HOW TO *STRATEGICALLY COMPENSATE YOUR TEAM TO POSITION FOR* GROWTH AND INCREASE FIRM VALUE

AN aRIA CASE STUDY

JOHN F. BURNS, JR.
CO-CEO, EXENCIAL WEALTH ADVISORS

OVERVIEW:

Fast growing independent wealth management firms tend to share a common factor – founders with exceptional business development acumen. This tends to be the most commonly identifiable attribute in the early stages of an RIA's growth, when finding clients means attaining revenue to stabilize the growing company. But eventually, the founding advisor must be able to make the transition from rainmaker to leader for the company to achieve growth beyond the founder's capacity.

The once steep trajectory levels off for mature Registered Investment Advisory (RIA) firms as their founders shift into maintenance mode, which is usually a function of lack of time. These businesses never move past their dependence on the founders. While this may enable operational simplicity and provide acceptable income in the short run, it puts an unnecessary burden on the founder and raises questions about the durability and transferability of business value.

So in order to wean off of dependence on the founding principal, a firm must learn to hire and compensate well to retain and incent the team appropriately.

Managing human capital is a critical differentiator in the financial advisory business, which makes compensation strategies and plan design so important for attracting, retaining and developing the team members that will drive a firm's long-term growth.

KEY TAKEAWAYS:

1. Transitioning from rainmaker to leader is a long term investment that requires people and capital.
2. Linking compensation to important company and individual initiatives provides clarity and motivation for key employees.
3. Compensation growth will serve as the launch pad to develop and retain the next generation of company leadership.
4. A compensation plan with unlimited upside potential will attract talented professionals to the company, thereby enhancing existing capabilities and expanding the menu of client services.

Managing human capital is a critical differentiator in the financial advisory business, which makes compensation strategies and plan design so important for attracting, retaining and developing the team members that will drive a firm's long-term growth.

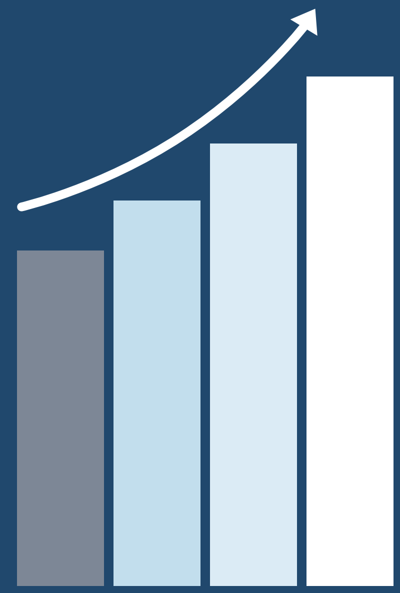
INTRODUCTION & EXECUTIVE SUMMARY:

The difference between consistent growth and stagnation hinges on how a business owner chooses to build their team. Top talent at any firm wants to be surrounded by other successful professionals with expertise in financial matters and needs to have a clear career and personal growth path.

RIAs in growth mode need to ask whether their compensation strategy will enable them to not only assemble, but also preserve a team that devotes as much attention to client relationship management as it gives to new client development. This challenge increases in scope and complexity as a financial advisory practice grows. For example, Exencial currently has $1.25 billion in client assets. For us to achieve our annual organic growth targets of at least 15 percent, we cannot possibly rely on one or two individuals.

Prudent independent founders will build a core team to handle investment management, operations, technology and compliance, which can set the stage for a firm's first round of scalability. But as a company grows, and new client relationships are added through organic and inorganic means, the founder is tasked with making a choice between continuing with a top-heavy production structure or adding talent throughout their business that will drive new client growth and develop competitive services.

A performance-based compensation strategy helps align a growing RIA's objectives of increased scale and profitability with the professional goals of key team members, whether they are already a part of the organization or new joiners to the firm.



GOAL OF AT LEAST

15%

ANNUAL GROWTH

Exencial currently has $1.25 billion in client assets. For us to achieve our annual organic growth targets of at least 15 percent, we cannot possibly rely on one or two individuals.

FIRM OVERVIEW:

Exencial Wealth Advisors has evolved from $50 million to $1.25 billion in total client assets since 2002 through a combination of organic client growth and business partnership.

Our predecessor firm, Oklahoma City-based Burns Advisory Group, merged with Dallas-based Executive Financial Group in late 2011. Both practices were built around the business development expertise of their founders, and it became apparent following our merger that we would need to completely redesign our focus if we sought to maintain profitability levels, while still trying to achieve aggressive growth objectives.

Success had been reliant on the founders as new business drivers and simultaneously as key client advisors, which was unsustainable. We had to break the status quo to become a business with enduring value and growth potential. We knew we needed outside talent and building a compelling employee value proposition was a key element. We knew the compensation system of the past would not be effective in the future.

