

Taking Control: Exploring Independence | Part Three

Managing the Independent Practice

Going independent doesn't necessitate giving up
critical resources and support

Summary

Going independent can bring with it new business management responsibilities, including human resources, financial accounting, technology management, and marketing. While some advisors fear that going independent would necessitate that they spend a large amount of time managing these areas, and other aspects of operating their practice and business, this need not be the case. As a result of the increased maturation of the independent ecosystem, advisors can choose to partner with a wide range of third-party product and service providers that are able to support a variety of business functions, depending upon the advisors' needs and preferences. Advisors who prefer a more turnkey partner that can allow them to remain focused primarily on serving clients often identify a preference for affiliation with an independent broker/dealer (IBD) or other independent platform provider. In particular, many advisors cite the regulatory oversight offered by these providers as being extremely valuable both for reducing their own regulatory risk as well as for time savings.

Methodology

Commonwealth Financial Network® engaged Cerulli Associates to help understand advisor best practices in working with the firms they affiliate with*. In January and February 2022, Cerulli conducted qualitative research interviews with successful financial advisors across employee and independent channels. These interviews addressed a broad range of topics, including consideration or experience with moving to an independent channel, business development, client service models, succession planning, portfolio construction, and their overall relationships with the firms with which they have chosen to affiliate. Research participants were required to have a minimum of five years of experience as an advisor and \$50 million in client assets under management (AUM).

Advisor Time Allocation

The time spent managing administrative activities is only marginally higher for independent advisors

Advisor Activity	Wirehouse & National/Regional	Independent
Administrative Activities	21.6%	22.0%
Managing day-to-day operations/administration	8.5%	9.2%
Practice management	7.6%	7.7%
Compliance	3.7%	4.2%
Other	1.7%	0.9%

The data exhibited here is a result of Cerulli Associates' surveying of approximately 1,500 advisors each year.

*This study was paid for by Commonwealth Financial Network®. Commonwealth Financial Network® and Cerulli Associates are separate and unaffiliated entities.

Key Point

The amount of time and effort required to manage an independent practice varies significantly. Many advisors affiliated with IBDs and other independent platform providers tell Cerulli that they have achieved the benefits they wanted from independence, while being able to rely upon these firms for essential products, services, technology, and support that limit the amount of time they are required to spend on managing the practice and the business.



The Power of Control

Cerulli data shows that independence has been the fastest-growing form of advisor affiliation over the last decade, both in terms of the rate of growth in the number of advisors and the amount of client assets managed by advisors. Advisors identify independent affiliation as appealing to them for a variety of reasons, with the most significant factor being the ability to have a greater level of control over how they operate their practice.

Independent advisors often tell Cerulli that independence has enabled them to build what is their ideal practice for the types of clients they serve, and how they want to serve them. Advisors also often identify an increase in the number of new client referrals that they receive from clients after going independent, as their clients become emotionally invested in the success of the advisor's business, their unique value proposition, and the more conflict-free nature of the advice they receive.

Given the diversity of independent affiliation options, advisors have the ability to choose the form of affiliation that best aligns with their needs and preferences. For example, advisors who want full control over all areas of their practice, including decisions that are subject to regulatory provisions, may choose to operate within the framework of an independent RIA. In contrast, advisors who are primarily looking to gain greater control over the client experience, staffing decisions, and economics, but would prefer to retain the support of a broker/dealer home office, may be better served by affiliating with an IBD.

How Independence Can Put More Power into the Hands of an Advisor



Put client interests first. Independent advisors are able to focus solely on serving their clients, not the interests of their employer, while the separation of advice from the production of financial products reduces actual and perceived conflicts of interests.



Create a client experience customized to advisors' clientele. Independence provides a broad spectrum of control over the products and services that advisors offer to their clients, how they offer and price those services, and other aspects of the client experience.



Pursue advisors' preferred marketing and communication strategy. Independence provides a broad spectrum of control over marketing and client communication, including, in some cases, ultimate authority for those advisors who need it.



Make staffing decisions based upon the needs of the practice. Independent advisors have full control over the staffing levels of their practice, instead of having those levels dictated by a corporate policy over which they have little control.



Exert greater control over their economics. Independence enables advisors to pay only for the products and services that are necessary for the unique needs of their practice, which, among other factors, creates a potential for better economics.



Commonwealth Advisors Speak

"[Before independence] the support staff we had was always spread too thin and it wasn't in our control. Here, we hire our own people, we make a decision about who that's going to be, and they work for us, alone."

"When I'm sitting down with clients in my new office, and it's freshly painted, and my dogs are here, and they're meeting my wife and see the pictures of my kids... that's when I know I made the right decision."

