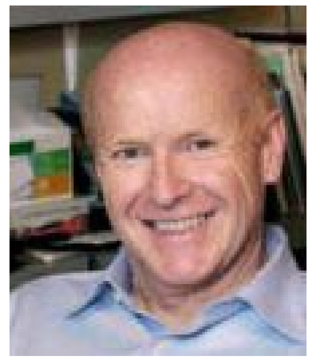
The Key Decision that Drives Million Dollar Books

By Dan Richards
October 19, 2010

Advisor Perspectives welcomes guest contributions. The views presented here do not necessarily represent those of Advisor Perspectives



I am often asked, "*What does it take to succeed at the highest level?"* by both new and not-so-new entrants to the financial industry.

Some important insights into that question were provided to me by PriceMetrix, an industry leader in advisor productivity. Launched 10 years ago, today it works with 20,000 advisors from 20 firms throughout the United States and Canada.

Recently, PriceMetrix released a thought-provoking analysis of the role that smaller households play in hindering advisors from achieving peak levels of financial success

Analyzing the books of 8,000 advisors from 15 firms, they divided client households into three categories:

- Small – under $100,000 in assets
- Medium – assets of $100,000 to $1 million
- Large – assets over $1 million

Is it all about the money?

A note on making the right decisions for your business:

Many factors drive advisor satisfaction beyond simply making money, not the least of which is feeling good about the difference we're making in clients' lives – and it would be wrong to suggest that maximizing income is all this business is about.

That said, when making business decisions on things like the kinds of clients you focus on, it's important to understand the tradeoffs you're making along the way.

Four key conclusions

PriceMetrix drew four key conclusions from its analysis:

1. *Most advisor portfolios are concentrated in small households*
2. *There's very low probability that small households will grow over a five-year period*
3. *With tenure in the business, most advisors shift to larger clients – the faster this happens, the more quickly advisors move to higher levels of production*
4. *Reducing small households can significantly improve productivity*

The role of small households

PriceMetrix quantified what many advisors had suspected – on average, smaller households represent a disproportionate number of clients relative to the revenue they generate.

Here's the data for the average advisor on small, medium and large households:

	% of households	% of revenue
Small accounts (<$100K)	52%	9%
Mid-sized accounts ($100K - $1M)	42%	44%
Large accounts (>$1M)	6%	47%

In other words, the average advisor could give up the bottom half of his or her clients and lose less than 10% of revenue.

The chances of small households growing

Many advisors justify their smaller clients by talking about the future potential they represent.

And certainly that's true in some cases – I recently spoke with a high-earning, professional couple in their mid-thirties. Over the past ten years, they've paid off university loans and the mortgage on a $2 million house and are currently saving $300,000 annually. Even with relatively low assets today, few advisors would turn this couple down.

This couple is the exception, however. Over the five years from 2005 to 2010 (remembering that this was a particularly ugly period in markets), only 10% of small households became mid-sized households and just 1% went from assets of under $100,000 to over $1 million.

Over this five-year period, small households were 100 times more likely to leave than to become million dollar clients. It took, on average, almost 250 small households to produce one large household five years later.

The evolution of advisor books over time

As you'd expect, advisors do migrate to larger clients as their careers progress.

But this doesn't always happen, nor does it to the degree you might expect.

Advisor length of service	< 3 years	>10 years
Small	66%	51%
Medium	31%	42%
Large	3%	7%

PriceMetrix found that the more this shift happens and the sooner this happens, the more likely the advisor is to generate annual revenue of $1 million or more.

A marked contrast distinguishes advisors who've been in the business ten years who've evolved to focus on larger clients and those whose mix still looks like advisors in their first three years – those who've made the shift to larger clients have twice the assets and almost two times the revenue of those who haven't.

Advisors can take action to increase productivity

The number of small clients is the one of the biggest drivers of productivity.

Here's an example. looking at the profile of million dollar books versus all others

	Million dollar books	All others	Difference
Small	34%	50%	(16%)
Medium	54%	45%	+9%
Large	12%	5%	+7%

Note that the biggest difference between the million dollar books wasn't the number of large million dollar-plus accounts; rather, it was the number of mid-sized $100K to $1 million clients.

Not every advisor aspires to be a million dollar producer … many are happy making a good living while serving appreciative, small and mid-sized clients.

At the same time, a solid level of financial success is essential to serve clients well.

And this research from PriceMetrix sheds insight on one aspect of the formula to achieving that threshold of success.

To read the full report, click here.

Dan Richards conducts programs to help advisors gain and retain clients and is an award winning faculty member in the MBA program at the University of Toronto. To see more of his written and video commentaries and to reach him, go to www.strategicimperatives.ca.