charles SCHWAB

MKT
MARKET KNOWLEDGE TOOLS®

BEST-MANAGED FIRMS: MASTERING STRATEGIC PLANNING

A Practical Guide to Charting Your Firm's Future

Schwab Market Knowledge Tools® (MKT)

Based on the leadership position of Charles Schwab & Co., Inc. ("Schwab") in the registered investment advisor (RIA) marketplace (nearly 7,000 advisors and over 25 years as of this printing), we are in a position to observe and see what works in successful advisory firms. Through Schwab's proprietary benchmarking and in-depth qualitative research with successful firms, we are able to discover and share best practices.

This white paper is part of the Schwab Market Knowledge Tools series, an ongoing program of industry research reports, white papers, and guides from Schwab designed to keep investment advisors on the forefront of trends and competitive challenges facing the industry today. Offered exclusively to Schwab's valued clients, the MKT program delivers the kind of relevant and timely information needed for future business planning.

EXECUTIVE SUMMARY

Schwab's RIA Benchmarking Study reveals that the majority of registered investment advisors (RIAs) consistently place growing their firm at the top of their business initiatives. It also shows that firms with higher growth rates and margins typically have a more rigorous strategic planning process.

The discipline of strategic planning is a powerful tool many successful firms use to grow profitably. It can help firm leadership manage the increasing complexities of a growing business and navigate an operating environment that has become more competitive and complex. Establishing goals and putting the steps to achieve them in writing give the leadership team—and the firm—a shared understanding of the future and how to get there.

However, only half of all firms we surveyed have a written plan. Why only half? Strategic planning is not an easy exercise. It requires discipline in stepping away from day-to-day business issues and follow-through.

This paper breaks down the strategic planning methodology into manageable steps. We have adapted some of the most applicable concepts from thought leaders in the field of strategic planning and strategy. To learn more, we interviewed nine RIAs in the top 20% of qualifying firms ranked by productivity, profitability, and revenue growth in Schwab's RIA Benchmarking Study. These firms—what we call Best-Managed Firms—develop a disciplined planning process and use strategic planning for their business.

In conjunction with this paper, Schwab has created a set of tools and a consulting program to help advisory firms build and implement their strategic plan. For more information, contact your Schwab relationship manager.

Whether you are focused on growth or another goal, the paper will help you:

- Understand your firm's values and purpose, and define a vision for the future of your firm.
- Assess the internal and external forces affecting your firm so that you can stay competitive in the years to come.
- Formulate long-term goals that drive business value and develop strategies to achieve them.
- Set key initiatives and annual goals that will be the focus of your firm's resources and time.
- Develop an implementation plan and align individual responsibilities.
- Ensure consistency and alignment among your firm's initiatives and its vision, goals, and strategies.

IMPORTANCE OF STRATEGIC PLANNING

For most independent RIA firms, growth is the top priority. Growth often increases the complexity of a business and the infrastructure that supports it. In addition, as the RIA industry evolves and matures, the external environment in which advisory firms operate is becoming increasingly more competitive and complicated. These two forces—one internal and one external—make accelerating growth and maintaining profitability more challenging than ever. Management teams will have to make intelligent choices among a growing set of options and execute focused strategies as they evolve their practices. Now more than ever, the discipline of strategic planning will prove to be a critical tool for success.

Strategic planning is a systematic, documented process for determining long-term vision and goals and identifying a sequence of steps to achieve them. According to Michael Porter, Bishop William Lawrence University Professor of Harvard Business School, strategic planning involves creating a unique and valuable position and aligning different sets of activities to support it. It involves creating a tight fit among a company's activities and requires management to make trade-offs among competing priorities—choosing what *not* to do.[1]

For RIA firm principals, strategic planning can be an invaluable tool, helping them manage the challenges and key decision points they will face during different phases of their firm's life cycle.

Complexity increases as firms grow

Growth is important because it can drive firm value and sustainability, and it has clear benefits for the practice, its clients, and its employees, as well as long-term benefits for firm owners and their successors. According to Schwab's annual RIA Benchmarking Study,[2] a majority of advisors placed growing the firm at the top of their business initiatives, and nearly 9 in 10 plan to grow their firms aggressively or moderately over the next 5 years.

Building an efficient, profitable, and scalable business that provides high-touch, high-quality client advisory services to an increasingly sophisticated client base is not easy. Growth and a larger firm typically mean managing a more complicated business supported by more people

1. Michael E. Porter, "What Is Strategy?" *Harvard Business Review* (November 1996).
2. The 2011 RIA Benchmarking Study from Charles Schwab comprises self-reported data from advisory firms that custody their assets with Charles Schwab. The study was fielded in February and March 2011 and includes self-reported data from 820 firms.

with specialized skills, more complex business processes, and a more sophisticated technology infrastructure. Having a plan to navigate these increasing complexities is critical as firms grow.

External environment becomes more challenging to navigate

As the RIA industry matures, increased competition, regulatory changes, and evolving client needs are complicating the business environment. These forces put pressure on firms and make the healthy growth rates previously enjoyed by many firms more difficult to sustain. In addition to the increasing operational complexities that come with size, these trends underscore the need for effective management and strategic planning.

Competition is increasing as more advisors continue to shift to the independent business model. Between 2009 and 2014, market share in terms of advisor headcount is expected to increase for firms with dually registered[3] advisors and RIA-only firms from 10% to 18%. By contrast, other channels—including wirehouses and bank, regional, and insurance broker-dealers—are expected to see flat to negative growth in share.[4]

The increased number of advisors competing in the independent space can make it harder for RIA firms to differentiate themselves with prospects. In addition, firms will likely find it challenging to attract and retain employees because there is more competition for a limited pool of experienced employees. A growing firm that differentiates itself with a well-defined strategy is typically better able to attract and retain both clients and top talent.

At the same time, there is upward pressure on the costs to serve clients. In response to competition, RIA firms often must add more products and services and increase marketing and business development efforts. Client service expectations and needs are also evolving—particularly after the recent market downturn—and RIAs must adapt their practices in response. Firms are aligning their business and service delivery models to optimize both the client experience and firm performance.

"Planning is a way of life for us. Nothing happens without a plan. I started planning from the beginning and it has helped propel my business forward."

— Chuck Bean, Principal and Owner, Heritage Financial Services

In addition to competitive pressures, the regulatory environment is also putting upward pressure on the cost to serve clients. The Dodd-Frank Wall Street Reform and Consumer Protection Act passed in 2010 calls for the creation of hundreds of new rules and scores of separate studies to recommend courses of action for reform.[5]

Growth in an evolving and maturing market comes with risks as well as rewards. Whether modifying a service offering or making an investment in technology infrastructure, the strategic planning process can help firm management navigate a fast-changing environment, balance risks, and maximize opportunities.

3. Dually registered advisors maintain both advisory and brokerage business and either start or join an independent RIA firm. According to the Cerulli Associates' report *Advisor Metrics 2009*: "Dually registered advisors are affiliated with a broker-dealer in addition to maintaining an RIA registration separate of their broker-dealer."
4. Cerulli Associates. *Cerulli Quantitative Update: Advisor Metrics 2010* (2010).
5. Dan Jamieson, "RIAs: The Struggle for Advisor Firms to Maintain Growth." *InvestmentNews* (May 29, 2011).

The importance of planning

Firms face important choices during different stages of their growth path. Strategic planning is at the heart of disciplined business management and can help RIA principals evolve their practice into an enduring, sustainable business. The strategic planning process helps firms to:

- **Define a roadmap to build value.** It describes a future you envision for the firm, as well as the goals, strategies, and initiatives to achieve it. Careful planning for growth can help firms manage risks and take advantage of opportunities.
- **Enable and drive profitable growth.** It forces a company to plan for growth by establishing the infrastructure necessary to scale the business. It can also drive growth by guiding a firm to create a differentiated competitive strategy with an offering that resonates with clients.
- **Ensure consistency and alignment among initiatives and firm vision, goals, and strategies.** It helps firms make decisions that are consistent with a defined vision and goals. Consistency and alignment among vision, strategy, goals, and initiatives are characteristic of the world's most enduring businesses, helping them stay focused on things that matter and avoid those that don't.[6]
- **Focus and align firm staff and activities.** A defined plan will help firm management align staff with a defined set of priorities.
- **Direct investments and hiring.** A strategic road map helps firms know where to invest resources and how to round out their organization with employees who possess the right skills.

Best-Managed Firms plan for growth

Studies from Schwab reveal firms that outperform their peers in terms of revenue growth, profitability, and productivity leverage strategy and planning as part of their business growth engine. These firms—what Schwab calls Best-Managed Firms[7]—develop a disciplined structure around their planning processes and keep their staff involved and accountable for results.[8]

Best-Managed Firms follow a more rigorous planning approach than do other firms. Nearly twice as many Best-Managed Firms with a written plan use a time frame of five or more years (48% versus 25%). In addition to using a longer time horizon, Best-Managed Firms on average rely on twice as many sources of research than other firms, and they validate their results against the plan more often. Their rigorous planning may be the reason only 24%

6. James C. Collins and Jerry I. Porras. *Built to Last: Successful Habits of Visionary Companies* (HarperBusiness, 1994).
7. Best-Managed Firms are the top 20% of qualifying firms ranked by profitability, revenue growth, and productivity in the annual RIA Benchmarking Study from Charles Schwab, which comprise self-reported data from advisory firms that custody their assets with Charles Schwab. The top 20% is calculated after removing those with less than $1 million in revenue. See Appendix A for methodology.
8. Schwab's 2009 MKT report Best-Managed Firms: The Business of Serving Clients.

of these firms consider long-term, strategic, and marketing planning barriers to growth compared with 43% of all other firms.[9]

"Planning is very valuable. It ensures that from the top down we are on the same page about how we can consistently grow and serve clients."

— Stephen B. Schuler, President, Maryland Capital Management

This paper presents a step-by-step framework for strategic planning. We have adapted some of the most applicable concepts from thought leaders in the field of strategic planning and strategy and made them relevant and approachable for small businesses in the RIA industry. To learn more, we interviewed nine Best-Managed Firms[10] that use strategic planning for their business. We also leveraged the insight we gained from hundreds of business consulting engagements to help our clients grow profitably.

