Global Findings: How Firms Win in the Margins

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KEY TAKEAWAYS

- Focusing on the incremental, day-to-day decisions can have a strong, positive impact on a firm's business.
- High Performing Firms generate much higher profits per client than Other Firms.
- High Performing Firms retain more of their net profits and reinvest them back into the business.

Dimensional's 2023 Global Advisor Study (Global)

859	$421B	8	$3.3MM
ADVISORY FIRMS	TOTAL BILLABLE ASSETS (TBA)	REVENUE PEER GROUPS	AVERAGE FIRM REVENUE

EXECUTIVE SUMMARY

The 13th year of the 2023 Global Advisor Study was marked by the addition of two new regions: Hong Kong and Singapore! Global participation remained strong with 859 firms completing the study, of which 77% were returning participants. Once again, how High Performing Firms (HPFs)[1] are operating to drive growth and value is a central focus as we examine the study results. This universe of HPFs comprises the top quartile of firms when assessed against five key metrics: Revenue Growth, Client Retention, Employee Retention, Profit Margin, and Revenue Per Advisor.

Overall, the theme across the results is "winning in the margins." We did not always see significant differences between HPFs and the other firms in our study, but rather that incremental, sometimes "day to day" decisions compound over time to help curate a high-performing business.

Of the High Performing Firms from 2022 that also participated in the 2023 Global Advisor Study, 41% remained High Performing Firms in 2023 (we would expect this number to be 25% if it was random). This indicates that HPFs tend to continue to perform well year on year.

Despite 2022 being a challenging year for market performance, the average firm grew its Total Billable Assets (TBA) by 12.4%. HPFs grew their assets even more, with an average growth rate of 17.4%. Ignoring market impact and growth from M&A activity, the average organic TBA growth rate for the year was 14.1%. In terms of revenue, the average was

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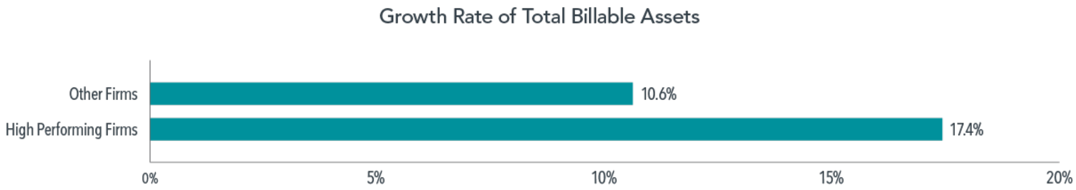
$3.3 million, with an average growth rate of 19% over the year.



STRATEGY

Firms were asked to assess what their top growth challenges were. Dealing with "capacity constraints" ranked highly among HPFs, with Other Firms noting a challenge with "sourcing prospective clients."

While the average number of households serviced per senior advisor or per full time equivalent (FTE) was nearly identical for all firms in the study, the average household asset size was larger for HPFs ($1.51 million) than for Other Firms ($1.20 million). This, of course, results in more revenue and higher profit margins.

GROWTH AND MARKETING

Across the three sources of asset growth, HPFs experienced higher growth than Other Firms in each category:

- Net flows from new/lost clients: 11.4% vs. 10.3%
- Net flows from existing clients: 8.8% vs. 3.1%
- Inorganic growth (M&A): 1.7% vs. 1.4%

A clear value proposition and ideal target client profile remain important components for firms interested in growing and effectively managing their client experience.

With that, 62.1% of High Performing Firms met or exceeded their goal of gaining new clients during the year, compared with 53.9% of Other Firms. In addition, it is worth noting that 11.7% of Other Firms did not track this metric.

HUMAN CAPITAL

The average employee retention rate for High Performing Firms (95.9%) was higher than for Other Firms (93.2%). While these percentages are relatively similar, the time and costs saved by HPFs on recruitment, hiring, training, and retaining employees give them an edge over time.

In relation to employee departures, the decision is more likely to be the choice of the firm for High Performing Firms, whereas the decision is more likely to be that of the employees at Other Firms.

