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# Scaling for Advisory Team Growth

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As advisors find avenues to successfully market their business and grow their client base, sustaining that growth over time can pose a bigger challenge. Can your advisory team scale to pursue new business while exceeding client expectations?

At Dimensional Fund Advisors, we have had the opportunity to collaborate with high-performing advisory teams for more than 27 years. Through our practice management initiatives, we have worked with advisory firms of all sizes and business models and have gained a wealth of insight into how top teams have balanced their growth and client service priorities. In many cases, these advisors have built their team and business process around scalability, defined as the capacity to maintain the current level of client service while expanding their client base and assets under management.

Improving scale is generally accomplished by having well-defined team roles, a well-formed growth strategy, and a client service process informed by a strong investment philosophy and value proposition. Using data from our Advisor Benchmarks Study as a baseline, let's explore how organizing around scalability can help you deliver a consistently great client experience while creating a virtuous circle of sustainable growth for your business.

## TEAM ROLES

In a typical advisory model, one to three senior advisors drive client retention and growth. They have earned their clients' trust and spend most of their time maintaining those relationships through one-on-one meetings. In contrast,

## Can your advisory team scale to pursue new business while exceeding client expectations?

the support team may have limited direct exposure to clients and spends most of their time performing routine account services and responding to ad hoc requests.

This advisor-centered model creates two pressure points in the business. First, an advisor's time is limited. He or she can only meet with one client at a time, and as the business grows, the team must service more clients and accounts, with each client receiving a diminishing share of the senior advisor's time and attention. As a result, many clients may perceive that they are less valued, which may lead to higher client turnover.

The second challenge comes when a senior advisor nears retirement and some clients are tempted to leave the team as they anticipate losing their primary contact and perceived source of value. Our benchmarking data shows that the need to restructure a team for increased client engagement may become apparent well before a senior advisor plans to retire.

The data also supports the fact that teams with the highest production growth rates have assembled a support staff that can service an expanding client base.

**Exhibit 1: Percentage of Teams with a Human Capital Focus in Their Strategy**

(By growth rate quartile)

Strategy Component	Bottom Quartile	25th–75th Percentile	Top Quartile
Organization Chart	64%	75%	89%
Staffing Forecast	39%	51%	68%
Development Plans	37%	47%	72%
Compensation Philosophy	42%	56%	75%

Quartiles are based on reported team revenue and asset growth rates. Quartile percentages illustrate the percent of teams that apply each human capital strategy component in their business. Source: Dimensional 2018 Advisor Benchmarks Study; results from a subset of 160 firms with >\$3MM annual revenue in 2017 (1,150 participating firms in US).

Two essential actions are to:

- 1. Define staff roles and responsibilities.** Guided by a client-centered philosophy and empowered with defined responsibilities, team members can take the initiative with clients to identify problems and provide solutions to meet their needs.
- 2. Establish career paths for team members and link their advancement and compensation to client growth.** This encourages a team to invest in the process and seek out opportunities to build the business through better client service and resulting referrals.

As shown in **Exhibit 1**, teams with a human capital focus in their strategy experience higher revenue and asset growth rates. The strategy components consist of an organizational chart, staffing forecast, development plans, and compensation philosophy.

Additionally, data from the same 2018 benchmarking study shows that teams that employ job shadowing—that is, giving junior team members the opportunity to observe senior advisors interacting with clients—experience substantially higher revenue growth rates. Of teams in the top quartile of revenue growth, 75% employ job shadowing, while only 45% in the bottom quartile of revenue growth employ it.

As staff roles advance over time, clients may extend their trust and confidence beyond the advisor to the integrated team. Clients receive more responsive service from a knowledgeable and empowered staff, while senior advisors can concentrate on high-impact activities that best leverage their experience and skillsets for clients.

**BUSINESS GROWTH STRATEGY**

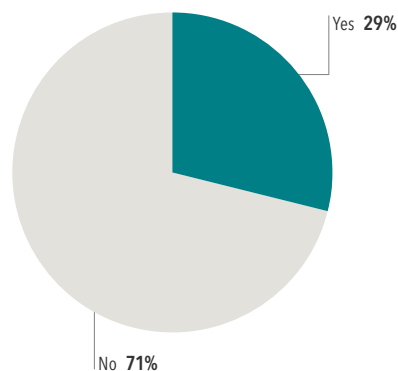
In our experience, few advisory teams have a proactive marketing plan because their business model does not accommodate it. The advisor and team spend most of their time managing investments and servicing clients.

Both activities are essential, but without scalability, the advisory team lacks stored capacity to service the growth.

The team's ability to more efficiently onboard and advise clients—then service them through an integrated, well-executed effort—can free up an advisor's time to actively promote the business in a systematic manner and through multiple channels. This may include meeting with prospects, asking for client referrals, developing professional relationships that can act as centers of influence, and implementing marketing tactics, such as hosting client events and communicating with clients and prospects through social media and other avenues.