CHALLENGE:

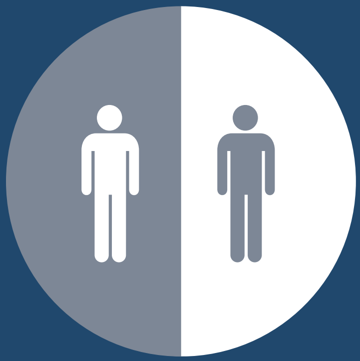
SITUATION ANALYSIS:

Burns Advisory Group was a lean and highly profitable company from inception. We consistently placed among the top quintile of our RIA peer group for profitability[1]. We found a great fit with Executive Financial Group both culturally and in terms of client services. They specialized in tax planning and helping senior corporate executives manage their employee stock ownership plans, while we operated an established investment committee and asset management process.

Coming together with a partner that boasted valuable complementary skill sets and embraced the same commitment to unbiased wealth management advice was an integral step toward growth. But up until that point, almost all staffing decisions made by the founders were a function of driving our personal productivity.

Our post-merger high water mark topped out at 141 clients per professional – about 3.5 times similarly sized RIAs[2]. This did not preclude us from providing a great client service experience, as

A COMPLIMENTARY PARTNER



Coming together with a partner that boasted valuable complementary skill sets and embraced the same commitment to unbiased wealth management advice was an integral step toward growth.

evidenced by less than one percent annual client attrition, which was one-third of our peer group[3]. Yet this client concentration could prove to be dangerous to our long term success as we created an environment ripe for "key person" risk.

We needed to solve for this risk, and the solution needed to fit with our objectives of driving growth and accommodating scale. This would require new investment in our staff across all main business elements: sales and client acquisition, client relationship and retention, investments, administration and operations, and planning, tax and legal advice. Defining these roles and the talent we needed to occupy these roles added a new challenge in terms of our long term planning.

We needed to develop an all-star team focused on clients, and to pay them compelling compensation versus simply deploying a system designed to maximize founding partner profitability and personal scale.

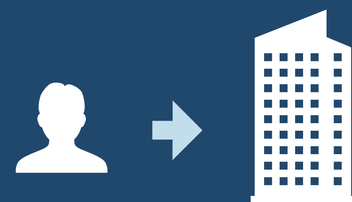
IMMEDIATE OPTIONS:

Our problem appeared to be a recruiting issue on the surface, but was a cultural issue in reality. We needed to shift the culture away from our personal brands as owners and toward a strong company brand. We had run into roadblocks hiring and retaining talent in the past due to the perception that everyone in the organization played a supporting role to the owners.

Our goal was to create a growth culture with talent that sought a dedicated career development path. But how would we define career growth? Self-driven professionals want to know how they can grow their career, and for the right types of employees, this is as important a question as "how do I grow my income?" We wanted to harness that positive energy, so our compensation plan needed to be clear and transparent in order to attract the right types of people.

The main component to designing a successful compensation plan would be to ensure we aligned individual advancement with the team's overarching goals. To that end, in addition to a clear bonus structure, we decided to extend an equity opportunity to key team members.

SHIFT THE CULTURE



Our problem appeared to be a recruiting issue on the surface, but was a cultural issue in reality. We needed to shift the culture away from our personal brands as owners and toward a strong company brand.

SOLUTION:

ACTION PLAN:

We committed to rename the company under one cohesive brand in early 2012. Exencial Wealth Advisors came into existence, I took my name off the door, and we announced the change to our clients, employees, our local community and the national media.

This can be a huge emotional hurdle for advisors who built their practices from scratch, but we did not give it a second thought once we realized that it would enable a shift in perspective necessary to our growth plans.

Our redesigned compensation system has two overriding objectives: provide fantastic income opportunities for all employees and maximize enterprise value for all stakeholders.

We moved away from the discretionary year-end bonus model that had been in place since we opened the doors. Our goal was to give team members more control over their trajectory by creating a structure centered on career path clarity and transparent compensation.

The first step in committing to a growth-oriented compensation plan was to acknowledge those activities that drove the most value to our company's expansion effort. We identified sales, relationship management, and expertise in tax planning, investments, estate planning and small business consulting as the functions that were most integral to growth.

We evaluated compensation options to determine a balance that would create the greatest motivation for our team members to develop and pursue these high growth value functions. Compensation typically breaks down to a guaranteed component on one end and a variable component on the other, so we chose to overweight the variable component for our growth functions.

The concept at work was that if our team members wanted to maximize their incomes as professionals, then they would concentrate on the highest value opportunities.

Under the new plan, team members can expect base compensation plus participation in several specific bonus structures based on overall firm growth and the achievement of company objectives. In addition, we set personal initiative bonus plans that provide unlimited income opportunities for our most productive advisors.

"Our redesigned compensation system has two overriding objectives: provide fantastic income opportunities for all employees and maximize enterprise value for all stakeholders."

aRIA
Alliance for Registered Investment Advisors

We also built an equity plan reserved for team members with a consistent track record of bringing in or building revenue. There is now a clear path to becoming an equity shareholder, and just like our new emphasis on variable compensation, this defines the value of the function and clarifies how it is calculated.

Our willingness to expand the owner equity pool to those who are driving revenue growth was an important step in realizing our long term goals. This strengthens the firm through increased buy-in and allows for direct participation in our success.

