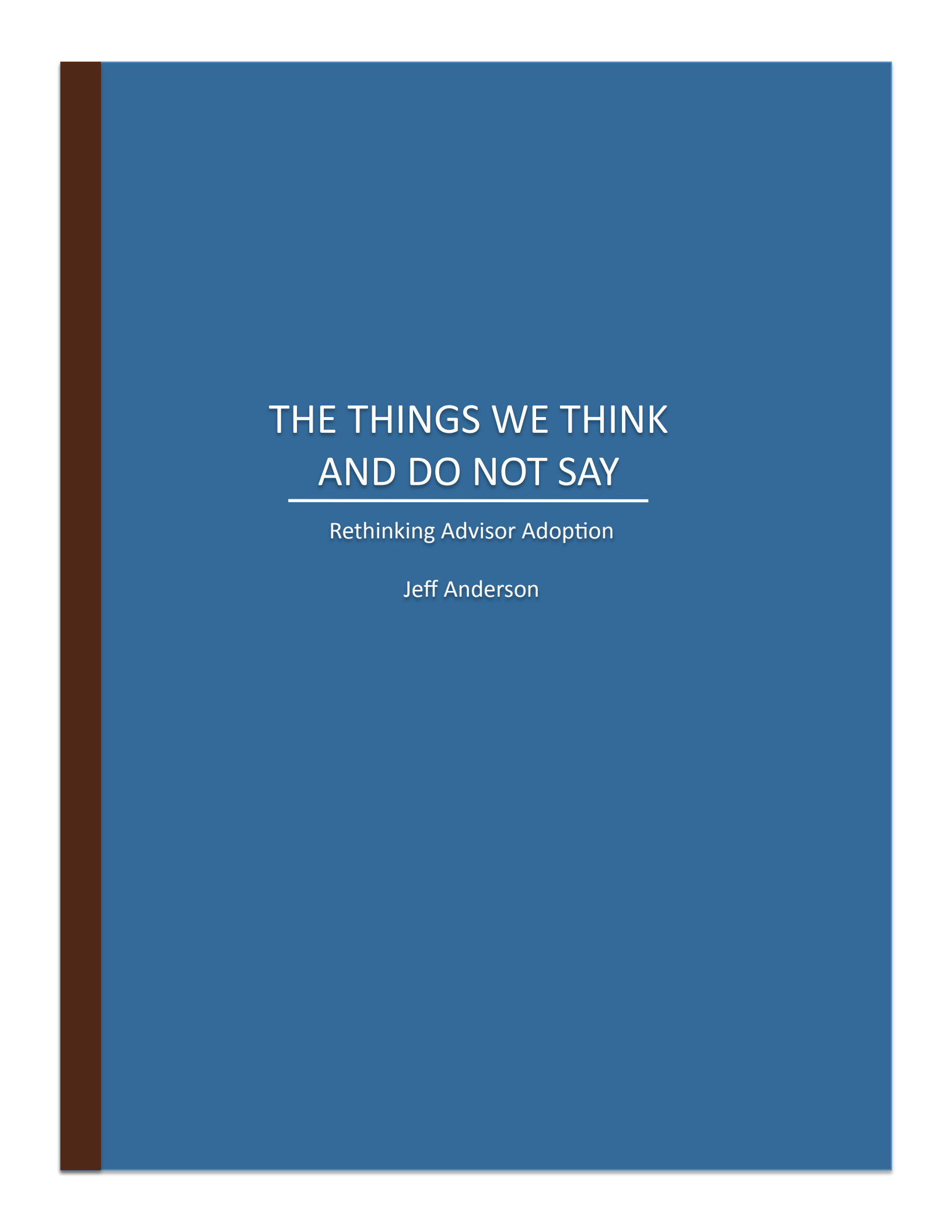




THE THINGS WE THINK AND DO NOT SAY

Rethinking Advisor Adoption

Jeff Anderson



We Are All Vendors To An Independent Advisor

In the movie Jerry McGuire, the Tom Cruise character writes a mission statement titled “The things we think and do not say”.

The unspoken truth about the independent channel is that advisors perceive their corporate RIA, brokerage or hybrid corporate affiliation as simply another vendor relationship.