9. Data from Schwab's 2011 RIA Benchmarking Study.
10. Firms interviewed are Best-Managed Firms from Schwab's 2010 RIA Benchmarking Study, which comprises self-reported data from advisory firms that custody their assets with Charles Schwab. The study was fielded in February and March 2010 and includes self-reported data from 870 firms. See Appendix A for methodology.

STRATEGIC PLANNING FRAMEWORK

STRATEGIC PLANNING OVERVIEW

Strategic planning can be an invaluable tool to help firms manage the challenges and key decision points they will face during different phases of their life cycle. Nearly all firms formalize planning at some point as an imperative to maintain profitable growth, and firms of all sizes can and do benefit from developing a planning discipline early on. As with any planning exercise, opportunities and options increase with early preparation.

The 6-step planning framework outlined in this paper is designed to help you be successful in the strategic planning process by effectively focusing your time and energy in a sequential, step-by-step process that answers the basic questions: Who are you? What do you want to be? What are your core competencies and key issues? What are your goals? What are the strategies to achieve them? What do you need to do?

Exhibit 1 illustrates the 6-step framework. The first four steps form the foundation of your firm's strategic direction: firm purpose, values, vision; situation analysis; long-term goals; and strategy development. The final two steps guide you in defining key initiatives and annual goals, as well as quarterly implementation plans.

In **Step 1**, you will define your firm's purpose, values, and vision. You will describe your firm as it is now and paint a picture of the future you envision. A common pitfall for smaller firms is to focus on defining short-term tactics without grounding them in a vision or future goals. Growing profitably requires smart strategic planning, and planning with a long-term horizon is a best practice firms of any size should follow. Best-Managed Firms plan with longer time horizons. They are almost twice as likely as other firms to develop strategic plans that cover time horizons of five years or more. (See Exhibit 2 on page 9)

In **Step 2**, you will conduct a situation analysis to identify the most important issues you need to address to achieve your long-term vision. An in-depth assessment of the situation inside and outside your firm addresses another common pitfall in strategic planning: not taking the time to study and thoroughly understand the environment in which the firm operates. Some firms do not understand enough about their target market, competition, or changes in the industry and regulatory environment. Others do not know enough about internal factors like firm performance and profitability, or the efficiency of their operational processes and marketing programs. The situation analysis in Step 2 generates insights about the firm's strengths, weaknesses, opportunities, and threats (also known as a SWOT analysis). This assessment ensures your plan is anchored in reality, and it helps you distill the few key issues that you will need to address in your plan.

In **Step 3**, you will define a short list of critical and measurable long-term goals. Experts in personal and organizational effectiveness have proven that having written goals increases your chances of achieving them.[11] These goals must drive business value; in most cases, goals focus on client growth, asset growth, or profitability. They should be grounded in reality, based on your situation. Goals should take into account your future direction and mark near-term milestones on the path to achieving your long-term vision.

Step 4 will guide you in defining your strategy. While previous steps focused on where you are today and where you want to go, strategy development is about defining how you will get there. Your strategy defines which clients you will target, how you serve them, your unique value proposition, and how you will compete in the market with a sustainable competitive advantage. Strategy also helps you decide which decisions and corresponding investments in the business are important and which are not. In addition, your strategy helps you clarify priorities to address key issues uncovered in your situation analysis.

In **Step 5**, you will identify the key initiatives and annual goals that will be the focus of most of your firm's resources and time. By tying your tactical initiatives to your strategic priorities, you will maximize the chances of success and avoid the common problem of resource dilution.

EXHIBIT 1: STRATEGIC PLANNING FRAMEWORK

Step 6, implementation planning, is the last step in the framework. It defines the "who, what, and when" of each initiative and ensures your entire firm is working toward the same goals. In this step you will assign individuals to different initiatives, define individual accountabilities, and identify tools required to monitor progress.

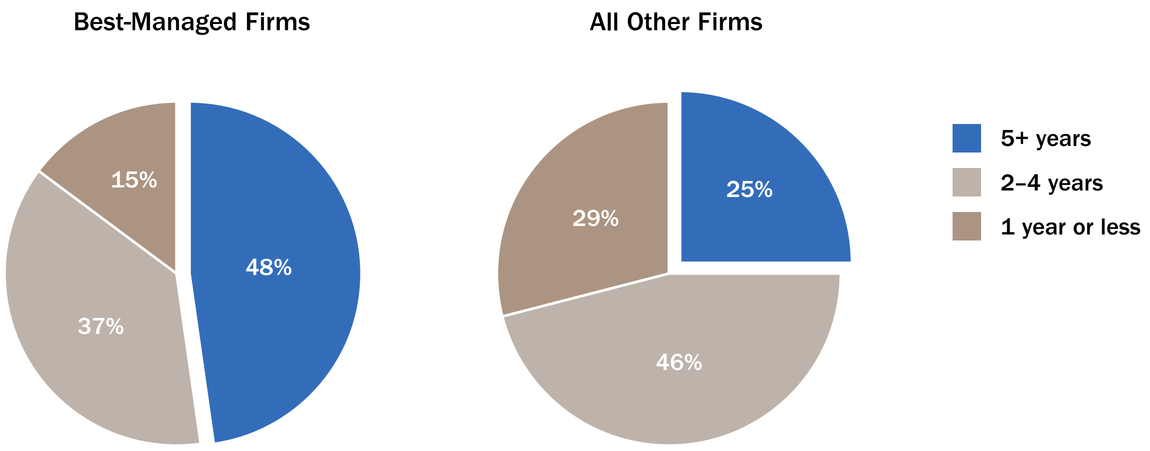
Use the important tools in the appendices

This report includes some valuable resources designed to help guide you as you progress through the 6-step framework outlined earlier. Please refer to the appendices while reviewing the rest of the paper and completing your plan.

11. Stephen R. Covey, *The 7 Habits of Highly Effective People: Powerful Lessons in Personal Change* (Simon & Schuster, 1989).

EXHIBIT 2: BEST-MANAGED FIRMS' PLANS HAVE LONGER-TERM HORIZON

Time horizon used in written strategic plans



Source: The 2011 RIA Benchmarking Study from Charles Schwab.

- **Completed example of a strategic plan (Appendices B and C).** During each step, we present specific examples of how different firms use the concepts presented. To provide a holistic view of a completed plan, the sample plan in Appendix B shows how the elements in the planning process are interlinked. The sample implementation plan in Appendix C maps the actions, individual responsibilities, and due dates that support the initiatives and goals outlined in the strategic plan. Both plans incorporate ideas derived from interviews with various Best-Managed Firms.
- **Best-Managed Firms income statements and performance ratios (Appendices D and E).** We suggest referring to the income statements and performance benchmarks from Schwab's 2011 RIA Benchmarking Study to help your analysis.
- **Additional resources on strategic planning (Appendix F).** We believe firm principals will find this list of books, articles, and external resources on strategy helpful as they complete a strategic plan for their firm.

Best practices for building your strategic plan

Our research with Best-Managed Firms and Schwab's experience in consulting engagements reveal some best practices to keep top of mind while going through the strategic planning process.

- **Make senior leaders accountable for plan completion.** Some of the larger Best-Managed Firms we spoke with had a designated COO who was in charge of strategic planning. For smaller firms that cannot justify a dedicated resource, we recommend assigning responsibility for strategic planning to a senior principal.

- **Consider hiring a third-party consultant or facilitator.** An external coach can work with the firm's senior principals to design the agenda and facilitate planning sessions. The coach can ensure the meetings stay on track and that the most important decisions are reached.
- **Engage firm staff in big decisions.** Employee involvement early in the planning process helps ensure engagement and eventual adoption. For example, employees at Baltimore-based Maryland Capital Management, LLC provide feedback during casual bimonthly lunches with a firm principal on issues ranging from the benign (for example, a broken coffeemaker) to the strategic (for example, hiring a new relationship manager).
- **Set aside time for re-evaluation and iteration.** Consider tackling one step in the framework per meeting, especially the first time you go through the process. You should also allow enough time for participants to digest information collected for the SWOT analysis so they can be better prepared.
- **Hold planning sessions offsite.** This helps ensure participants remain focused and free from office distractions such as phone calls and meetings.
- **Set long-term vision and goals before diving into tactics.** A sound strategic plan is one in which long-term elements drive short-term tactics.
- **Avoid skipping steps.** Even if you have already completed some of the steps in the framework in this report, we encourage you to use the definitions and best practices outlined here to revisit and refine what you have already done. For instance, you may want to re-examine if your firm's vision is far-reaching and inspirational enough, or whether your firm's short-term goals and initiatives support that vision.
- **Choose time frames that work for you.** For each step, we propose different time frames according to best practices. However, we recommend firms have a long-range vision (between 5 and 15 years) and short-term goals and initiatives (annual or quarterly).
- **Prioritize and don't overcommit.** Prioritization is important throughout the entire process. Key issues and core competencies are the highest priority findings from the SWOT analysis. Prioritization is also critical in setting long-term goals, strategic priorities, and annual initiatives. Taking on more than three to five goals at any one time will likely be counterproductive and overwhelming.
- **Seek guidance and information from peer groups and industry resources.** Investigate joining a professional group of noncompetitor firms that gets together regularly to exchange information and ideas. Journals and periodicals are also good sources of information on different issues and trends.

As part of our strategic planning offering, Schwab has created a set of in-depth tools and consulting programs that complement and deepen the information in this paper. For more information, contact your Schwab relationship manager.

STEP 1: PURPOSE, VALUES, AND VISION

Who are you and where do you want to go? The most successful, enduring businesses possess a central purpose and a core set of values that help guide and inspire them. These remain constant while business strategies and practices adapt to a changing environment. This core ideology is central to a firm's ability to make decisions, hire and motivate skilled employees, retain clients, and generate referrals. Successful businesses also have a stated idea of where they want to go in the long term—a vision for the future. The vision supports the firm's core purpose and values and helps stimulate progress toward the future.[12]

Core purpose

Core purpose, also known as mission, is the organization's fundamental reason for being. It captures the soul of the organization—the why it does what it does—beyond simply making money. We recommend developing a statement of purpose if your firm doesn't have one.

