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Alliance for Registered Investment Advisors

Creating value and certainty within your independent advisory firm

Part IV: Realizing your ideal model

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Introduction

One of the reasons aRIA was founded is to provide advisors with a point of view on how to build a sustainable business from an advisor's perspective. The first three aRIA reports focused on the key elements of building a valuable and transferable advisory firm. Topics included:

- Providing a point of view on future market dynamics
- How to build a scalable firm versus running an "annuity" type practice
- The drivers of business value and how to maximize the value of your firm
- Affiliation models available in the industry

This final installment of the white paper series is intended to provide practical implementation ideas for advisors. Best-managed advisory firms are constantly innovating, revising their business plans and seeking to drive the next iteration of growth. What is different for advisory firms now is the pace of change is so fast that standing still is not an option – advisors may simply be lapped by the field!

To illustrate this, our group met at the *Barron's* Top Advisor conference in the spring of 2013 to have our biannual study group meeting. In addition, we hosted a panel at the *Barron's* conference to discuss best practices and collaborate with elite advisors in our industry. One advisor asked, "How do I best position my firm to attract additional advisors to join?" The panel's answer included a description of the material investments aRIA firms have been putting into their businesses, including Highline hiring a dedicated business development officer to attract new advisors, Carson Wealth Management's "CIA" technology platform and Stratos' investment in middle office technology and services.

So did that curious advisor ask the right question? Perhaps. However, advisors should first consider what they are trying to solve in terms of business structure, growth, profitability, client experience and brand, and then seek to go out to the market for the best viable solution. For the same reason advisors leaving the wirehouse seek independent channels as a better alternative, advisors within independent channels should take the opportunity to consider other models that could provide a future. This paper will delve into what it takes to build and construct a strategy for recruiting advisors and then focus on how to evaluate other options available to advisors versus the status quo.

We hope you gain value from our latest report. Although this is the final chapter of our four-part series, it is simply the first iteration of thought leadership. In the future, we will continue to share best practices, but in more dynamic and unique formats . . . stay tuned! As always, we welcome your questions, comments and friendly debate.

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Is deploying a non-organic growth strategy achievable for your firm?

> "Growth for growth's sake is the ideology of the cancer cell."
>
> Edward Abby

Over the past year, aRIA has been fortunate enough to work with asset custodians, broker dealers and industry groups to share our best practices with advisors. Our panel topic focused on building scale and maximizing firm value, but inevitably we get questions on how to recruit advisors or develop an advisor M&A strategy.

Growth for growth's sake?

When Matt Cooper is on a panel, he always asks the audience, "How many of you are looking to join a firm?" Out of hundreds of advisors, we usually see 4-5 with their hands up. Then he asks, "How many of you are looking to add an advisor with a book of business to your firm?" Inevitability, half the room raises their hands! You can see what is wrong with this picture:

- There is an imbalance between buyers and sellers in the independent advisor space
- Most advisors are opportunistic about growing in a non-organic fashion
- Few advisory firms have the capability, scale or experience to play in a highly competitive field

aRIA feels many advisors could be positioned to deploy a non-organic growth strategy, but the question advisory firm owners should ask themselves is: *Are we willing to put in the necessary investment to make our firm the most attractive option to an advisor in a highly competitive environment?* So what do we mean by investment? Read on.

Types of non-organic growth

Advisors seeking to scale their firm and grow their top-line revenue have options outside organic growth. Before you consider pursuing such a strategy, you should ask what you are solving for to begin with. Is it to build a new capability? Grow revenue for revenue's sake? Enhance the client experience? Grow cash flow? Provide opportunity for employees?

Deploying a non-organic growth strategy is akin to starting your independent entity. It requires dedicated focus, as driving success is akin to starting a new line of business. Lack of dedicated focus (e.g., being opportunistic) will usually deliver an outcome of limited results. Here are a few of the non-organic growth strategies most advisory firms consider:

1. **Mergers and acquisitions.** The purchase, sale or business combination between two existing independent advisory entities. Transactions usually come about to address a strategic opportunity – e.g., build a capability, generate scale, solve for business continuity, etc.