"I was driving 45 minutes a day to this office outside of my natural territory. So [when I went independent] it just made sense we'd open up a practice in the town where I live....[as a result] I have been able to attain significantly more referrals, because I'm now in my natural market."

"[As an independent advisor] I'm better able to do what the client needs."

"It's awesome going to work now for just me. Now it's just a whole other world with just me and my clients."

Managing an Independent Practice

While independence provides advisors with greater control over how they serve their clients and operate their business, it also comes with an increase in the number of decisions that must be made and the time and effort necessary to make and implement those decisions and to manage ongoing operations.

Some of the most important and time-consuming decisions that are made by independent advisors are made during the initial evaluation, planning, and design phase of a transition to independence. This includes determining the ideal affiliation structure, identifying key service providers, choosing and setting up office space, and determining how to transition an advisor's book of business. Some independent advisors with whom Cerulli has spoken chose to join an existing independent practice to simplify this start-up process, and to be able to spread responsibilities for operational management across a larger group of advisors, among other reasons.

For those advisors who prefer to launch their own independent practice, prior to making the move to independence, it is advisable to thoroughly consider which aspects of business operations advisors would prefer to insource versus those they would prefer to outsource to a third-party partner, and why. A variety of factors should be taken into account when making these decisions, including the size and scale of the practice, the level of control advisors would like to exert over the business, and the overall extent to which advisors would prefer to work in the business versus on the business.

COMMONWEALTH VOICES



“Our advisors are not alone. At Commonwealth, there are so many people, tools, resources and specialists here. So, while advisors own their own business, we’re here to help walk them through anything they need...and go along the ride with them.”

Senior Commonwealth Financial Network® Executive

Key Aspects of Managing an Ongoing Independent Business



Regulatory Compliance

Includes creating an ongoing regime of practices and procedures to comply with securities regulations



Human Resources

Includes hiring staff, managing payroll and employee benefits, performance management, and employee training and development



Finance and Accounting

Includes maintaining financial books and records, financial performance and analysis, accounts payable, and income tax reporting



Technology

Includes the curation and management of a technology stack, vendor management, and data backup and security



Marketing

Includes business development and promotional strategy development and execution, brand management, social media monitoring, and website management



Operations

Includes real estate management, vendor management, trading and portfolio operations, and client billing

Leveraging Resources to Support the Independent Practice



Commonwealth Advisors Speak

How a firm goes about accessing the technology, platforms, services, and infrastructure that it needs to serve its clients tends to be largely dependent upon the services that it provides to clients, how it provides them, and the level of control it wants over each element. As a result of the growth in the number of advisors who have chosen independence, there are more resources available to support independent practices now than ever before. While this is highly advantageous to independently-minded advisors, combining and managing this growing plethora of services can also add an unnecessary level of complexity for practices that offer more traditional wealth management services using mainstream financial products.

As the independent landscape matures, Cerulli has observed that more advisors are electing to join existing practices, or choosing to partner with IBDs and other independent platform providers, in lieu of launching their own independent practices or cobbling together infrastructure on their own. Despite the reduction in control associated with this approach, advisors are finding that these partnerships often enable them to achieve what they wanted from independence, while providing instant scalability that enables them to spend more time servicing clients and growing their businesses.

Commonwealth’s Extensive Range of Support and Capabilities

Commonwealth is designed to support independent practices across all aspects of their business.

Establishing the Practice	Managing Business Operations
 <p>Support with all stages of business startup including entity formation, office selection, practice transition, marketing, payroll, and benefits</p>	 <p>Extensive assistance with real estate management, human resources, technology infrastructure, compliance, and financial accounting and analysis</p>
Serving Clients and Growing the Business	Practice Acquisition and Legacy Planning
 <p>Robust wealth management platform and support including an integrated technology suite, access to planning experts, virtual office assistants, and paraplanners, and turnkey marketing support</p>	 <p>Comprehensive assistance with ownership structure design and all stages of M&A, including matchmaking, business valuation, deal structure, and capital access</p>

“I think that a lot of advisors really underestimate the value of [Commonwealth’s] practice management support, you know, human resources, hiring new people, advice on insurance, how to deal with employee problems, or even their compliance. Their investment research is really amazing. I mean, *anything you need, they’re either going to know the answer or they will find the answer.*”

“The most valuable attribute of Commonwealth is that they genuinely look at us as their client. That’s been ingrained in them since the beginning. *Their job is to help us protect our business and give us the tools we need to grow it.*”

“I work every year with the practice management team to review my 10-point business plan, go over my P&L, etc. *Commonwealth has really helped me view my business from the lens of a small business owner.*”

“Commonwealth has a way of *minimizing your to-do list* and keeping things from slowing down your day.”