Charles R. Schwab, chairman of Charles Schwab & Co., Inc., clearly defines the company's core purpose. He states, "Our purpose is to help everyone be financially fit. This may seem like a simple statement, but it has a very powerful impact on how we do business, and on our potential for continued profitable growth." Similarly, Doug Johanson, principal at Vista Capital Partners, Inc. in Portland, Oregon, said his firm's statement of purpose is: "To give our clients the best chance of financial success, which will, in turn, allow them to pursue and achieve their lifelong goals and dreams."

Core values

Values are a company's set of principles and essential tenets that helps define the shared beliefs of an organization. They are a small set of enduring, guiding principles, and they capture the passion and emotion behind the business. For RIA firms, values and trust are at the heart of what they offer their clients.

Harris SBSB in McLean, Virginia, has a set of values that it refers to as the 7 PILLAR-R.[13] These pillars or values had been established by the founder early on and have remained almost unchanged over the past

12. Content for this chapter is adapted from (1) James C. Collins and Jerry I. Porras, "Building Your Company's Vision," *Harvard Business Review* (September–October 1996) and (2) Jim Collins, *Good to Great: Why Some Companies Make the Leap ... and Others Don't* (2001).
13. Harris SBSB adapted the PILLAR concept conceived by Moss Adams LLP to reflect the firm's unique values.

20 years. Today, the firm has 40 employees and $2 billion in assets under management (AUM). The leaders reinforce these values through regular and consistent communication with their employees. They also use the values in evaluating cultural fit for job candidates.

Harris SBSB 7 PILLAR-R

P assion for Excellence

I ntegrity in All We Do

L ive by Example

L ifetime of Learning

A Balanced Life

R espect for Others

R esponsibility in All You Do

Vision

A firm's vision is the long-term future you envision for the practice. It is a compelling and motivating end goal, and it is a guidepost for change. Vision describes a goal an organization should progress toward while at the same time preserving the firm's core purpose and values.

Authors Jim Collins and Jerry Porras recommend defining what you want your future to look like only after you have defined your core purpose and values. While core purpose and values are things you want to retain and bring on your journey to a future state, a vision defines where you want to go and what you want to achieve many years into the future. It is a clear, compelling statement that represents a significant and sometimes daunting challenge. A vision will take your firm several years to achieve and in some cases may be achieved only in part.

Big, Hairy, Audacious Goal (BHAG)

Collins and Porras found that the most successful and lasting organizations had a stated, bold vision that stimulated enormous progress. They call this a BHAG—a big, hairy, audacious goal. The BHAG energizes and focuses people and often creates immense team spirit. The authors believe that a good BHAG should not be just a random goal; rather, it should be created in the context of three questions:

- Is your vision something you are deeply passionate about? (That is, does it align with your purpose and values?)
- Is your vision something you can be best in the world at?
- Is your vision something that drives profitability?

For example, The Boeing Company in 1950 had a vision "to become the dominant player in commercial aircraft, and bring the world into the jet age." In 1954, Sony had a vision to become the company most known for changing the worldwide image of Japanese products being of poor quality.

According to Dale Yahnke, founding partner of Dowling & Yahnke, LLC in San Diego, California, his firm defined a vision 20 years ago "to dominate the San Diego RIA market by providing superior quality of investment advice based on a fiduciary standard at a fair price." The vision has provided a powerful, unifying theme. Yahnke asserts, "Everyone in our organization is focused on providing excellence to the client experience. We don't want to undertake any initiative unless we can be the best in our market and it is synergistic with our core business." As measured by AUM, the firm reports that it is currently one of the largest RIA firms in the area, and it is well known among accounting firms, law firms, and other centers of influence.

"Core values keep the management team and entire firm focused on what matters most. Values need to be meaningful and inspirational."

— Doug Johanson, Vista Capital Partners

For other RIAs, the BHAG might be to provide the very best client service relative to traditional providers while building a supportive organization that gives employees the freedom to deliver service in innovative ways. The nature of the BHAG will differ depending on leadership goals and vision.

Best practices: purpose, values, and vision

The RIAs we interviewed emphasize the importance of a firm grasp on fundamental knowledge of who they are and what they strive to do for clients—now and in the future.

Our analysis reveals key best practices:

- **Align initiatives and plans with your purpose, values, and vision.** Review them at least once a year before you set your annual initiatives and goals.
- **Define them as soon as possible.** All firms, regardless of size or time in business, have an unwritten set of values, usually embodied by the founder. Formally defining your firm's purpose and values is an important exercise, benefiting your current and prospective clients and employees.
- **Share them regularly with your entire organization.** Regularly review your firm's purpose, values, and vision with your employees so they know and embrace them.
- **Define a vision that is motivating and measurable.** Your firm's vision should energize everyone in the organization. It should also be concrete so that progress can be measured against it over time.
- **Create stories that illustrate the firm's values and purpose in action.** One person in your organization should be responsible for collecting stories. Display a visual that brings the value alive in the office, share the stories during team meetings, and recognize those employees who live the values.

STEP 2: INTERNAL AND EXTERNAL SITUATION ANALYSIS

In this step, you will develop a fact-based state-of-the-world outside the firm and inside your practice. Using a well-known framework called SWOT (strengths, weaknesses, opportunities, threats), you will evaluate your internal strengths and weaknesses and the external opportunities and threats your firm faces. This fact-based context will help you anchor your strategy in reality. In assessing your strengths, you will identify those that are most important in creating competitive advantage. These strengths are your core competencies.

The SWOT analysis will also help you home in on the most important issues you need to address in order to grow and achieve your goals. Understanding these issues will help you identify key strategic priorities where you should concentrate your employees' time and firm resources to achieve the biggest impact.

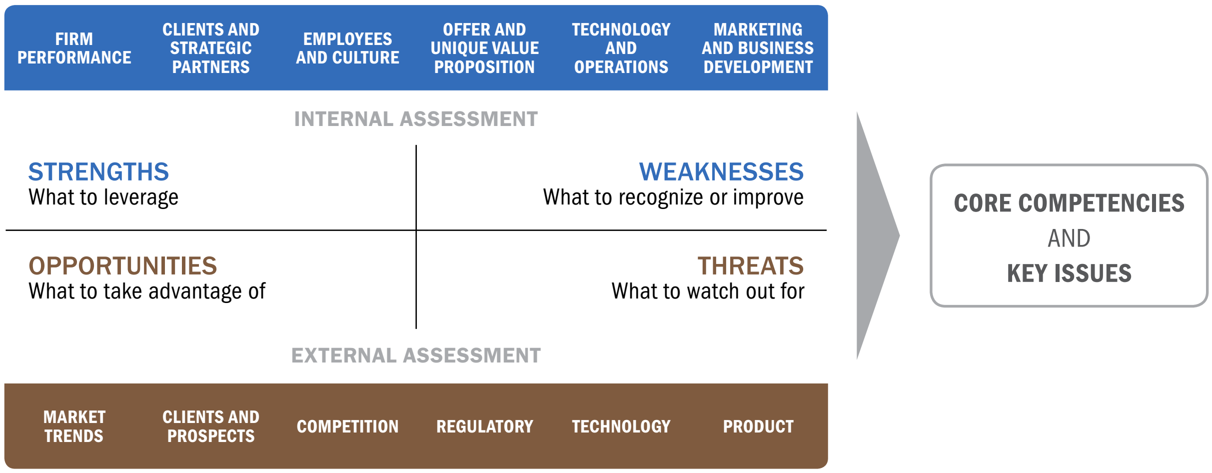
Collecting data for the situation analysis

We recommend using a number of different resources to get a thorough and realistic assessment of the external factors that can have an impact on your firm, such as changes in market needs, increased competition, changes in the regulatory environment, and your firm's ability to respond to those changes. Client feedback, data from the RIA Benchmarking Study, and industry reports are useful sources of data. Your employees and strategic partners should also be consulted to provide their fact-based perspective.

Schwab's RIA Benchmarking Study shows that all firms leverage research information from different sources in planning. However, Best-Managed Firms use data from a greater range of sources and use it to a greater extent. Fifty-eight percent of Best-Managed Firms use five or more resources to build their plan compared with only 32% percent of all other firms. Best-Managed Firms also rely on custodian consultations and the RIA Benchmarking Study more heavily than all other firms. (See Exhibit 4 on page 16)

EXHIBIT 3: THE SWOT FRAMEWORK

Situation assessment helps identify core competencies and key issues



Our experience is that many firms do not take the time to obtain direct client feedback, but we believe this is a very important practice.[14] Management theory expert Peter Drucker advised leaders that they should not try to guess about client needs, but rather always ask them directly. That is why he personally telephoned a random sample of 50 of his students who graduated 10 years earlier and asked 3 questions: (1) Looking back, what did he and his colleagues contribute to the school? (2) What should they have done better? (3) What should they stop doing? The knowledge gained had a profound influence on how he improved his programs.[15]

Driving actionable insights from data

The process of analyzing the collected data and distilling the most important insights to drive your future actions requires special evaluation and prioritization skills. The practices described in this paper are designed to help you turn data into insights you can act on. In the situation analysis, we recommend you look across various areas to describe what the world looks like today and how it might be changing tomorrow. Extracting useful insights from the fact-based evaluation is a different exercise altogether. Insights you can act on are what matter in the end because they drive your future actions.

14. For more information about client surveys, refer to Schwab's 2009 MKT report Uncovering Opportunities with Client Surveys.
15. Peter F. Drucker, et al. *The Five Most Important Questions You Will Ever Ask About Your Organization* (Jossey-Bass, 2008).

Evaluating your situation using the SWOT framework

SWOT analysis helps you understand your firm's internal strengths and weaknesses relative to competitors and identify external opportunities and threats your firm faces. To complete your SWOT analysis, you evaluate each finding from your situation analysis to decide if that finding implies a strength, weakness, opportunity, or threat for your firm.