2. **Recruiting financial advisors.** Advisory firms seek to add advisors to leverage off their firm/platform. The affiliation models include a contractor model, employee model, outsourced model and a transaction to buy, sell or combine a practice. Usually the advisor joining a firm is seeking the benefits of independence without having the responsibility of business management. Many advisory firms across the country are seeking to recruit advisors from wirehouses or "tuck in" smaller, existing independent advisors.

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3. **Launching a complementary business line.**
Advisory firms may choose to leverage an existing competency to distribute a product/service or build a new capability for the benefit of clients. This could include launching a sub-advisory business; adding an insurance, tax planning or estate capability; or offering the firm's investment/support platform as a service bureau.

The competition for top talent

The fact that there is a shortage of advisors in the independent channels has been well covered by industry reports and pundits. Conceptually, how can independent firms grow effectively when the competition for talent is so fierce? Firms seeking to bring on advisors who are experienced and have a book of business must keep in mind that advisors have choices and are most likely in the driver's seat in terms of deciding to join a firm or not.

If you are seeking to recruit an advisor, your firm needs to ask itself, "Why would an advisor or financial professional join my firm versus all other alternatives available to them?" If you can't answer this question with a sharp, well-articulated message, you probably should not be in the non-organic growth game!

Brent Brodeski of Savant Capital notes, "Savant's platform for advisors is all about providing them with a platform where advisors can focus on what they love doing and shed the rest. The premise is we provide scale so advisors can take on three times the business (versus going it alone) and deliver two times the value given our deep bench of professionals that support the advisor, freeing up the advisor to do what they love doing: sales, client relationship management and being a trusted advisor."

As mentioned in case studies from earlier reports, each aRIA member firm has a well-defined value proposition and ideal advisor candidate to join. The ability to invest in their platform (as in the Exencial case study in this paper) increases the probability of non-organic growth success dramatically. In fact, every aRIA member firm has multiple examples of success with non-organic growth. **To be able to attract the right talent in the future, advisory firms must be able to deliver a platform for growth, a friendly culture to thrive in and a growth-oriented plan to reward success as a professional.**

> "You have to work hard to get your thinking clean to make it simple."
>
> Steve Jobs

Playing the recruiting or acquisition game: What it really takes

Creating a strategy for non-organic growth is very straightforward in concept. What aRIA frequently hears is, "I want to take advantage of the opportunity of all the advisors making a move from the wirehouse" or "I want to tuck in small independent shops that need a succession plan." Seems like it makes sense; after all, everybody in the wealth management business knows a wirehouse broker or a smaller advisory firm that is struggling to reach a higher level of success. Here is a list of some of the practical realities of what is really takes to recruit.

1. **Advisory firms need to kiss a lot of frogs!**
The non-organic game is a numbers game. For advisory firms that want to