This is not an indictment of the affiliate corporation but a reflection of the nature of the independent retail advice business model. A model premised upon personal autonomy, professional choice and business independence.

This advisor perspective extends beyond their corporate affiliation relationship to all firms in the advice ecosystem. This includes product, technology, administrative and information services vendors.

For vendors embracing this unspoken truth, there arises an opportunity to create a competitive advantage amongst the thousands of ecosystem vendors vying to serve an independent advisor.

Penetrating The Independent Channel Is A Shared Challenge

All vendors within the advice ecosystem, salivate upon seeing the cumulative independent channel assets under management, advisor count and operating spend.

The initial response is similar to Rod Tidwell’s famous line in Jerry McGuire, “show me the money”.

What vendors realize is enabling a scalable distribution model is challenging. Specifically how to efficiently penetrate an advice channel premised upon decentralization, autonomous advisor decision-making and small businesses.

A Shared Focus On Advisor Utilization Rates

In response, all ecosystem vendors have focused on advisor utilization rates.

This is analogous to Jerry McGuire’s plea to Rod Tidwell, “help me help you”.

The intent is to increase advisor utilization rates through efficient adoption methodologies.



Generally accepted methods include; direct sales, wholesaling, independent marketing organizations, marketing specialists, practice management, national conferences, training, certification programs, education institutes, technology utilization and integration.

These traditional advisor adoption methodologies result in 5-20% advisor utilization rates.

Advisor Adoption Methods

Benchmarked advisor utilization rates of 5-20% are concerning for all ecosystem vendors paying attention.

Thought leaders within the ecosystem have embraced the need to redesign traditional adoption methodologies to improve utilization rates. This redesign is intended to increase utilization rates to 25 – 35%.

As Dorothy Boyd comments in Jerry McGuire, “In this age, optimism like that is a revolutionary act.”

If history repeats itself, 80% of advice ecosystem vendors will continue to follow the same adoption methods, producing the same utilization rate results.

However based on the study performed by Anderson Consulting, macro industry dynamics will eventually force all ecosystem vendors to modify their adoption approaches to increase advisor utilization rates.

Anderson Consulting Study

Recently Anderson Consulting performed a Voice of the Customer study. We interviewed 47 corporate executives whose companies participate in the advice ecosystem.

Of those participants 90% identified advisor utilization rates as highly impactful to the future of the marketplace and success of their business.

As we clarified the industry dynamics impacting the increased importance, several macro themes became overtly clear.

The below study findings focuses on a retail distribution corporation for illustration purposes.



Retail Distribution Company Identified Themes

Mergers & Acquisitions

The generally accepted lever to increase business valuation is merger and acquisitions. An “add on” M&A strategy can increase business multiple by acquired and core growth. Acquired growth results from the combined corporate entities and dependent upon transaction closure. Core growth is dependent upon operating performance and execution effectiveness, is realized over time.

Why is this relevant?

M&A activity will continue to consolidate the retail advice ecosystem. Corporate development will focus expertise on acquired growth. Operating leadership will prioritize core growth. This includes a prioritized focus on utilization rates of newly combined proprietary products and services to realize targeted M&A valuation.

Consolidating Distribution

For ecosystem participants, the independent channel represents a material portion of their intermediary revenue. Retail corporations require contractual agreements with third party firms, to compliantly distribute to their respective advisor networks. These corporate agreements can involve distribution access expenses for the third party.

Why is this relevant?

Consolidation will result in fewer intermediary corporations. Negotiation leverage will shift to the remaining retail advice corporations resulting in increased vendor distribution expenses. Third party firms will focus their distribution efforts on fewer, profitable intermediary corporate relationships. With narrowed focus they will also look to increase firm specific utilization rates to improve distribution profitability.

Assets Under Control

The majority of firms participating in the advisor ecosystem share a common interest, to control assets under management. This orientation is driven by 70% of marketplace corporate profit & loss performance, highly linked to AUM acquisition, management and retention. The utopian goal is to acquire assets at lowest expense, manage assets to the highest returns and mitigate asset retention risk.



Why is this relevant?