Strengths and weaknesses are extracted from your internal assessment. Ask yourself a set of difficult questions to gain deep insight about important issues in these categories:

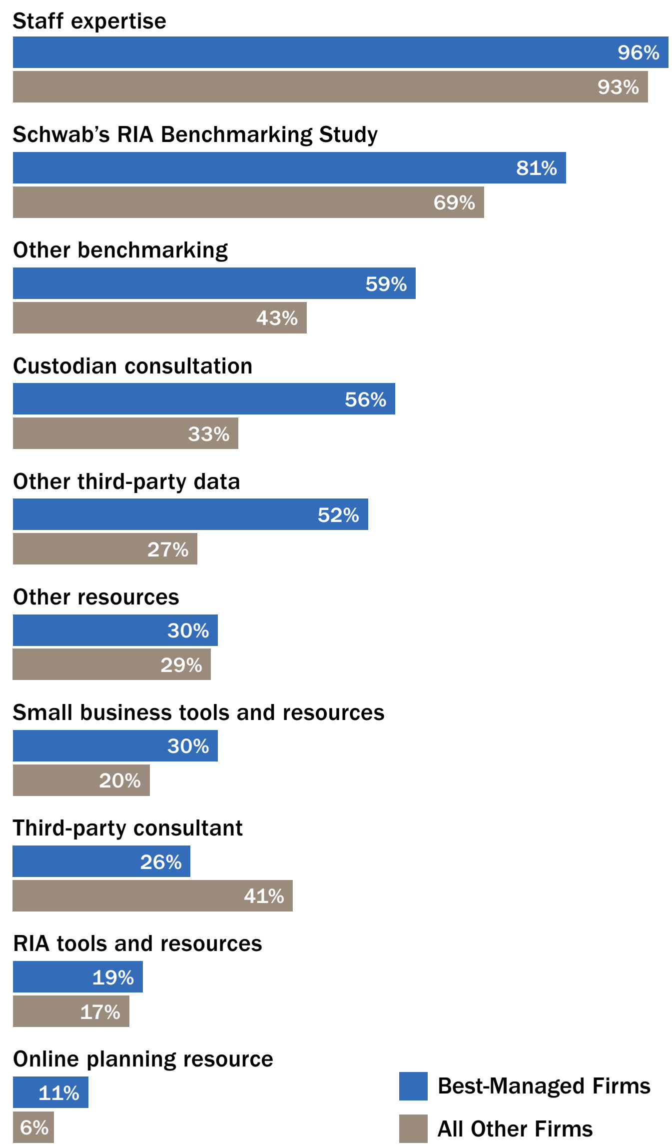
- **Firm performance.** How fast has your firm grown, and how profitable is it compared with your peers?
- **Clients and strategic partners.** Does your client base show healthy growth potential?
- **Employees and culture.** Does your team have the right mix of skills and knowledge to meet your goals?
- **Offer and unique value proposition.** How well does your offer meet the needs of your ideal target clients?
- **Technology and operations.** Are you staffed to scale, and do you have the infrastructure to support growth?
- **Marketing and business development.** Do you have a clearly defined ideal client profile, and do most of your clients fit this profile?

As you answer these types of questions, you should consider if the answer indicates:

- An area of **strength** compared with other firms in your market
- An area of **weakness**

EXHIBIT 4: INFORMATION RESOURCES USED FOR PLANNING

Twice as many Best-Managed Firms rely on five or more resources



Source: The 2011 RIA Benchmarking Study from Charles Schwab.

Opportunities and threats are extracted from your external assessment, which should answer a set of probing questions about important issues in these categories:

- **Market trends.** How will macroeconomic or industry trends impact your business and clients?
- **Clients and prospects.** What are the key pain points for your ideal clients?
- **Competition.** Who is your competition?
- **Regulatory.** How might regulatory changes affect your business and your clients?
- **Technology.** What types of technology solutions will allow you to scale appropriately and work more productively?
- **Products.** Are there products or services you don't offer now that could help your clients or improve your profitability?

When answering key questions about each of these categories, you should consider if the answer indicates:

- An **opportunity** your firm can take advantage of
- A **threat** that may severely limit your growth or success

To help your analysis, refer to the Best-Managed Firms income statements and performance benchmarks from Schwab's 2011 RIA Benchmarking Study found in Appendices D and E, or for participants in the study, refer to your customized Peer Benchmarking Report.

Exhibit 5 is an example of a completed SWOT analysis that maps to the sample strategic plan in Appendix B. Firm leaders would typically complete the assessment and then reassess it annually at an offsite team meeting, leveraging client, competitive, and firm data to guide their analysis.

Completing the SWOT analysis will provide you with a holistic evaluation of your firm. You will no longer have just a set of data—you will have a set of evaluations or insights about your position. A common temptation at this point is to begin setting goals and formulating strategic priorities. Before you do this, we recommend you prioritize your SWOT findings.

Prioritizing SWOT findings: core competencies and key issues

We recommend prioritizing your SWOT findings to identify the most important strengths or core competencies that you will use to differentiate yourself. You should also analyze your SWOT findings to develop a very short list of issues to tackle. The SWOT framework helps you filter the few insights and pieces of information that truly matter.

Core competencies

It is important that you identify what makes your firm uniquely strong—your core competencies. Core competencies are the most important strengths that differentiate your firm from the competition and can provide a source of competitive advantage in the marketplace. You might have developed a long list of strengths in your SWOT. Core competencies are the one or two that truly matter to your business success, and they are those strengths that your firm leverages when executing its strategy.

EXHIBIT 5: COMPLETED SWOT ANALYSIS

Using data from sample strategic plan*

INTERNAL ASSESSMENT

STRENGTHS
What to leverage

- We have an experienced, smart staff with strong relationship-building skills.
- Our founders have extensive contacts and a good reputation in the area.
- We have a sophisticated and effective client referral tracking system.
- Our processes are reliable and efficient, with low error rates.

WEAKNESSES
What to recognize or improve

- Relationship managers lack key sales skills.
- People are overworked, and higher-level staff are handling too many lower-value tasks (e.g., trade execution, drafting investment policies).

OPPORTUNITIES
What to take advantage of

- Significant number of customers in target market are currently underserved and not using advisors.
- Attracting higher-caliber employees is easier during the weaker labor market.

THREATS
What to watch out for

- Increasing competition in the independent channel makes it harder to differentiate.
- Compliance requirements and costs are increasing because of regulatory changes.

EXTERNAL ASSESSMENT

*Refer to the sample completed strategic plan for Firm XYZ in Appendix B for information used in this analysis.

EXHIBIT 6: EXAMPLE: UNCOVERING THE KEY ISSUE OR ROOT CAUSE

Issue Identified (Symptom)	Key Issue (Root Cause)
Our growth (as measured by assets and revenue) is below our peers' growth and declining.	**Existing clients are aging and drawing down assets.** **Referrals have dropped significantly.**
A significant number of our clients yield very low profitability.	**We provide the same level of service to all clients regardless of their unique needs or revenue, which results in declining satisfaction for our best clients and suboptimal profitability as a firm.**
Our cost structure is too high compared with our peers'.	**We rely heavily on manual processes rather than technology.**
Some clients perceive that our offer is declining in value.	**These clients need more help with tax optimization, and we do not have a good solution to meet their needs.**
Rate of adding new clients has been declining.	**Founder has left the firm or is less engaged, and there is not accountability for bringing in new business.**

Examples of core competencies include:

- Uncanny ability to recruit top talent
- Unique method of selecting stocks and building customized portfolios for affluent clients
- In-depth knowledge and service offering for a niche market (for example, pilots)
- Highly efficient service model that leverages appropriate technology

Key issues are the root causes

Your key issues will drive what you need to work on as a firm. They are the handful of important problems that, if left unaddressed, will get in the way of achieving your long-term vision. A good place to look for key issues is in the list of weaknesses and threats in the completed SWOT analysis. You should identify a limited number of key issues—no more than three to five—so you can dedicate the appropriate resources to address them.

Key issues should be the real root causes of a problem. However, they are sometimes hidden behind symptoms. To get at the root cause of a problem—the real issue—we recommend asking the question "Why?" after stating an issue.

Exhibit 6 lists examples of the initial issues discovered in the SWOT analysis. These initial issues are only symptoms of the true key issues. By asking "Why?," we uncovered the real key issues or root causes.

You have now completed the internal and external situation analysis, using the SWOT methodology to evaluate your findings. This process should give you a clear understanding of your firm's strengths and weaknesses as well as the opportunities and threats it faces. The end result is a prioritized list of key issues and a set of core competencies to be leveraged in a strategy to address them.

Best practices: internal situation analysis (strengths and weaknesses)

- **Consider client needs and wants.** Leverage "live" feedback just like Peter Drucker did when he interviewed his former students.
- **Consider strengths and weaknesses in relation to others.** A particular strength or competency is meaningful only when compared with that of competitors or firms in your peer group. For example, many competitors provide unbiased advice and good service, so these are not differentiators on their own. What are the special things you do for your clients that make you more special than other firms who serve similar clients? Data from the RIA Benchmarking Study can provide you with deeper insight into how you compare with your peers.

Best practices: external situation analysis (opportunities and threats)

These best practices will help you stay focused on the most relevant tools available to you:

- **Look at the present with an eye to the future.** As much as possible, you should try to anticipate if the answer to a particular question in the next three to five years will differ from the answer today. Your strategies should position your firm to compete in the future environment as well as in the one it faces now.
- **Target data for categories most important to your business.** Not all of the questions deserve the same amount of energy and attention. Focus on categories that will have the biggest impact on your business or that present the greatest potential change. For instance, the key issue for some firms may be more clarity on the market segment they want to serve, so they will spend more energy on clients and prospects. Other firms may want to focus on understanding sources of competition.
- **Stay focused and open minded.** Formulating key hypotheses or ideas about what the answers are before you dive into the data can help you be efficient. However, you should remain open to finding new things or changing your beliefs or hypotheses based on the data.
- **Make sure your opportunities are associated with your current or future target client base.** The most important opportunities are those that relate to your clients. For instance, opportunities to meet unmet client needs typically result in growth.
- **Consider all sources of potential threats.** Competition is likely not the only source of threats. For instance, changes in regulation resulting in increased compliance costs may represent a threat to smaller firms that cannot absorb the cost of dedicated compliance staff.