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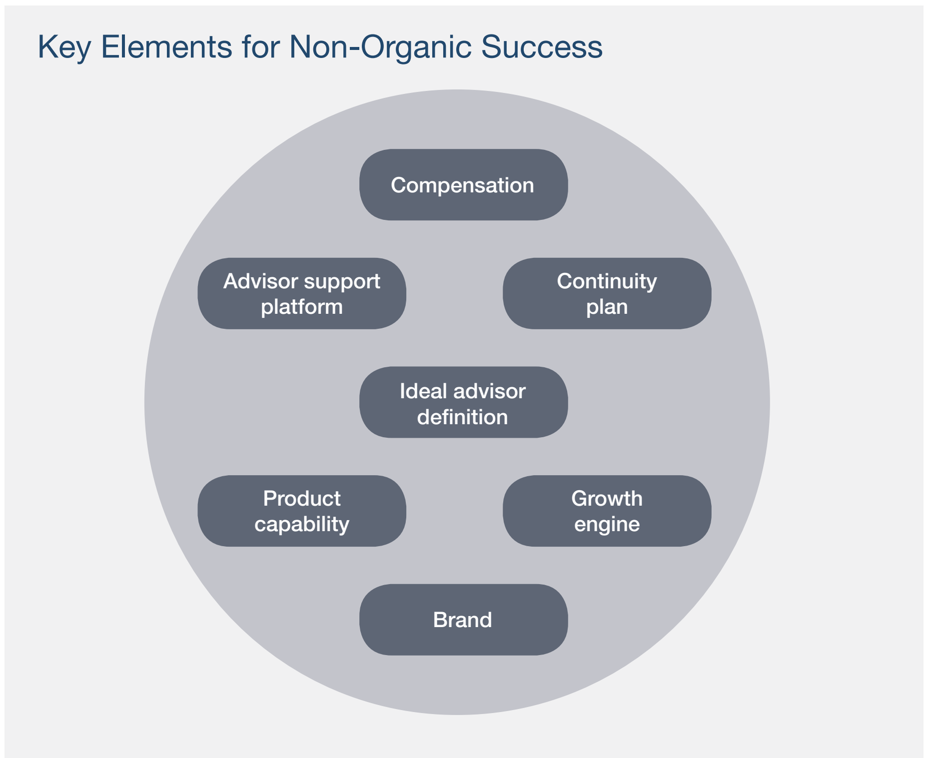

Figure 1

recruit advisors, you will likely need to talk to hundreds of advisors to find material success. Neal Simon notes, "Over the past five years, I have spoken to over 200 advisors about joining Highline. This has resulted in three professionals joining our firm in one format or another." A simple way to think about this is a sales funnel.

John Furey notes, "When we were building Schwab Advisor Services' platform to lift out wirehouse brokers, we felt to get one deal done, we needed to have meaningful conversations with 10 advisors. However, to get to those 10 meaningful conversations, we had to connect with 60 or 70 advisors."

2. **Don't be a random shooter.**
Many advisory firms go about non-organic growth with a dull blade or a "come one, come all" strategy. It does not work! Advisory firms that are experiencing success have a highly sophisticated and defined "ideal advisor" and they build their platform around the needs of that target. If you don't take the time to understand who you are going after and why, identify what their needs are and provide a solution for those needs, you'll have little to no success. Niche strategies work, not big tent concepts.

3. **It's not about the money . . . but it's really about the money.**
Advisors are kidding themselves if they think any professional will put their personal livelihood on the line to make a transition without some upside. That said, compensation is an obvious and critical component to any non-organic growth strategy. Ron Carson notes, "Every deal we want to do is accretive for everybody. Since an advisor can lever off our scale, we are able to deliver a very compelling financial scenario for them. Being able to find the win/win is critical."

Having a well-thought-out compensation plan up front is also critical. Figuring out a compensation plan in the middle of a potential negotiation is usually not a recipe for success. Best-managed firms link their compensation plan to their ideal advisor and usually have well-thought-out annual compensation and short- and long-term incentive plans defined.

4. **We don't have to sell; others will do it for us.**

   On this note, let's be short and sweet. If you think your potential new advisor recruit or key employee is going to be referred to you by your asset custodian, broker dealer or asset manager, you may be kidding yourself! These providers have alternative advisory entities to refer to, as well. The truth: They will refer an advisor in transition or coveted professional to the firm they feel will have the best chance of landing the business (as they win through the transfer of assets to their platform). You need to be better than all the other potential referral opportunities in your market. Firms need to establish track records, and usually that track record comes from success they made happen, not from another party.

5. **Have a growth story and be able to back it up.**

   It is human nature that people make moves professionally in financial services for two reasons: the first is growth, and the second is pain avoidance. Therefore, your firm must solve for at least one and probably both. Growth is a key element. An advisory firm might have a great culture and a compelling compensation, but growth matters, too. Firms that are highly successful at attracting talent usually have a unique growth engine that is attractive. To make material headway, you have to be able to walk the walk with a growth story.