Our willingness to expand the owner equity pool to those who are driving revenue growth was an important step in realizing our long-term goals.

RESULTS:

OUTCOME:

Establishment of the Exencial company brand has not only resonated in the marketplace with prospective clients and referral sources, but it has removed barriers to recruiting talent. Since the change, we have been able to hire extraordinarily talented professionals in the tax, legal, investment, and advisor practice areas as well as strengthen overall operations.

Our strategic initiatives for merging with growth partners and acquiring advisory firms have also accelerated. Effective January 2013, Exencial acquired Plano, TX-based Investors Asset Management, Inc. (IAM), an RIA with about $200 million in total client assets.

Exencial's attraction to potential business partners has evolved from the personal strengths of its owners to the functional capabilities of the firm. We have an efficient process for delivering world class investment and wealth management solutions to affluent families.

"Exencial's attraction to potential business partners has evolved from the personal strengths of its owners to the functional capabilities of the firm."

The compensation plan redesign process was a great reminder of why we needed to reevaluate our approach to expansion.

Our dual goals of best-in-class income opportunities for team members and maximizing value for equity partners struck the appropriate balance to set us on a growth trajectory. The defined structure has enabled individual team members to develop specific competencies that have resulted in significant functionality improvements since the days when everyone wore multiple hats.

aRIA
Alliance for Registered Investment Advisors

One great result of this structure is that it accommodates a very objective way to measure career track development, which enables more accurate evaluations for compensation purposes, creating a virtuous cycle.

For example, we have started to see new business opportunities being developed not only by advisors and planners, but also from our operations team members and other employees throughout the organization. We are already seeing growth from these new contributors, so we think they hold a great deal of promise.

As for challenges, these changes impacted the fundamental culture of the firm and had some unintended consequences.

"As for challenges, these changes impacted the fundamental culture of the firm and had some unintended consequences."

We actually lost a long term employee amid the transition. There was no expectation that every employee would be on board, but the upside was that the plan would identify who was willing to participate in personal and firm growth versus who would not be a long term fit. Those team members decided to either commit to company goals or it became evident that there was a fit issue.

The result was total alignment of employees and firm objectives, which has enabled us to put the right people in the right places.

BEST PRACTICES:

As business owners, we recognized the need to evolve from producers and lead advisors to team builders at a point when we were still maintaining level profits. This afforded us the latitude necessary to execute such an ambitious and extended change. Had we foregone this decision until our profits had stagnated or began to decline, we might not have mustered the clarity required to identify and commit to this path.

The growth of our collective expertise by development, recruitment, merger and acquisition has been paramount to other considerations because it has enabled us to increase the breadth and depth of our client service offering. This, above everything else, should be the core focus of any wealth management practice that seeks to sustain growth.

Our company brand has never been as strong and clear as it stands today. Why? Everyone throughout the organization is pulling in the same direction and executing their functions in a way that would thrill our clients to witness.

Finally, tying a bright line from compensation to company and group goals is the single most effective way to align team members with the company's needs. A compensation plan with triggers based on explicit achievements, both personally and company-wide, provides team members and the company with the greatest potential for maximizing profitability.

CONCLUSION:

Would your business have a reasonable chance of maintaining profitability if you stepped back from the day-to-day? If not, what puzzle pieces will get you there?

We learned that shifting the focus from personal strengths to overall firm capabilities removes a major hurdle to recruiting talented professionals with personal ambitions. Further, providing advanced company infrastructure and a competitive approach to compensation attracts advisors interested in a growth accelerator for their careers.

If undertaken thoughtfully, this approach can result in continued growth and profitability at the firm level, substantially better compensation for team members, and a significant positive adjustment to the distribution of responsibility throughout the organization.

ABOUT EXENCIAL WEALTH ADVISORS:

Exencial Wealth Advisors is an independent registered investment advisory firm offering fee only, objective financial planning, investment management and tax planning counsel to senior corporate executives, entrepreneurs, their families and institutions.

The firm strives to be a source of enduring value to clients by providing independent, unbiased and thoughtful recommendations based on their needs and objectives.

Exencial serves clients from offices in Oklahoma City, OK, Plano, TX, and Old Lyme, CT.

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.

aRIA
Alliance for Registered Investment Advisors

REFERENCES:

2013 RIA Benchmarking Study: Firm Profitability, Page 38

2013 RIA Benchmarking Study: Executive Summary, Page 6

2013 RIA Benchmarking Study: Executive Summary, Page 16

DISCLOSURE:

Exencial Wealth Advisors is a Registered Investment Advisor. Exencial's marketing material should not be construed by any existing or prospective client as a guarantee that they will experience a certain level of results if they engage the Advisor's services and includes lists or rankings published by magazines and other sources which are generally based exclusively on information prepared and submitted by the recognized Advisor.

To obtain a copy of Exencial's disclosure brochure, which contains important information on services, fees, investment methodology, conflicts of interest and related information, please visit www.adviserinfo.sec.gov.

aRIA
Alliance for Registered Investment Advisors