Points

- **Disconnection:** Advisors and staff may be more concerned with building their own practices than with the collective business, leaving clients with different experiences depending on which advisor they work with.
- **Inequality:** Skill sets may be redundant; similarly, responsibilities, expenses, and profits can be unequal.

Pivot Action

Consider evolving into an integrated ensemble. By giving up individual preferences to adopt a firm-focused way of doing business, you can achieve greater scale and profitability by having core functions processed in a centralized and consistent manner—and having owners tied to the financial success of the firm rather than to siloed books.

Multiadvisor firms generate about the same average revenue per advisor as solo and lead firms, reflecting the challenge of building scale without a unified approach.*

$576,528

VS

$582,480

From Multiadvisor Firm to Large-Scale Enterprise

Many firms have sought to grow more aggressively and build large-scale organizations that can sidestep industry threats and build a dominant presence.

Inflection Points

- **Differing focuses**: Your partners show a persistent desire for growth, but the daily management of people and activities diverts attention from goals.
- **Resource efficiency:** At least three advisors are in support, service, and associate positions.
- **Fuzzy path:** There's no clear financial structure for how to approach acquisitions—either of firms or new advisors.

Pivot Action

At this stage, your focus is naturally on building a growth engine that'll help you achieve your desired scale. You can grow organically or through acquisitions. You can recruit established or next-gen advisors—or you can acquire strategic partners to add business lines or market share with niche client segments.

Carefully consider your profit-and-loss statement and ownership structure. Building financial competencies enables ownership to evaluate deal profitability, model scenarios, and structure deals to maximize upside while limiting risk. As you grow, consider adding C-suite positions such as a CFO, CIO, COO, and even CEO.

Producing advisors in the largest multiadvisor firms see higher average gross revenue per advisor compared with smaller multiadvisor firms.*

Pivot on the Path of Success

Inflection points vary based on the model and may be influenced by the size and growth rate of your firm, as well as the objective of leadership. No matter where you choose to pivot, carefully examine and create your brand strategy. This is a strategic investment, easily worth the cost of hiring creative talent.

Whatever your model and however you see your firm growing, identifying whether you're nearing an inflection point will help you pivot in the right direction to continue your path of success.

The good news is that you don't need to go it alone. Commonwealth is ready to be your strategic partner, to help you create a growth plan, and elevate your practice to the next level.

Ready to learn more? Connect with us today.

* Data referenced in the figures above is through December 31, 2019, and is sourced internally by Commonwealth. All firms analyzed for the data are affiliated with Commonwealth. Solo firms are those with one registered advisor. Leverage firms include firms with one advisor earning at least $200,000 in gross revenue, plus additional registered advisors earning less than $200,000 in gross revenue. Multiadvisor firms are those with two or more advisors who have $200,000 or more in gross revenue.