   John Burns from Exencial notes, "We have more sophisticated financial-planning capabilities now that allow us to work on big cases. Advisors can tap into this to help them close business there was no way they could close in the past. That makes us different, and we are gaining serious momentum as advisors seeking to make a move see it too."

The reality is non-organic growth is a blocking and tackling game that takes time, resources and commitment. If an advisory firm does not have the funding or resources to focus, it's likely better off with sticking to organic growth or considering other affiliation options (see Figure 1 on page 5).

Can accretion be achieved?

If you are considering recruiting advisors or adding a new capability, the notion of accretion is critical. The concept of accretion is that a potential transaction or addition is additive to firm value for all parties, including the person joining a firm. For example, if your current profit margins are 30% and you recruit an advisor and pay them 50% of their revenue, is it accretive? If run rate overhead is at 35%, it probably is not, as the margins of the addition are only 15%! However, there could be other drivers or alternatives that make it accretive. For example:

- Compensation is lessened and opportunities for ownership are introduced. Fixed professional compensation is lower and risk is shared through firm profits.
- There is opportunity to expand revenues through services and products the advisor in transition is not currently using. For example, Advisor Growth Strategies has helped firms model incremental revenue opportunities through a change in fee structure. The concept is a client pays the same amount of fees, but more of the fee goes to the advisor versus a parent firm or third-party asset manager.

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- There is true operational scale in the business that allows for an advisory firm to host the advisor in transition at a lower cost.

The opportunity cost of deploying non-organic

Is there opportunity cost in deploying a strategy? Maybe. The primary risk is advisory firms taking their eye off the organic ball and failing to grow their revenues. At the end of the day, for advisory firms, finding the next new organic strategy is probably the highest value-added activity a firm could do. Firms that want to deploy a non-organic growth strategy should never deploy a strategy at the expense of organic growth. The reason is if the strategy doesn't work, there will likely be no firm growth!

Are you ready? Consider a readiness assessment

Deploying a non-organic growth strategy is similar to launching a business. Don't enter the market until the platform is built out. But how does an advisory firm know if they are ready or not? A simple concept is to perform a readiness assessment, or a self-check. A good place to start would be to ask your broker dealer or custodian about resources that might be available to you. At best, you may get resources from these firms for free to help; at worst, you'll likely receive a guidebook and a referral to an expert that might be able to help.

Strategic options available to advisors: The power of choice

Many advisors could find scale and success through the non-organic strategy, but is it available to advisors who may not have the interest or capability in deploying such a strategy? aRIA feels the next big wave of transitions will not come from wirehouse advisors moving to independent firms, but advisors moving within the independent channel to solve for a strategic issue – whether it be for succession, growth, capability or margin compression. The second aRIA paper reviewed the types of models available to advisors. This part of the paper will delve into the implications within each model in little more detail.

In addition to helping advisors with business management, Advisor Growth Strategies serves large wirehouse teams considering going independent by providing objective and unbiased advice and analysis on making a move. The first step in that process is identifying the ideal advisory model for the future – e.g., should I stay or should I go, and if I go, what is the ideal state? The same could be true for independent advisors! Is my current state optimal or are there alternatives out there that are better than the ideal state? The answer may be that there are not any other viable alternatives (which will be the answer for most), but fiduciary advisors are probably doing themselves a disservice if alternative possibilities are not even considered.

The framework below is intended to provide advisors with a guide on how to think about models available and why one might be attractive over another based on what you are trying to solve for. With any business decision, there are economic considerations. This white