STEP 3: LONG-TERM GOALS

Setting long-term goals is a critical step in the strategic planning process. Your firm's long-term goals are tied to your vision or BHAG, and they help you focus the organization on strategic objectives that truly matter. Tracking progress against defined goals is critical to ensure the business is moving in the right direction, and without goals, it is impossible to know if the firm has achieved success.

STEP 1 PURPOSE, VALUES, AND VISION
STEP 2 SITUATION ANALYSIS
STEP 3 LONG-TERM GOALS
STEP 4 STRATEGY DEVELOPMENT
STEP 5 KEY INITIATIVES AND ANNUAL GOALS
STEP 6 IMPLEMENTATION PLAN

Long-term goals are three to five specific and measurable objectives that define progress toward achievement of the vision. They should drive business value and be regarded as critical to the success of the business. We recommend the best practice of framing goals using the SMART (specific, measurable, attainable, relevant, and time-bound) principles shown in Exhibit 7.

Most RIA firms set goals for AUM and profit margin. We recommend you also consider setting goals for other key value drivers, such as client satisfaction, number of referrals, and employee attrition. Some examples of potential goals using SMART principles include:

- By the end of 2014, we will reach $500 million AUM.
- By the end of 2016, we will serve 100 doctors in our area, becoming the leader in this market.
- By the end of 2015, we will increase from $1 million to $1.5 million in assets per client.
- By 2015, our clients will be so delighted that 20% of them will provide a qualified referral each year.
- In the next five years, we will grow the firm from three to five owners via internal succession.

For example, the management team at Columbus, Ohio–based Budros, Ruhlin & Roe, Inc. strongly believes in the importance of setting the right, explicit long-term goals in order to reach desired outcomes. The senior team chose not to set a target AUM goal at the firm level.

Instead, it set an AUM goal only for the firm's wealth management area, the area the firm wanted to grow. As a result of having clear goals, the firm's more profitable wealth management practice has seen significant growth in recent years.

Best practices: long-term goals

- **Set a limit of three to five goals at any one time.** If you have more than five goals, they are probably metrics. Metrics are important but tend to be more tactical in nature (for example, number of calls made).
- **Be sure goals are connected with your vision.** For example, if your vision is to become the No. 1 independent firm in a given geography within 10 years, then your long-term goals should include market share of your target market (for example, share of clients with more than $2 million in investable assets in this geography).
- **Make the goal as quantifiable as possible, even for goals that are not financial.** Leaving your goals without quantifiable targets will make them impossible to measure, decreasing the likelihood of making progress toward that goal. For instance, a firm may have a goal of institutionalizing business development across the entire advisory staff. Restated as a SMART goal, it would read: "By the end of 2015, at least 40% of all new clients and 30% of new assets will come from nonpartner professionals." Stated this way, the goal can be measured over time to determine progress.

EXHIBIT 7: SMART GOALS PRINCIPLES

Principle	Criteria
Specific	The "what" and the "when" of the goal are stated simply and concisely.
Measurable	The goal can be evaluated factually and is expressed in quantitative terms.
Attainable	The goal is realistic given the current situation, resources, knowledge, and time available.
Relevant	The goal is focused on business value such as revenue growth and margin, and it is related to your purpose, values, or vision.
Time-Bound	The goal has a clear deadline.

"Achieving success is all about goal setting and having a written set of goals with detailed plan horizons."

— Chuck Bean, Heritage Financial Services

STEP 4: STRATEGY DEVELOPMENT

In the previous steps, you identified key issues that need to be addressed and set long-term goals for your firm's future. It is now time to develop the strategies that will get you there. A strategy is critical because it defines where you will focus your resources and make investments in your business. The strategy informs the decisions you make, including the type of offer and services you provide, the employee skills you need, the types of alliance partners you develop, the investments you make in technology, and what services to outsource.

Without a strategy, firms run the risk of pursuing too many opportunities and diluting resources. In addition to having an overarching strategy, you should define a short list of strategic priorities that are necessary to meet your desired goals.

Developing your strategy is as much an art as it is a science. It is informed by learning from the situation analysis, and it involves intuition and creativity. It requires synthesizing facts and different stakeholders' perceptions into an integrated perspective of the enterprise and how you will compete to win in your market.

Strategy

A strategy describes how the firm uses its core competencies and activities to create a unique and valuable position in the marketplace, also referred to as competitive advantage. To create a lasting competitive advantage, you need to meet the needs of clients in a way that is sustainably differentiated. Competitive advantage is built by first understanding your firm's unique capabilities that matter to your target customer, and then reinforcing these capabilities with the right investments and activities.[16]

We recommend you consider the following concepts in setting your strategy:

- **Strategic differentiator:** Competitive approach you use to develop your unique position
- **Ideal client profile (ICP):** Characteristics of the clients you target
- **Unique value proposition (UVP):** Unique attributes of your firm's offer and services seen through your customers' eyes

16. Michael E. Porter, "What Is Strategy?" *Harvard Business Review* (November 1996).

Your strategy should:

- Respond to your **market or customer needs**
- **Differentiate** your firm from the competition
- Build on your **core capabilities**

Strategic differentiator

Many advisory firms do not have an articulated strategic differentiator. Some firms start off as generalists and build on the identity of their founder to attract clients. This approach may work satisfactorily for firms that prefer to stay small. However, for firms that want to grow profitably, this approach may be limiting or in some cases not sustainable. Generalists may find their resources spread thin as they try to do everything to serve everyone's different needs. As a result, they become less profitable and unable to sustain growth. The lack of specialization can also make generalists more vulnerable to competition if others enter the market with an offering more customized to certain clients they serve.

This is why we see many firms that want to grow beginning to specialize and focus on a specific client niche or build on a unique technical specialty. This strategy allows a firm to focus all its activities in a narrow area to be the best in that category. A firm's chosen strategic differentiator dictates its choices and investments in the business.

Firms that choose a client niche, for example, make investments in understanding and serving the needs of a narrow market to yield significantly higher share in that niche. The firm will align its offer, services, and capabilities to meet the needs of its niche. It will invest in either training or hiring employees who have specific skills that are important to meeting client needs. For instance, if a firm targets small business owners as a niche, it may hire employees with expertise in the area and the personality to work with entrepreneurs. The firm may expand its offer to include small business retirement plans, business financing, cash flow management, and succession planning, and it might participate in small business forums.

"Strategy requires you to make trade-offs in competing—to choose what not to do."

— Michael Porter, Harvard Business School

In contrast, firms using a technical specialty strategy make significant investments in a few capabilities to capture a larger share of clients that value those capabilities. Their strategy may include acquiring in-depth expertise and developing markets that value those capabilities. For instance, firms pursuing a technical specialty strategy might hire investment managers with a particular investment strategy or tax lot harvesting capability, or they may acquire an executive compensation consultancy. Often technical specialty firms must invest in a custom-developed technology platform to meet their specific needs.

In our experience, niche market and technical specialty are the most common strategic differentiators. However, there are other strategic differentiators that a firm can use. (See Exhibit 8 on page 25) Although these common differentiators are not always mutually exclusive, each requires a different commitment of resources.

EXHIBIT 8: EIGHT STRATEGIC DIFFERENTIATORS

Strategic Differentiator	Firm Becomes Known for	Examples
Niche market	Serving a named market	Serve a large share of business owners in transition (for example, doctors) in your area.
Technical specialty	Specific technical expertise	Be known for specialty in concentrated portfolios, estate planning, etc.
Low-cost, standardized approach	Standardized process, high volume, low cost	Offer lower-cost investment approach through effective use of index funds or assigning clients to model portfolios.
Famous person/team	Identity of founders, individual, or team	Build on the owner's identity and reputation via media appearances and similar approaches to draw in potential investors.
Dominant local firm	Size and presence	Be known as one of the top advisory firms in the metro area.
Unique sales method	Unique way of attracting clients	Build formal strategic alliances with CPA firms, or bring in potential prospects with compelling seminars and classes.
Share of wallet	Cross-selling of services and products	In addition to a standard suite of services, sell concierge/ family office services or tax services to a majority of clients.
Local presence of a national brand	Major national consumer brand	Capitalize on the nationally recognized brand name and quality of resources of a broker-dealer.

Source: Benjamin B. Tregoe and John W. Zimmerman, *Top Management Strategy: What It Is and How to Make It Work* (Simon & Schuster, 1981).

Examples of niche and technical specialty strategies

Following are examples illustrating how some of the RIA firms we interviewed and a well-known company use different strategic differentiators and align their business investment decisions accordingly.

- **Technical specialty strategy.** Maryland Capital Management uses a disciplined investment process and philosophy as primary strategic differentiators. The firm's strategy leverages a core competency in building customized portfolios of individual stocks and bonds for growth, balanced, and fixed income accounts. Firm management has been consistent in making decisions that leverage the firm's strengths and reinforce its strategy. For instance, even as competitors rushed to increase the use of exchange traded funds (ETFs), the firm recognized that ETFs did not fit its investment philosophy or play to its core strengths. Furthermore, Maryland Capital

Management has made a conscious decision to limit outsourcing of infrastructure in order to exercise more control.

- **Niche and dominant local firm.** Firm XYZ, which was used to create the sample strategic plan in Appendix B, is a good example of this strategy. This firm uses two strategic differentiators: niche and dominant local firm. It targets high-net-worth investors who have recently undergone a life-changing event that leaves them responsible for the management of their assets (primarily women who have between $1 million and $10 million in investable assets). The firm focuses on meeting the needs of this niche by providing exceptional service and developing close client relationships. The firm leverages mutual fund–based portfolios rather than complex equity-based solutions it thinks are not appropriate for its clients. In order to build a strong local brand and become a top referral choice among key centers of influence (for example, attorneys, accountants, and the like), the firm has invested heavily in local community organizations, philanthropy, local marketing, and advertising.
- **Niche strategy player.** Some may be concerned that focusing on a niche may limit opportunity. However, this is not generally the case if a firm can focus all its resources on serving a niche in which it has strong competencies. Take Apple Inc., for example. The company targets busy, modern consumers—"people who don't want to read manuals and who lead very busy lives," according to Apple's former CEO Steve Jobs.[17] These consumers are more affluent and can pay premium prices for technology innovations. Apple leverages its core competencies in design and innovation by taking state-of-the-art technology and making it easy for people to use. In the past, some encouraged the company to move down-market in the personal computer segment and add lower priced products, but Apple remained true to its strategy to deliver innovative products to its target consumers. The company continues to find new ways to reach and grow a captive user base, expanding its product lines and distribution to reach consumers in different ways.

