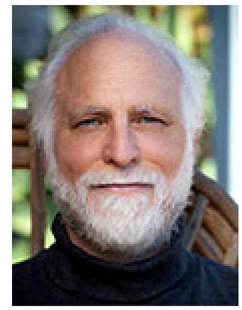
A Seven-Step Plan to Transform Your Practice

August 23, 2016

by Bob Veres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Advisory firms face a daunting challenge as they prepare themselves for the latest version of the future. They will have to retool their service offering for a new generation of clients (aka Millennials), who have very different preferences, different advice needs and far more digital sophistication than your Baby Boomer clients ever had.

Of course, they also need to strengthen their relationships with the heirs of their current clients, while also capturing Millennial-client relationships before those clients have reached your asset minimums – because if they don't, those relationships will end up elsewhere.

At the same time, today's advisory firms need to start incorporating what I've termed Software 2.0 – or automated software, sometimes called "robo" platforms – into their business operations.

To make the transition even more complicated, they need to get their younger advisors some real-world experience bringing in new business. Many experienced advisors took the advice of practice management pundits and hired people with complementary skillsets. The result, in many cases, is a successor team with limited rainmaking skills.

Finally, advisory firms will need to transition from the AUM (or commission) revenue model to retainer fees – because that's how Millennials prefer to pay for their services, and also because retainers present fewer conflicts of interest in the client relationship.

Where do you start as you address this confusing variety of interlocking challenges? Here's a quick seven-step process that will take you from here to there in an organized, systematic way.

1. **Embrace robo technology**

Incorporate one of the robo-solutions- – like Betterment Institutional, Vanare/NestEgg, Schwab Institutional Intelligent Portfolios or Jemstep – or an outsource solution like SEI, for your accommodation clients.

This reduces your internal costs to manage assets, and gives you leverage to turn a profit with clients who have much smaller portfolios than your current minimums. But more importantly, this gives you a taste of how to implement the automated back office of the future. And (perhaps *most* importantly) it lets you provide the sons and daughters of your current clients – Millennials – with a chance to gain a digital asset management experience through your firm. That will increase the likelihood that they'll keep their inherited assets with your firm when your current clients pass on.

These robo platforms will evolve from their relatively primitive state. They will integrate with your current software suite, allow legacy assets to be accepted and eventually allow you to create portfolios with a much wider spectrum of assets than ETFs. If you've gained familiarity with this technology, those will be relatively easy transitions. If you haven't, your evolutionary challenges become more complicated.

As the technology evolves, you will too. If you're still laboriously creating performance statements, you'll see how to give your clients real-time access to their investment information. You'll get your feet wet with the newfangled auto-ACAT transfers of assets and clients signing on via e-signatures rather than physical paper. Eventually, these innovations are going to dramatically reduce the paperwork hassles that you and your clients currently have to endure when prospects move from their brokerage firm to your advice model.

2. **Add self-planning to your website**

Allow clients to explore their own financial planning online through your website. There are a variety of options. MoneyGuidePro offers the MyMoneyGuide service, which provides tutorials for clients that help them create a reasonably complete financial plan – leaving you to help clients implement what they've created. The Advizr software offers budgeting and online planning, which you can take to the next level when clients come into your office.

Eventually, clients will not just check their account balances online whenever they want; they'll be able to see the much more relevant updated financial plan, based on the most recent market close. So if the market plunged 2% yesterday, they can look at the newest Monte Carlo evaluations and be reassured that they'll still be able to retire comfortably.

3. **Sunset your AUM fees**

Start replacing AUM fees with retainer fees – initially for your least profitable clients.

How do you know which clients are least profitable? Ideally, you'll create a spreadsheet which evaluates your cost of servicing each client. You multiply the time you spend with (and working for) each client by some hourly cost, and do the same with your professional staff. Divide your total office expenses by the number of clients and add that to your per-client costs. Total up the cost of your time, the time of your other advisors and each client's percentage of your overhead, then subtract that amount from the AUM fees that each client is paying you.

This does two things. You will discover that some – perhaps most--of your clients are unprofitable.

Second, when you sit down with these unprofitable clients, your spreadsheet helps you determine a fair retainer fee they should be willing to pay if they want to continue to receive your services. You set a fee that is equal to your internal cost of service for that client, plus an appropriate profit margin.

This experimental process will eventually become your template for replacing all AUM revenues with retainers. By starting with clients at the bottom of your profitability spreadsheet, you remove some of the risk of experimenting with how to communicate this important transition. You gain experience explaining the appropriate value of your services, and the less-conflicted revenue model, with clients who, if you were to lose them, wouldn't greatly impact your bottom line.

4. **Service Millennials differently**

Ask your Millennial advisors to create a service menu for Millennial clients who have good incomes but don't have a lot of assets to manage. This will include debt consulting for people with outstanding student loans, and spending plans (what used to be called "budgeting"), plus a model that shows how efficiently clients are translating their career asset (current and future income) into a portfolio that will ultimately make work optional as the career asset winds down.

The service will include insuring the career asset (life and disability insurance), along with advice on mortgage debt and buying a home, and how much to save each year for future contingencies.

5. **Market to Millennials**

Give your Millennial advisors the green light to start marketing this Millennial service package to their peers. They'll offer the digital experience of your new robo platform, plus the services they've researched and identified, plus online planning. They'll set appropriate retainer fees, and your firm will gain experience with a lot of unfamiliar aspects of the practice of the future.

Now that you can work profitably with Millennial clients, recognize that these middle-market consumers will outnumber wealthy Baby Boomer prospects by a ratio of at least 10:1 in your target client community. That means you will need more capacity. Start bringing on young associate advisors and give them experience working closely with your Millennial advisors.

6. **Create a strategic vision for serving Millennials**

As your client base grows dramatically, the center of gravity will move to the Millennial clients you're taking on. Your job, as senior advisor and company founder, is to look for more complex planning opportunities as those younger clients start to acquire wealth – and gradually show your younger advisors how to provide this more complex, more sophisticated service.

7. **Reflect on your success**

As your Baby Boomer clients die off, your most important client relationships will be firmly in the hands of your younger advisors, who will become partners and successors. It's time to relax and recognize that not only have you evolved from a Baby Boomer firm to a Millennial one, but you've also earned a rest as advisor emeritus, and eventually as a retired founder – knowing your firm's clients are in good hands.

Can it really be this easy? Of course not. Every one of these steps represents a significant operational challenge to you and your busy staff. It will be up to you how to implement each of these changes, who to put in charge of the transition and which platforms and services to offer.

But the very worst thing you could do is nothing.

In the August issue of my *Inside Information* newsletter, XY Planning Network founder Alan Moore expressed his concern on behalf of many established professionals: he said that he was afraid many of today's successful advisory businesses are going to have to manage 10 years of evolution in a short, hectic two or three years. I predict that a lot of today's professional and industry leaders will never realize the urgency – and get left behind. You don't want to be one of those.

Yes, going through 10 years of evolution in 24-36 months is daunting and scary. But if you manage the transition in an organized way, you'll be among the first to get from here to there, and find yourself in a commanding position in the marketplace.

It's like what they say about eating the elephant; if you try to do it all at once, you're going to get a bad case of indigestion. But if you do it one manageable bite at a time, and have a reasonable plan, you'll wake up one day and realize that you've achieved a goal that was extremely daunting at first.

Good luck!

*Bob Veres' **Inside Information** service is the best practice management, marketing, client service resource for financial services professionals. Check out his blog at: **www.bobveres.com.** Or check out his Insider's Forum Conference (for 2016 in San Diego) at **www.insidersforum.com.***

