How Financial Advisers Can Drive More Value into Their Practices

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The increasing cost and complexity needed to operate as a financial adviser in today's environment is creating a market ripe for mergers and acquisitions.

As costs are climbing and there are greater pressures on fees, margins are being compressed. Advisers need to do more to demonstrate their value to clients and also need scale to operate cost effectively. What it all amounts to is the need for advisers to grow and evolve — or become obsolete. That's a real concern for any adviser operating today. Then consider the average business owner is 56. It's fair to assume some advisers will exit the industry given the challenges to adapt to the current environment and the increased consolidation of advisory firms.

The last year was a strong indication of this trend at LPL. In 2016, the firm's strategic business solutions team — which offers valuation and matchmaking services as well as capital and succession planning support — experienced a nearly 40% increase in the number of closed deals over the prior year. In addition, the firm's pipeline of active deals nearly doubled from 2015 to 2016. The increase is not unique to LPL. Echelon Partners tracked a record high number of RIA deals in 2016, a 10% increase from 2015, which had been the record high.

In an industry that is ever-evolving, all advisers should be asking themselves on an annual basis: Am I operating the most efficiently and effectively? How am I evolving to meet industry and client demands? Which will address the most important question: Am I maximizing the value of my business?

Being focused on maximizing a business' value can position an adviser well for a near-term sale or merger and protect loved ones against unforeseeable circumstances by shoring up your personal assets. It also ensures an adviser has the most optimal service offering available to position the business for current and continued success.

The aspects of an adviser's business that create the most value are directly influenced by the current industry climate and its future direction, as well as the evolving needs of aging and emerging investors. In today's climate, regulatory changes, demographic shifts and consolidation are influencing many value drivers. Here are three areas to evaluate to be able to maximize a business' value.

CREATE A SUSTAINABLE REVENUE STREAM

As the industry continues to shift from commission- to fee-based business, it's more important than ever for advisers to have access to the product selection, platforms, resources and technologies that enable them to best serve their clients' needs and operate cost efficiently. That includes access to asset allocation models that are based on objective research and retain choice for advisers and investors. In addition, having consulting resources to support the transition of an adviser's business, as well as the efforts to tell the fee-based story to clients, can create better outcomes. And having access to the technology and infrastructure that can seamlessly convert investments between brokerage and advisory platforms and provide consistent reporting to clients will streamline an operation and add value to clients' and the business' bottom line. Ultimately, the effort of developing a sustainable revenue and earnings base will be rewarded nearly twice as much versus non-recurring revenue sources.

DEEPEN ENGAGEMENT WITH CLIENTS

Gathering new assets doesn't only mean gaining new clients. It can also be deepening the share of wallet with existing clients. The move from operating a product-based business model to a needs-based model can help advisers deepen their value proposition to clients. By taking a financial planning approach to client service, advisers have the opportunity to offer additional strategies to help clients reach their goals. Deeper relationships create more opportunities to monetize the relationship. And with increased goodwill, the outcome is client stickiness. When a firm can service more client needs, the transition risk is reduced, and that improves business value.

ENHANCE CLIENT LIFETIME VALUE

An adviser's current client base represents its future potential earnings — and that has a tremendous impact on its value. Deepening relationships with existing clients increases retention and the lifetime value of that client. In addition, finding ways to broaden the age range of your client demographic can have big returns. Studies show that firms with younger client bases and an equal concentration of wealth across their client base are valued more by potential advisers than ones with older demographics or concentrated wealth. Staying focused on the makeup of your client base and the ability to serve their needs in the present and the future will ensure you are building a sustainable — and valuable — book of business.