EXHIBIT 9: KEY QUESTIONS: IDEAL CLIENT PROFILE (ICP)

Consider these questions when identifying your ICP

1. **Who are your most rewarding and profitable clients?**
   Some firms profile their top 20 clients to see what they have in common.
2. **What do your clients have in common?**
   Consider the following factors:
   - Demographics (profession, education, gender, marital status, and number of family members served)
   - Investment profile (risk profile, level of engagement in decision making, level of investment complexity)
   - Personal profile (interests, membership in organizations, propensity to provide referrals, etc.)
   - Financial status (household income, investable assets, net worth, stage in life, revenue potential)
3. **What are your ideal clients' unique needs?**
   - Financial needs
   - Service needs
   - Emotional needs (dreams, goals, and concerns)

17. Bobbie Johnson, "The Coolest Player in Town," *The Guardian* (September 22, 2005).

EXHIBIT 10: EXAMPLE OF KEY ELEMENTS IN A FIRM'S STRATEGY

Strategic Differentiator	Niche
Ideal Client Profile	Physicians in private practice or a medical group
Unique Value Proposition	Our independent financial advisory business has more than 20 years of experience serving the unique needs of physicians. We provide a full suite of wealth management services tailored to physicians including: · Small business retirement plans for you and your staff · Protection of assets from potential litigation risk through specialized investment strategies and malpractice insurance · Expertise to help you structure partnership contracts to maximize long-term ownership value · Forecasting and management of cash flow needs to run your business effectively

Ideal client profile

Defining the ideal target client to attract is important for all firms, not just for those using a niche strategy. At some point in their history, all the Best-Managed Firms we spoke with needed to refine their target client to align more closely with their long-term goals. Having a clear ideal target profile enables firms to better align their offers, services, and capabilities to meet the needs of those clients.

The ideal client profile (ICP) is a description of your ideal clients, including their unique needs. Your ideal clients are not just those who have the most assets. They are the clients with whom you want to develop deeper relationships. They understand and appreciate your value proposition and are ultimately the best fit for your firm.

Some firms may be serving clients who are not ideal in terms of growth or profitability. These firms may want to define an ideal target client who is very different from the clients they are serving today. This will require investments in new capabilities. In most cases, however, the ideal target client is often a type of client the firm is already serving well. The key is clearly defining who your firm will serve; defining their needs, wants, and expectations; and using that knowledge to design an effective marketing strategy to attract them.

Examples of ideal client profiles

- Affluent retirees with more than $5 million in investable assets who are looking for a one-stop solution for managing their complex financial needs and are concerned about effectively transferring wealth to other family members
- Owners of closely held corporations who want to liquidate some or all of their ownership equity

For more information on how to create your ICP, consult Schwab's website for reference materials at schwabadvisorcenter.com/marketing. Your Schwab relationship manager can also help you through this process.

Unique value proposition

A unique value proposition (UVP) is a summary of the key attributes that differentiate the firm and its offerings in the eyes of the customer. It identifies why your firm is most capable of serving its clients and achieving their objectives. Your UVP also answers why future clients would select your firm.

Clients and external partners should have a clear understanding of what sets you apart and why you are unique. They should see themselves in your story. This will also increase the chance they will refer you to other clients who they think fit your target client criteria.

The UVP statement is a positioning statement that defines who your target client is, what you offer, and what sets your firm apart from the competition. Ultimately, the answers to these three questions are at the heart of a firm's UVP:

- What is it about your firm, your services, and your people that set you apart?
- What do you do, who do you do it for, and how do you do it?
- How do your services benefit your clients? What challenges or needs are you solving?

Example of a UVP statement

- We are an independent financial advisory firm that works closely with affluent families to organize, simplify, and instill confidence in how they are managing their complex financial lives. We do this by managing across all aspects of their wealth with an integrated team of financial experts, by coordinating with their other financial advisors, and by offering highly personalized solutions.

For more information and help on how to develop a UVP statement, visit schwabadvisorcenter.com/marketing for reference materials or contact your Schwab relationship manager.

Exhibit 10 is an example that brings together the three concepts—strategic differentiator, ICP, and UVP—to paint a complete picture of a firm's strategy.

Strategic priorities

Strategic priorities represent a significant shift in the framework from ideas to action. Your strategy expressed by your strategic differentiator, ICP, and UVP guide the firm at the high level. However, strategy alone is not sufficient in defining actionable plans for moving forward. Strategic priorities are the top-level areas where employees' time and firm resources will be focused.

Strategic priorities are the top three to five key thrusts the firm needs to focus on to achieve its vision and goals and to execute its strategy. The strategic priorities should address and eliminate the most critical issues identified in a firm's SWOT analysis. In some cases, strategic priorities can be set to take advantage of opportunities or fill gaps in a company's capabilities.

Because of their scope, importance, and the significant effort and investment they require, strategic priorities usually take a few years to complete. We recommend you look forward three years to identify major strategic priorities for your firm.

EXHIBIT 11: LINKAGE BETWEEN STRATEGIC PRIORITIES AND KEY ISSUES

Key Issue Identified in SWOT Addressed by Strategic Priority	Strategic Priority
Majority of new accounts are generated by the founders of the firm.	**Create a firmwide culture of business development that goes beyond the founder.** **Leapfrog by pursuing in-market acquisition opportunity.**
Productivity of advisory staff is suboptimal; lead advisors spend 40% of their time on routine administrative tasks rather than relationship building and business development.	**Focus 90% of RM time on relationship management and business development.**
Firm's profitability could be higher. We serve all of our clients the same way, independent of their value.	**Segment service model to maximize profitability.**

Refer to the sample completed strategic plan for Firm XYZ in Appendix B for information used in this example.

Exhibit 11 lists the four strategic priorities of Firm XYZ, the firm used to create the strategic plan in Appendix B. It shows how strategic priorities are linked to key issues identified in the firm's SWOT analysis.

Best practices: strategy development

These best practices are designed to help ensure that your overall strategy is strong and that your priorities are focused and truly address the most important issues getting in your way.

- **Check your strategy for sustainability.** You should ask yourself how long and how difficult it would be for competitors to replicate your core competency or strategic differentiator. Think of ways in which you can increase the costs and difficulty clients would incur leaving your firm.
- **Consider tackling strategic priorities one at a time rather than all at once.** A best practice for ensuring maximum focus and rapid progress is tackling one strategic priority at a time. If this is not feasible, you might want to consider focusing on a single priority over shorter periods of time, such as a quarter.
- **Verify that your strategic priorities solve your key issues.** If you have already identified your key issues in Step 2, verify that your strategic priorities solve them. Tougher issues may require priorities that take several years to complete.

At this point, you have completed all the strategic long-term elements of your plan—the foundation. You are now ready to plan the short-term tactics that will help you achieve your vision and goals.

STEP 5: KEY INITIATIVES AND ANNUAL GOALS

Creating a plan for the future that outlines your vision, long-term goals, strategy, and strategic priorities is a significant achievement. But for your firm to gain traction, you also need to complete an important step: By defining key initiatives and annual goals, you inform employees about what to do in the near term so they can help the firm achieve the future you envision.

People need short-term goals—what they are working on and why—to keep motivated and focused on priorities. Setting key initiatives and goals gives your leadership team and your firm a shared understanding of the future and helps create a tight fit among the firm's activities.

Key initiatives

Key initiatives are the major efforts a company undertakes—where energy and resources are applied to achieve strategic priorities. Typically, they can be accomplished within one calendar year or less and are set by the firm's senior management team. Your initiatives represent the near-term steps required to achieve your strategic priorities. This ensures your short-term tactics are in sync with your long-term plan.

Exhibit 12 (page 31) shows the key initiatives for the year and the related strategic priorities that support them for Firm XYZ, the sample firm used to create the strategic plan in Appendix B.

Annual goals

At the same time you are defining the initiatives for your firm, you should develop a few key measurable goals against which you can track your progress.

Annual goals are specific and measurable objectives that define progress within a calendar or fiscal year. Annual goals should tie to your long-term goals; they are the necessary steps to achieving them. Exhibit 13 (page 32) lists annual goals that are tied to the example long-term firm goals listed in Step 3 (page 21).

EXHIBIT 12: KEY INITIATIVES FROM SAMPLE STRATEGIC PLAN

Strategic Priority	Key Initiative
Create a culture of business development beyond founder.	**Hire one new advisor who also has strong sales capabilities.** **Establish and enforce process to track leads in CRM.** **Institute new monthly sales meetings to track progress and train staff.**
Leapfrog by pursuing in-market acquisition opportunity.	**Evaluate two potential acquisition opportunities.**
Focus 90% of RM time on relationship management and business development.	**Identify tasks that need to be delegated from advisor to support.**
Segment service model to maximize profitability.	**Complete design phase of project by analyzing client profitability and refining service models by segment.**

Refer to the sample completed strategic plan for Firm XYZ in Appendix B for information used in this example.

Best practices: key initiatives and annual goals

- **Focus on five or fewer key initiatives for the year.** Staying focused on a smaller number of initiatives will help you accomplish what is most important. If you need to, consider deferring some initiatives to another year.
- **Ensure key initiatives are aligned with strategic priorities.** Key initiatives help firms direct where to apply resources to achieve their strategic priorities. Reviewing them to ensure alignment with strategic priorities will help make sure your firm's short-term activities are directed toward achieving long-term strategic goals.
- **Prioritize initiatives and identify what resources will be applied to each.** Resource planning is critical to understanding whether your firm has the skills and bandwidth to complete the plan. Identify any gaps in staffing or modify your list of initiatives to match your resources. Some special projects may require significant staff time outside the routine.
- **Make annual goals measurable, and track your progress.** Annual goals help you quantify progress toward long-term goals. Select objective metrics that are easy to understand and track.