Finding Your Holy Grail: Model Options for Independent Advisors

	Going it alone	Outsourcing	Sale/Divestiture	Alliances and combinations
Pros	‣ Retain control ‣ Keep options open ‣ Create unique client experience ‣ Brand (could be con)	‣ Retain control ‣ Gain scale and leverage ‣ Move from fixed to variable model (can become a con)	‣ Realize value of business built ‣ Join a like-minded team, opportunity to collaborate ‣ Gain scale (in most cases)	‣ May offer liquidity ‣ Gain scale ‣ May offer equity swap/ combination ‣ May offer greater certainty around economics
Cons	‣ Business management ‣ Scale could be limited ‣ Firm value may be limited ‣ Lake of business continuity opens	‣ Cost may outweigh benefit ‣ May become captive to a provider ‣ Switching costs may be high	‣ Loss of control ‣ Difficult to unwind if seller has remorse ‣ Price and terms may or may not be attractive ‣ Liquidity provisions if equity in buying firm is offered	‣ Culture fit may be difficult ‣ No longer in complete control, usually shared ‣ Integration challenges
Advisor is solving for	‣ Retention of lifestyle ‣ Status quo ‣ Enjoys annuity economic structure ‣ Pass on business to family or defined successor	‣ Scale with greater control ‣ Focus on unique strengths ‣ Unlock growth potential ‣ Improvement of client experience	‣ Maximizing sale value ‣ Succession planning ‣ Trade ownership responsibilities for advisor responsibilities only	‣ Scale ‣ Certainty around succession and liquidity ‣ Creating future value ‣ Creating a multigenerational firm

Figure 2

paper is not intended to compare the models economically for an advisor, given that the models available within the categories are vastly different. The first step is to figure out what is ideal and then seek a solution that could be the right fit, including comparing the economics. There are resources available from custodians, consultants and published industry reports that can effectively help advisors think through their options (see Figure 2).

Continue status quo: going it alone

Advisory firm owners that choose this option feel owning and operating their own independent firm is the best alternative versus all options available to them. This is the "go-to button" for the vast majority of advisors. The risk associated with this option is the opportunity cost of other potential alternatives.

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Outsourcing

The notion of outsourcing can be an intriguing model for advisors. This concept comes with the belief that you insource your core capability and outsource the rest. Given the expansion of the RIA ecosystem, there are more options than ever to outsource. Advisors can potentially outsource everything from business management to investments, leaving the sole function for the advisor of managing relationships and finding new ones.

Usually most advisors have some level of outsourcing, whether it be HR, payroll or certain elements of non-advisory functions. Advisory firms that want to scale advisory platforms could outsource functions such as research, investments, technology and reporting, among others. There has been a proliferation of "platform" providers that are rushing to provide solutions to the benefit of advisors. This would include Turnkey Asset Managers (TAMPs), value-added service providers that combine operational functions and a myriad of other single-function providers. Many of these firms are building sophisticated sales and marketing programs – if you haven't run across them yet, expect to see them at a conference or calling you at some point in the future!

Sale/divestiture options

Selling an advisory firm could be a worthwhile option for advisors who are seeking to maximize their economic benefit, leverage off the scale of a larger provider and potentially realize liquidity for their independent firm. Internal succession plans are a common and attractive alternative for owners who want to pass on their legacy and transfer their firm to a professional who will hopefully nurture and grow the firm.

One thing is certain: The number of alternatives to advisors should grow in the future. This has the potential to yield more options to advisors in managing their business equity and providing liquidity options. When evaluating alternatives, advisors should take a strategic approach and fully understand what they are trying to solve for as the economic and control options are vast. Indeed, advisors will want to read the fine print before they enter into any sale transaction. Not having alignment in what an owner is trying to solve for versus what is being offered could be disastrous for all parties. There have been several recent examples of legacy owners buying back their firms or outright leaving the entity that bought their firm (to simply start a new one).

In general, sale options include the following:

1. **Banks**
   Local or regional banks could be a viable alternative for advisors. In this scenario, the potential for accretion exists as the bank adds a wealth management capability with the potential to monetize the existing bank client base with wealth management services. Although the potential is clear, having confidence in realizing the vision comes down to execution. This type of sale is usually a complete purchase with the advisor ceding control to the bank. There are certain cases where the independent advisory entity may be retained as a standalone entity. There is complete variation to deal structure.