A marketing strategy also may encourage more effective and consistent messaging on your team's mission and value offering, leading to a well-established brand over time. Despite these potential benefits, most advisory firms lack a documented marketing strategy, as reported in Dimensional's 2017 benchmarking study (**Exhibit 2**).

**Exhibit 2: Does Your Firm Have a Documented Marketing Strategy?**



Source: Dimensional 2017 Advisor Benchmarks Study (991 participating firms in US).

*Implementing a marketing strategy* was the number one opportunity identified by these study participants, and firms that reported having a strategy spent 19% more on marketing and grew revenues at a 52% higher rate than firms that had no strategy (10.0% vs. 6.6% growth).

#### CLIENT SERVICE PROCESS

Even the best-equipped and motivated team may end up spinning its wheels if the client service process does not easily scale. By process, we mean all facets of advisory operations, including onboarding clients, providing planning and investment advice, designing portfolios, managing accounts, and performing other client-oriented functions.

Advisory teams that build their business around a consistent investment philosophy and resulting value proposition are better able to track growth drivers while onboarding new clients and servicing them according to the values and philosophy that initially attracted the clients to the team.

So, how does investment philosophy impact your offering? In our experience working with advisors, we commonly see a firm's investment approach affecting its capacity across multiple areas of the business. For example, a market-based strategy designed around capturing asset class returns through model portfolios requires a much different support infrastructure than a traditional active strategy that strives to outperform benchmarks through security selection and market timing.

These two approaches focus on different activities and value propositions: A team implementing a market-based approach spends more time defining individual investor goals, setting return expectations, communicating market principles and the role of discipline in long-term success, and reviewing performance through an empirical lens.

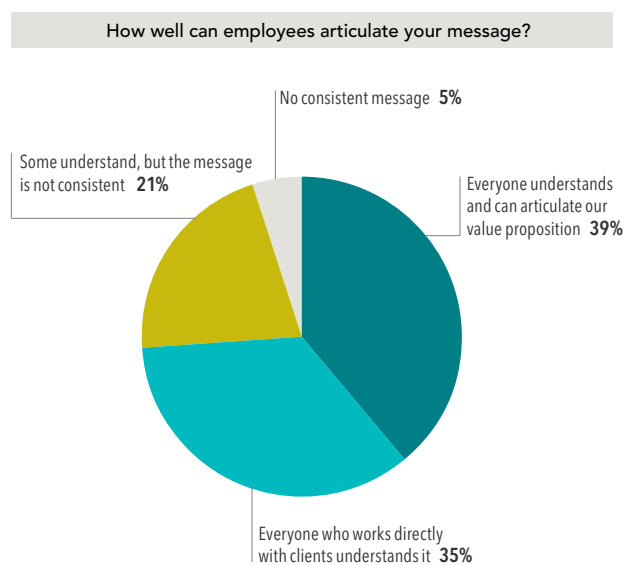
In contrast, an active approach is transaction-driven, with each client account unique in its design and requiring separate analysis and management decisions in an ever-shifting market environment. The client messaging involved with this approach will likely vary based on changing market conditions and forecasts. Consistent communication across team members requires continual updates and frequent team meetings.

A clear and cohesive investment philosophy introduces scalability into managing investments and allows more resources to be committed to developing new business. Applying a consistent investment approach can also require less time managing each client's account or having to explain or defend investment returns, especially in down markets. The team can devote more time to cultivating client relationships in an effort to better understand client needs, objectives, and concerns, and offer appropriate investment solutions. The team can provide more client education while managing short- and long-term expectations.

Additionally, a philosophy-centered approach results in more aligned communication with clients across team members. When team members understand and articulate a consistent message, they may be better equipped to provide a level of service that elevates the overall client experience.

Our benchmarking data, as shown below in **Exhibit 3**, supports the benefits of a consistent message. Most firms (74%) indicated that all employees or those in client-facing roles understand their firm's value proposition. Moreover, firms with a consistent message that everyone understands and can articulate experienced 5% higher growth in assets under management and 6% higher revenue growth than did firms without one.

#### Exhibit 3: Message Consistency Among Advisory Firms



Source: Dimensional 2017 Advisor Benchmarks Study (991 participating firms in US).

Exhibit 4: Virtuous Circle of Growth



#### SUMMARY

Integrating your team's roles, growth strategy, and approach to client service can help scale your advisory business. As summarized in **Exhibit 4**, this structure can support a virtuous circle of growth in which senior advisors spend more time in high-value activities that create new clients and increase assets under management. Equipped with a well-defined message and investment philosophy, your team can maintain a high level of service, leading to a better client experience, qualified referrals, and more success.

Improved scalability also can lead to a happier, more fulfilled staff that understands the mission and takes opportunities to grow the business and reinforce your brand.

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