EXHIBIT 13: ANNUAL GOALS TIED TO LONG-TERM FIRM GOALS

Long-Term Goals	Associated Annual Goals
By the end of 2014, we will reach $500 million AUM.	**By the end of this year, we will reach $150 million AUM.**
By the end of 2016, we will serve 100 doctors in our area, being the leader in this market.	**By the end of this year, we will add 33 new doctors in our target market.**
By the end of 2015, we will increase from $1 million to $1.5 million in assets per client.	**By end of this year, we will increase from $1 million to $1.125 million in assets per client.**
By 2015, our clients will be so delighted that 20% of them will provide a qualified referral each year.	**By the end of this year, 7% of our clients will provide us with a qualified referral each year.**
In the next three to five years, grow firm from three to five owners via internal succession.	**By the end of this year, we will have identified at least two possible candidates for the senior leadership team.**

- **Have reasonable expectations for new key initiatives.** Often it takes some time to put the pieces in place before gaining traction. Take this start-up time into account when setting new goals.
- **Confirm that annual goals are aligned with key initiatives.** Annual goals define measurable objectives. Validate that they reflect and support your key initiatives. If your key initiatives are focused on some priorities and not on others, your annual goals should reflect that.

STEP 6: IMPLEMENTATION PLAN

How do you align and focus the entire organization on accomplishing your key initiatives? An implementation plan provides the answer. It gives individuals a clear picture of what needs to get done during a quarter in order to complete your key initiatives by the end of the year. An implementation plan helps senior members of the firm hold individual employees—and themselves—accountable for doing their part.

STEP 1 PURPOSE, VALUES, AND VISION
STEP 2 SITUATION ANALYSIS
STEP 3 LONG-TERM GOALS
STEP 4 STRATEGY DEVELOPMENT
STEP 5 KEY INITIATIVES AND ANNUAL GOALS
STEP 6 IMPLEMENTATION PLAN

An implementation plan is a brief document that includes the specific efforts the firm will undertake each quarter to accomplish its annual goals and key initiatives. In the same way that annual initiatives support strategic priorities, quarterly implementation action plans support the completion of annual initiatives and goals. A quarterly implementation plan includes the following:

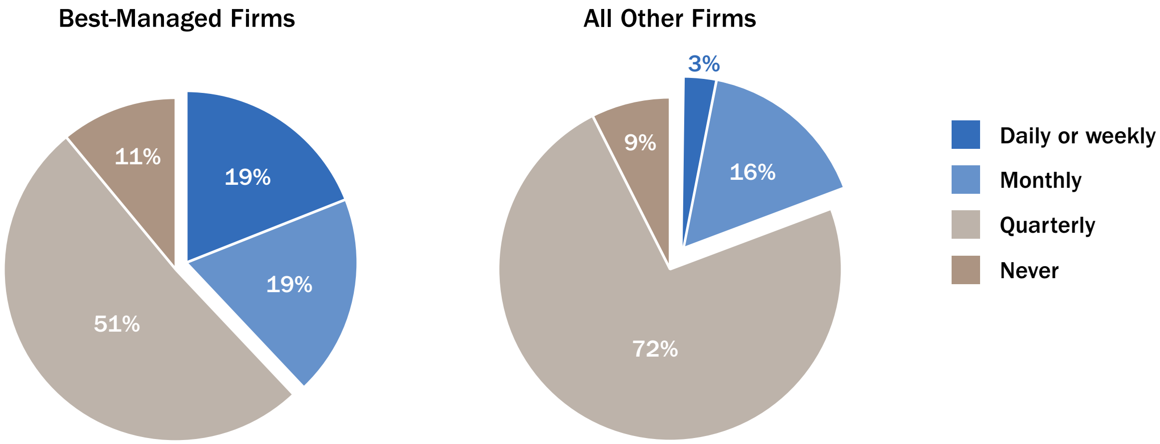
- **Actions:** Firm-level actions required to complete each initiative
- **Accountability:** Person who is accountable for ensuring the action is completed
- **Due date:** Expected completion date for each action
- **Goals:** A few key metrics that align with annual goals

Once the firm-level implementation plan is complete, individuals responsible for specific actions should define their own tasks required to complete those actions. This process maximizes employee ownership and likelihood of achieving actions. When relevant, individuals' action plans should also have goals for any key metrics they are responsible for driving. For a detailed example of firm-level and individual implementation plans, please refer to the sample implementation plan in Appendix C for Firm XYZ.

Budros, Ruhlin & Roe uses an incentive compensation plan as a key tool for motivating employees to meet annual goals tied to the firm's strategic plan. Most objectives outlined in the firm's strategic plan map to corresponding goals for individual employees, whose compensation packages are tied to achieving their individual objectives. For example, one of the firm's goals was to free up the principals' time by reducing their client meeting load. To accomplish this goal, the firm set a target for the number of client meetings to be conducted without a principal's

EXHIBIT 14: MONITORING PROGRESS AGAINST PLAN

Best-Managed Firms are twice as likely to track progress against their plans at least monthly



Source: The 2011 RIA Benchmarking Study from Charles Schwab.

attendance. The firm reviews the incentive compensation plan goals yearly, and each quarter a principal meets individually with junior staff to discuss progress and areas where the person might be struggling.

We find that Best-Managed Firms frequently validate progress against their plans. A total 38% of Best-Managed Firms in Schwab's 2011 RIA Benchmarking Study monitor their plans at least daily, weekly, or monthly versus only 19% of all other firms. (See Exhibit 14)

The power of regular meetings

Regular meetings are the key to ensuring your implementation plans become reality—not filed and forgotten. Meetings are critical to keeping everyone aligned, informed, and accountable. Best-Managed Firms report using four types of meetings to implement their plans and run their firms:

- **Annual strategic planning meetings with senior firm members only.** These meetings are used to complete the most strategically important components of the plan, Steps 1 through 4. Step 5, setting key initiatives and annual goals, can also be completed during these meetings, and some firms include more junior team members.
- **At least one all-staff meeting each year.** At least once per year, conduct an all-staff meeting to review the strategic plan and get the team energized by outlining key elements: purpose, values, BHAG, strategy, and key initiatives and goals for the year.

- **Quarterly monitoring meetings with all of the firm's staff.** The purpose of this meeting is to review progress as a firm toward key goals and initiatives in the plan.
- **Performance review meetings.** Performance review meetings between senior firm members and individual employees are opportunities to assess progress toward the implementation plan, as well as to provide feedback and coaching.

Best practices: implementing and executing your strategic plan

- **Make sure leadership is committed.** Leadership must be committed to delivering and executing key initiatives in the strategic plan. They lead by example, holding individuals and each other accountable for implementing the plan.
- **Assign a single person accountability for each major initiative.** The person accountable may delegate or involve others to complete the initiative, but one individual should ultimately be responsible for ensuring the initiative is completed.
- **Build key goals into employees' compensation plans.** Bonuses should be tied to measurable progress against the plan. This helps align individuals against firm goals and reinforces personal accountability.
- **Decide what meeting frequency is right for your firm.** Whether it is quarterly or monthly, create a rhythm of regular meetings for reviewing progress toward implementation plans.
- **Find ways to celebrate success along the way.** Recognize progress made toward a goal, even if the entire goal was not achieved.

CONCLUSION

For RIA firms, accelerating growth and maintaining profitability are more challenging than ever. Increased competition, regulatory changes, and evolving client needs are making the growth rates enjoyed by many firms difficult to sustain. And as firms grow, so does the complexity of the business infrastructure that supports them.

Now more than ever, strategic planning can play a critical role in helping firm principals make intelligent choices among a growing set of options and execute focused strategies as they evolve their practice. Strategic planning can be an invaluable tool, helping you manage the challenges and key decision points you will face during different phases of your firm's life cycle. Defining goals and a road map to achieve them gives firm leadership and staff a shared understanding of a future vision and how to get there. It can help you focus and align firm resources and employees against a defined set of priorities, and it can provide a guidepost to direct investments and hiring.

We hope the 6-step strategic planning framework outlined in this paper has demystified a complicated process and made it approachable.

Additional strategic planning tools and consulting programs are available. For information about these resources and for assistance with getting started, contact your Schwab relationship manager.

APPENDICES

APPENDIX A: METHODOLOGY

Schwab's research into advisory firms defines a standard of excellence and provides guidelines for achieving that standard. The starting point for this year's Best-Managed Firms MKT is the 2010 RIA Benchmarking Study from Charles Schwab, a detailed compilation of self-reported data on a wide range of topics, including asset and revenue growth, sources of growth and new clients, products and pricing, organizational structure, and profit and loss. Using the guidelines described below, Schwab defines Best-Managed Firms as the top 20% of qualifying RIA firms in this study in terms of productivity, profitability, and revenue growth.

For this paper, Catalyst Strategies, in collaboration with Schwab, adapted some of the most applicable concepts from thought leaders in the field of strategic planning and strategy and made them relevant and approachable for small businesses in the RIA industry. To learn more, Catalyst Strategies and Schwab interviewed nine Best-Managed Firms that use strategic planning to help manage their business. Catalyst Strategies and Schwab also leveraged the breadth of knowledge gained through Schwab's business consultants' firsthand experience with RIA firms.

Schwab's 2010 RIA Benchmarking Study included 870 advisory firms that custody their assets with Charles Schwab, including firms of various sizes and business models, representing more than $300 billion in AUM. Of those, 550 firms had at least $100 million in AUM, 170 firms had more than $500 million in AUM, and 80 firms had $1 billion or more in AUM.

As a basis for the research in this paper, Schwab put these firms through a screening list that included the following additional criteria:

- Minimum 2009 revenue of $1 million
- Minimum 2009 fee-based revenue of 75%
- Minimum number of two professional staff
- Full data reported for Best-Managed Firms selection criteria

After the additional screening criteria were applied, 271 of the original 870 were left in the pool of firms to be ranked.