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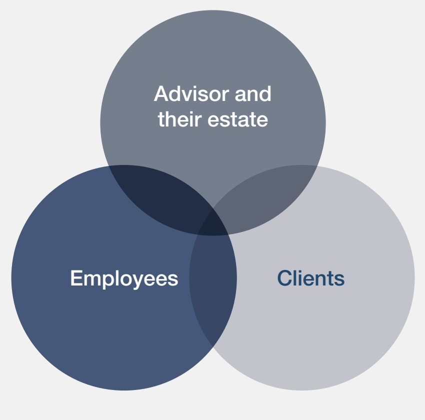

Figure 3

2. Consolidators

Consolidators (a.k.a. roll-ups, national wealth management firms, etc.) are usually private equity- or hedge fund-backed entities that are focused specifically on the independent advisory segment. These firms seek accretion through building scale, and usually, valuation arbitrage is part of the model. Specifically, the valuation multiple of the consolidator is higher than the independent advisor can achieve on their own; therefore, the advisor has the potential to achieve a higher multiple (after trading their lower currency for the consolidator's).

These firms offer clear benefits to advisors and may also have material drawbacks. The primary benefit is these firms offer liquidity (cash) to buy some or all of an advisory firm. In addition, these firms can offer scale in a variety of ways, including systems, process and general business management support. Consolidators also offer best practice sharing and collaboration with other affiliated advisors. Some of the drawbacks include loss of control and uncertainty around the future value of the consolidator. Consolidators may also seek to gain greater scale through the combination of advisory functions such as research, technology, financial-planning process and portfolio construction. For advisors seeking to maximize leverage, this could be a very attractive option; however, the downside is lack of customization and fallibility – this is why many advisors are in the independent channel to begin with.

3. Internal succession

One of the most common and sought-after options for advisors is internal succession. In this scenario, the advisory firm owner transfers business ownership to an internal professional who has been identified as the next generation of ownership. Depending on the size of the firm, this option can be very attractive or not at all. For example, if a larger RIA has more than $1 million and cash flow is valued at $5 million or more, an internal succession option may not be viable as the ability for an aspiring owner to pay could be quite limited. There may be new financing options available in the future to advisors, but at this point, an internal succession plan is usually seller-financed or a buyer must find their own financing to purchase the firm.

RIA alliances and combinations

A somewhat new alternative in the independent advisory space is RIA alliances and combinations (see Figure 3). Over the past five years, there has been acceleration in these types of transactions as larger independent advisory firms are seeking to grow aggressively and are seeking to manage their business equity more strategically. This type of scenario may be attractive to certain independent advisors as accretion could be achieved after the short and long term through increased scale, lower overhead cost models and increased capabilities if two entities bring unique skill sets to the table. Examples of successful business combinations include Savant's business combination with The Monitor Group in 2012 and Mariner's purchase of Riverpoint Advisors.

What makes an RIA combination different from a sale to a consolidator? Perhaps a clear line to draw is the fact that RIA-to-RIA combinations are almost always combined without third-party financing, which requires a certain level of return on investment and a timeline to achieve a liquidity event. Most advisors innately realize that most private equity or hedge fund entities have a five- to seven-year horizon to liquidity. This could be a good thing for advisors, given the fact they could participate in

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any future liquidity, but it could also be a bad thing if the expected growth does not materialize.

RIA alliances and business combinations could be different as the RIA usually is not under any such deadlines or pressures that could lead to a forced liquidity event. Instead, these business arrangements usually offer increased flexibility to advisors in terms of liquidity timing and features.

The concept of BATNA

BATNA is an acronym for "Best alternative to a negotiated agreement."[1] This concept is used by sophisticated negotiators when helping a client think through the best alternative to a transaction if negotiations fail and an agreement cannot be reached. Any party that is considering any transaction should understand what their BATNA is and should generally not accept anything worse than BATNA. Advisors considering a transaction or a move to another model should understand what their best alternative is if best laid plans fall through.

This concept is critical to advisors who are in "growth mode" or need a succession plan. Usually most advisors are somewhat even-keeled about their business and view their BATNA as continuing to own/operate their independent firm or stay put in the wirehouse. In concept, this can be somewhat myopic and limiting given the myriad of choices available to advisors. This mini case study should illustrate the point.