Consistent with data from previous years, High Performing Firms tend to have a higher ratio of client-facing support staff to senior advisors. This has multiple effects:

- Frees up senior advisors' time to generate new business, in lieu of spending time servicing existing business.
- Lower spend on compensation (as a percentage of revenue) due to team structure tilting towards lower-compensated roles.

OPERATIONS AND INVESTMENTS

A majority (66.7%) of firms did not change their fees in 2022. For the firms that did make a change, fees were raised more often than they were lowered.

High Performing Firms (58.9%) are more likely to offer custom portfolio solutions than Other Firms (52.4%). While not formally measured in the study, this is often attributable to HPFs offering a broader set of services and resources to the client.

For example, 67% of HPFs' clients utilize a tax-planning service, compared with 59% of Other Firms' clients.

CLIENT EXPERIENCE

Clients lost by High Performing Firms were more likely the choice of the firm ("We terminated") or due to a life event (death or divorce). Comparatively, Other Firms were more likely to lose clients to competing advisers or because of fees or investment performance.

As with prior years, High Performing Firms continue to offer more services (12.4 of 22) compared with Other Firms (11.9 of 22). One specific service that High Performing Firms were far more likely to offer was tax planning.

INCOME STATEMENT

High Performing Firms tend to retain more of their net profits and reinvest them back into the business. The average High Performing Firm distributed 54.8% of net profits to owners, compared to an average distribution of 56.9% of net profits by Other Firms.

Human Capital is by far the largest expense for firms. There is a dramatic difference in Human Capital spend as a percentage of revenue for High Performing Firms (38.1%) relative to Other Firms (50.8%). High Performing Firms are not paying their employees less (as can be seen in the Compensation section below), but rather the same number of employees are generating more revenue (due to larger assets, hence revenue, per household).

High Performing Firms are able to generate higher profits per client, with an average Operating Profit per Household of $4,438, about double the average of $2,224 for Other Firms.

High Performing Firms vs. Other Firms

	High Performing Firms	Other Firms
Average Operating Profit Margin	43.3%	21.6%
Median Revenue Growth Rate	13.7%	4.9%
Average Revenue	$3.11 Million	$3.37 Million
FTE (Average)	11	14
Average Number of Households	411	484

COMPENSATION

From 2021 to 2022, average total cash compensation climbed 4% for both senior advisors and service advisors.

For three of the most common roles (senior advisor, service advisor, and associate advisor), High Performing Firms on average pay a higher total cash compensation than Other Firms. At the same time, High Performing Firms tend to spend a lower percentage of revenue on Human Capital. One reason for this apparent paradox is that High Performing Firms tend to have a higher ratio of lower paid employees (service advisor, associate advisor, client service associate) to higher paid employees (senior advisor).

The most common compensation structure for client-facing employees is a base salary plus bonus (not a business development bonus). Compared with Other Firms, High Performing Firms are more likely to pay their client-facing employees based on revenue managed/generated.

High Performing Firms tend to have broader ownership, with 36% of employees having an ownership stake in the firm, compared with 31% at Other Firms.

CONCLUSION

As firms navigate growth and focus on improving the client experience, the impact of paying close attention to the areas of the business that sit "on the margin" helps create an edge against competitors, aiding in attracting talent and retaining clients.

Summary of High Performing Firms

13.7%	99.3%	95.9%	65.6%	$1.03MM
Year-Over-Year Revenue Growth (median)	Client Retention Rate (average)	Employee Retention (average)	EBOC Margin (average)	Revenue per Advisor (Senior and Service) (average)

1. Dimensional's Practice Management group uses this term to identify the highest-performing advisory firms by evaluating metrics collected in the annual Global Advisor Study. Each firm is given a percentile rank across the five metrics: revenue growth, client retention, employee retention, profit margin, and revenue per advisor. A firm's score is the average of these five metrics. Firms whose scores are in the top quartile among all firms are considered High Performing Firms. Firms in the other three quartiles are referred to collectively as Other Firms.

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