Traditional advisor adoption methods are expensive, resource intensive and not scalable. Many industry participants are seeking to optimize methods to increase advisor utilization rates. The goal, by increasing advisor utilization rates of product and services will translate to increased assets under control and EBITDA.

Service Distribution Diversification

Historically retail corporations where organized to market compliant proprietary and third party products to their advisor networks. Today progressive retail corporations are diversifying their product biased operating model to include service distribution. The primary goal is to enhance their network advisors value proposition to their retail clients.

Why is this relevant?

Diversifying an advisors practice to focus on service distribution is a material transformation. Adoption methods require modification to facilitate the change required. If diversification to service distribution is materially embraced, it will expand operating margins, EBITDA performance and mitigate fiduciary and suitability risk for all ecosystem participants.

Advisor Value Proposition

Full service retail advice is under immense pressure. One material factor is price compression. Factors contributing to price compression include; discounted products, low cost alternative channels, product commoditization and homogeneous client offerings. The adage “in a lack of distinctive value, price matters” applies for many advisors and participants in the advice ecosystem.

Why is this relevant?

One critical role of retail advice corporations is to help enable a distinctive value proposition for network advisors. Value creation is dependent upon new capabilities introduction and advisor utilization. If utilization rates are not increased, retail clients will migrate their new and existing investible assets to the lowest cost provider for “like” financial advisory services.



Financial & Operating Impact

Within the advice ecosystem billions of dollars of working capital has been allocated to introduce new capabilities to support an advisors business. Corporate investment decisions per new business capability are premised upon; return on investment, pricing, revenue opportunity, development and ongoing administrative expenses. These financial considerations hinge on utilization rates.

Why is this relevant?

The adage “a rising tides lifts all boats” applies here. All participants in the advice ecosystem share a common goal to maximize returns on working capital. Driving advisor utilization rates translates to higher working capital returns. Organizations choosing not to confront this shared strategic issue will expose their firms to financial and operating risk.

Compliance Risk Mitigation

It is projected 65% of newly introduced capabilities are intended to mitigate compliance risk. Technology and informational services are partially intended to standardize compliant sales practices while balancing flexible functionality to meet the unique requirements of each advisors practice.

Why is this relevant?

The importance of compliance within the retail advice ecosystem goes without saying. The DOL and Regulation BI are the most recent examples of the evolving regulatory landscape. Increasing utilization of scalable compliance capabilities mitigates all ecosystem vendor fiduciary and suitability risk.

Redesigning Advisor Adoption

As Rod Tidwell screams, “no, no, no, you can do better than that”.

What does the next generation advisor adoption methodology look like?

The unspoken truth, it depends upon firm culture, receptivity to change and execution acumen. Yet, there are several criteria to consider when pursuing this change management effort.



The future state should simplify the interaction between the advisor and ecosystem vendors. Today advisors are overwhelmed with the army of vendors vying for their time and attention. This complexity translates to lower utilization rates.

The methodology should be premised upon scalable process management disciplines. The adoption process should be agnostic, designed around the advisor experience and predictable.

All business redesign efforts are transformation initiatives. Redesigned adoption processes should be premised upon proven change management disciplines to shift advisor behavior translating to improved utilization rates.

The adoption methodology should be holistic in scope. Based on the interdependency of all ecosystem vendors, the future adoption methodology requires holistic participation to drive utilization rates.

Driving Core Growth

As Dorothy Boyd states at the end of the movie, "You had me at hello".

Let's discount all the fore mentioned content and make it simple.

If I were to offer you a core growth opportunity to double your revenue, at a low expense and operating risk, would it be of interest?

Today, that is the ultimate question and choice presented to industry leadership.

The choice, to respond to the fore mentioned macro industry factors impacting every participant within the retail advice ecosystem.

The choice, to enable an operating model that offers a continuous rhythm of distinctive value added capabilities to enable an advisors value proposition.

The choice, to holistically mobilize vendors within the retail advice ecosystem to actively participate in this shared innovation journey.

The choice, to increase utilization rates of value added capabilities to enable an independent business owner to profitably exceed the expectations of their retail client.

Jeff Anderson