1. *Getting to Yes: Negotiating Agreement Without Giving In*, Roger Fisher and William L. Ury, 1981

A financial advisory firm was owned by two parties: an advisor who wanted to retire and exit the business (90% share) and an advisor, 20 years younger, who was identified as the successor. The advisory firm has more than $1 billion in client assets, services ultra-high-net-worth clients and has been in existence for more than 40 years with a strong brand in their local markets. Two key dynamics occurred over three years leading up to a potential change of control/ownership.

- The exiting financial advisor starting drawing down his involvement by delegating relationship management to staff and business management to his partner.
- The successor advisor, although a 10% owner, took the reins of managing the firm and was the firm's primary business development professional. Over time, the successor had ~50% of the firm's revenues linked to him through their own personal selling or transfer relationship management.

Given the exiting financial advisor was 90% owner, a succession plan for this firm was an obvious need; however, the plan was never constructed prior to the advisor wanting to exit. Both parties were struggling to find an equitable arrangement as there were material imbalances – what aRIA coined as the valuation gap in a previous white paper. The successor advisor felt the consideration for taking the firm over should be far below market rate given 50% of the revenue was linked to the successor, and the successor was essentially now running the business. After all, why should the successor pay the exiting advisor for revenue and profit he had developed himself over the years?

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The flip side of this was the exiting owner felt strongly that he should get at or near market rate for any potential transaction given the fact the exiting owner built the firm at inception and provided a platform for the successor advisor to grow and thrive. What happened? First, the exiting advisor was not aware of what the successor advisor's BATNA was: to carve out of the firm and start a firm with hopefully $500 million in assets versus paying a market rate for a $1 billion firm.

This was a turning point in the negotiations. The exiting advisor realized there were only three viable alternatives. First was to attempt to not do the transaction and keep things status quo, but the problem was as time went on, the leverage the exiting advisor had would continue to derogate. The second was to let the advisor attempt to leave and seek to enforce the firm's non-compete and prevent client moves. This option was perceived as a lose/lose option, given the fact the advisor did want to exit the business. This would also trigger the exiting advisor to delay his exit, given the exiting advisor would not take over active management of the firm. The final alternative was to yield on price and accept a transaction that had far less consideration with less-than-attractive terms from a seller perspective. After months of deliberation, the exiting advisor went through with internal succession transaction, as the BATNA led him to that conclusion. The reality was he did not want to manage the firm any longer and did not want to risk the firm "blowing up" to the detriment of clients and employees (18 of them).

Could the exiting advisor have done better if their succession plan was laid out sooner? As mentioned in previous papers, advisors who want to maximize sale value need to think in 10-year horizons, not one! Failing to do so limits your options, and the BATNA will be far from ideal. For most advisors, BATNA may be to continue to hold on to their business as they waited too long and other alternatives are just not that attractive.

Conclusion

The beauty of the independent advisory channel is the myriad of choices advisors have in running their business, creating a client experience that adds value to clients and the opportunity to make a great living. Indeed, looking toward the future, the opportunities available to advisors outweigh any material threats to our channel as a whole.

Advisors who are looking to grow, compete and succeed in the future cannot turn a blind eye to how quickly the market is changing or the promise of success could quickly be in doubt. Advisors can take the opportunity to consider all options available to them from a business model perspective to help develop a scalable and sustainable business platform.

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Case study

Exencial Wealth Advisors™

Exencial transformation – the creation of a regional firm

When John Burns reflects on Exencial's meteoric rise over the past 10 years, he notes, "The first billion in assets will prove to be more challenging than the second." Exencial, formally Burns Advisory Group, was a startup RIA created in 2002 after John left behind his commission-based brokerage business and made the transformation to a fee-only RIA. Since the firm's formation, it has increased its size twenty-fold and is poised to continue its growth trajectory.

Based on Oklahoma City, Exencial serves private wealth clients with a boutique focus on serving small business owners and executives in need of complex wealth management planning. The firm also serves the need of traditional mass affluent and high-net-worth segments and is in the process of strengthening its segmented delivery offering.

In 2012, Exencial set a five-year vision to be known as a leading wealth management firm in the Southwest U.S. (see Figure 4). Exencial has been quite busy over the past two years, completing transactions with three advisory entities to join the firm, achieving best-in-class organic growth and making investments in the firm's platform. Although the firm has experienced material success, the building blocks for success were built years ago. "When I started the RIA, I knew the model for annuitized revenue was the key to building a business that was more client-centric and had the best opportunity to grow firm value."

Although John's RIA business was already very successful, about five years ago, he decided to take the business to an entirely new level. The first step was John's realization that he had to "hire smart" and grow talent. "When I started, I was the CIO, head of sales, CTO and head of operations." The firm was structured as a silo practice, with John obtaining operating leverage by having a support team service clients and perform operations. John knew this approach would need to change for business to

Exencial's Strategic Priorities

- Creating differentiation with investors through segmented offerings and best-in-class client experience
- Creating a scalable business that drives cash flow and value for owners
- Delivering best-in-class organic growth — 15%+ annually
- Creating opportunities for employees to reach their career objectives
- Hiring smart — bringing in best-in-class talent from leading firms in adjacent industries
- Evolving a strategy to continue aggressive plans to expand office footprint

Figure 4

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grow at an accelerated pace. “Most advisors struggle getting out of their own way. For example, if an owner of an RIA wants to spend their time being the CIO, fantastic – then find the right talent or the right firm to round out your strength.”

John started making investments in the firm to better compete and become an attractive solution for advisors and clients. “I realized to gain operating leverage, we needed to build a team that could deliver high-end wealth management to serve the high-net-worth and ultra-high-net-worth space.” Since 2011, Exencial has made the following material investments:

1. Investment in infrastructure: new technology, purchase of an office building, and hiring and development of operations staff.
2. Strategic hire of a tax professional and a CIO to start the process of developing deep functional capability.
3. Built new footprint in Dallas, Texas, with new advisors bringing unique capabilities to service small business owners with complex planning needs.
4. Developed a new brand to support growth and associated integrated marketing plan. The Exencial name is a play on words inferring excellence, exemplary, executive and expert, among others.
5. Creation of a five-year strategic plan, with a focus on developing formal corporate governance around legal structure, buy/sell between partners, compensation, client segmentation and installed accountability for financial metrics.

The investments have paid off as Exencial has added three existing independent businesses into their firm over the past few years. John notes, “I’m convinced that to build business value is to not only drive revenue, but add capabilities and build a team that provides flexibility to owners.”

John concludes, “We feel we are just starting to hit all our pitches – which include best-in-class organic growth, attracting like-minded advisors to join forces with us and increasing our value proposition to attract clients.” Exencial’s next step is to find advisors in other geographic markets that want to leverage off the model. Given the firm’s recent investments and success, the next billion may prove to be a smoother road.

Acknowledgements

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. On the Web at **www.allianceforrias.com**

About Advisor Growth Strategies

Advisor Growth Strategies, LLC (AGS) is a leading consulting firm serving the wealth management industry. AGS provides customized business management solutions for independent firms seeking to aggressively grow their business and for financial advisors in transition. Our services include strategic planning, recruiting and acquisition programming; compensation design; and succession planning. We serve established independent advisors, large breakaway advisor teams and institutional-level corporations. On the Web at **www.advisorgrowthllc.com**

About Weitz Investment Management

Weitz Investment Management was started in 1983 with about $11 million under management. Over the years, the firm has followed a common-sense formula: own a group of strong businesses with deeply discounted stock prices. By staying true to this philosophy – and sticking to industries it understands – Weitz Investment Management has been able to pursue solid returns for investors. Today, the firm, a registered investment advisor, manages approximately $4.4 billion for the Weitz Funds, individuals, corporations, pension plans, foundations and endowments. Learn more about Weitz Investment Management at **www.weitzinvestments.com**

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