Three ranking algorithms—operating income percentage, revenue per professional, and 3-year revenue compound annual growth rate—were individually applied to all 271 firms. Firms were ranked independently on each metric and then sorted by the total of the three ranking scores. We identified the firms in the top 20% of the combined performance results as Best-Managed Firms.

The annual RIA Benchmarking Study does not measure participant firms' client satisfaction, and conclusions pertaining to the client experience in this study are based on information provided during interviews by participating Best-Managed Firms. As cited in this report, quantitative data on strategic planning practices in the industry comes from Schwab's 2011 RIA Benchmarking Study, which included specific questions and findings on that topic. Best-Managed Firms income statements and performance ratios in Appendices D and E are also from the 2011 RIA Benchmarking Study. The 2011 study included 820 firms, and the selection of the Best-Managed Firms for that analysis followed an identical selection methodology. Please read individual disclosures for detailed source information.

About Catalyst Strategies

Catalyst Strategies is a management consulting firm that identifies business growth opportunities and defines practical strategies and programs to realize those opportunities. Working with both early-stage and Fortune 1000 companies in the services and technology sectors since 1998, Catalyst Strategies specializes in strategic planning, product innovation, and sales and marketing acceleration.

APPENDIX B: SAMPLE STRATEGIC PLAN FOR FIRM XYZ

STEP 1: PURPOSE, VALUES, AND VISION | WHO ARE WE?

Purpose

To give our clients peace of mind by bringing simplicity to a complex financial world

Core Values

Smart | Ethical | Passionate

WHERE DO WE WANT TO GO? (IN NEXT 5–10 YEARS)

Vision (BHAG)

Dominate our market by becoming the most widely recognized brand and the market share leader with affluent investors in 10 years.

STEP 2: SITUATION ANALYSIS | WHAT IS OUR SITUATION? (3 YEARS)

Strengths

- We have an experienced, smart staff with strong relationship-building skills.
- Founders have extensive contacts and a good reputation in the area.
- We have a sophisticated and effective client referral tracking system.
- Our processes are reliable and efficient, with low error rates.

Weaknesses

- Relationship managers lack key sales skills.
- People are overworked, and higher-level staff are handling too many lower-value tasks (e.g., trade execution, drafting investment policies).

Opportunities

- Significant number of customers in target market are currently underserved and not using advisors.
- Attracting higher-caliber employees is easier during the weaker labor market.

Threats

- Increasing competition in the independent channel makes it harder to differentiate.
- Compliance requirements and costs are increasing because of regulatory changes.

Core Competencies

- Strong relationship-building skills result in superior client retention (approximately 98%).
- We have a disciplined approach to process.
- Our infrastructure will scale as needed.

Key Issues

- Vast majority of new accounts are generated by founders of the firm.
- Productivity is suboptimal; lead advisors spend 40% of their time on administrative tasks.
- Profitability is lower than desired.
- All clients are served the same way, independent of their value.

Framework adapted from work by Verne Harnish, *Mastering the Rockefeller Habits*, and multiple other sources. BHAG is from Jim Collins, *Built to Last*.
Plan incorporates ideas from various Best-Managed Firms from Schwab's RIA 2010 Benchmarking Study interviewed in April and May 2011.

STEP 3: LONG-TERM GOALS | WHAT ARE OUR GOALS? (3 YEARS)

Goals (3 years)

End of period: 2014

MARKET SHARE:	AUM:	CLIENTS/RM:	MARGIN:
Increase share of affluent local market from 1% to 1.6%.	10% per year organic growth. $610 million AUM in three years (assumes additional 7% market growth).	Increase number of clients per advisor from 80 to 110.	Increase from 30% to 35% (after owners' compensation).

STEP 4: STRATEGY DEVELOPMENT | WHAT ARE OUR STRATEGIES TO GET US THERE? (3 YEARS)

Strategic Differentiator

Focus on our niche market to be the dominant local firm in our geography.

Ideal Client Profile

High-net-worth investors who are in need of help and who have recently undergone a life-changing event that left them responsible for the management of their assets. Primarily women who have between $1 million and $10 million in investable assets.

Strategic Priorities

- Create a culture of business development among key staff.
- Pursue in-market acquisitions.
- Segment service model to maximize profitability.
- Increase RM's relationship-building and business development time to 90%.

Unique Value Proposition

Our programs are uniquely structured to guide clients through the many complex financial decisions that come with new wealth management responsibilities. Our team has more than 20 years of experience, and we bring clarity, confidence, and personalized guidance to the relationships we build with our clients. We exceed expectations by anticipating needs and by providing practical solutions that reduce stress and promote security when clients need it most.

STEP 5: KEY INITIATIVES AND ANNUAL GOALS | WHAT DO WE NEED TO DO? (1 YEAR)

Key Initiatives (Annual Priorities)

- Hire new advisor with strong sales capabilities.
- Institute monthly sales meetings to track progress and train staff.
- Evaluate two potential acquisition opportunities.
- Identify tasks advisors should begin delegating to support staff.
- Analyze client profitability and refine service models by segment.

Goals (1 Year)

End of period: 2012

MARKET SHARE:	AUM:	CLIENTS/RM:	MARGIN:	REFERRALS:
Increase share of affluent local market from 1% to 1.2%.	10% per year organic growth. $445 million AUM in one year (assumes additional 7% market growth).	Increase number of clients per advisor from 80 to 90.	Increase from 30% to 31% (after owners' compensation).	Increase to 80 qualified referrals per year.

APPENDIX C: SAMPLE IMPLEMENTATION PLAN

IMPLEMENTATION QUARTER: Q1 2012

ADVISOR: Tom

WHAT DO WE NEED TO DO THIS QUARTER?

Firm's Goals

CATEGORY	MEASUREMENT
Margin	Increase to 30.25%
AUM	2.5% per quarter (organic)
Number of Clients/RM	Increase number of clients per advisor from 80 to 82
Referrals	20 qualified referrals per quarter
Other	

Firm's Quarterly Actions

WHAT	WHO
1. Develop/post advisor job description.	Principal X
2. Kick off monthly sales meetings.	Principal X
3. Identify potential acquisition opportunities for evaluation.	Principal X
4. Identify tasks to delegate from advisor to support staff.	COO
5. Model profitability of clients.	COO

WHAT DO I NEED TO DO?*

My Goals

CATEGORY	MEASUREMENT
Client Retention (controllable)	98%
AUM	2.5% per quarter (organic)
Number of Clients/RM	Increase to 82 clients
Referrals	Conduct 5 referral discussions
Other	

My Quarterly Actions

WHAT	DUE DATE
1. Attend training on referrals.	January 15, 2012
2. Take top five clients to lunch for referral discussion.	February 1, 2012
3. Complete a time and motion study of advisor activities.	January 30, 2012
4. Invite clients to next quarter's client appreciation event.	March 10, 2012

*Each individual in the firm would complete his or her own version for this section of the plan.

APPENDIX D: BEST-MANAGED FIRMS INCOME STATEMENTS

Average Common-Sized Income Statement—2010		Best-Managed Firms		Other Firms		$25–$100MM		$100–$250MM	
		AVERAGE $	AVERAGE PERCENTAGE	AVERAGE $	AVERAGE PERCENTAGE	AVERAGE $	AVERAGE PERCENTAGE	AVERAGE $	AVERAGE PERCENTAGE
Revenue	Asset management fees	$4,687,100	94.7%	$3,417,100	92.8%	$426,300	93.3%	$991,100	92.8%
	Planning and consulting	$103,900	2.1%	$147,300	4.0%	$10,500	2.3%	$37,400	3.5%
	Securities commissions	$0	0.0%	$40,500	1.1%	$2,300	0.5%	$10,700	1.0%
	Insurance commissions	$84,100	1.7%	$40,500	1.1%	$10,500	2.3%	$12,800	1.2%
	Other revenues	$74,200	1.5%	$36,800	1.0%	$7,300	1.6%	$16,000	1.5%
	Total revenue	**$4,949,400**	**100%**	**$3,682,200**	**100%**	**$456,900**	**100%**	**$1,068,000**	**100%**
Direct Expenses	Professional salaries – Owners	$999,800	20.2%	$784,300	21.3%	$180,500	39.5%	$334,300	31.3%
	Professional salaries – Non-owners	$539,500	10.9%	$515,500	14.0%	$36,600	8.0%	$115,300	10.8%
	Professional bonus – Owners	$188,100	3.8%	$132,600	3.6%	$12,300	2.7%	$33,100	3.1%
	Professional bonus – Non-owners	$118,800	2.4%	$81,000	2.2%	$3,200	0.7%	$13,900	1.3%
	Fees paid for referred business	$79,200	1.6%	$77,300	2.1%	$1,400	0.3%	$11,700	1.1%
	Total direct expenses	**$1,925,300**	**38.9%**	**$1,590,700**	**43.2%**	**$233,900**	**51.2%**	**$507,300**	**47.5%**
Gross Profit		$3,024,100	61.1%	$2,091,500	56.8%	$223,000	48.8%	$560,700	52.5%
Overhead Expenses	Back-office and admin salary and bonus	$475,100	9.6%	$423,500	11.5%	$36,100	7.9%	$104,700	9.8%
	Retirement benefits – Owners	$49,500	1.0%	$47,900	1.3%	$6,400	1.4%	$16,000	1.5%
	Retirement benefits – Non-owners	$39,600	0.8%	$36,800	1.0%	$2,300	0.5%	$7,500	0.7%
	Health insurance	$94,000	1.9%	$99,400	2.7%	$10,100	2.2%	$25,600	2.4%
	Payroll taxes	$99,000	2.0%	$99,400	2.7%	$11,900	2.6%	$28,800	2.7%
	Marketing and business dev. expenses	$133,600	2.7%	$70,000	1.9%	$9,100	2.0%	$24,600	2.3%
	Office rent	$153,400	3.1%	$169,400	4.6%	$23,300	5.1%	$51,300	4.8%
	IT (equipment and outsourcing)	$99,000	2.0%	$106,800	2.9%	$10,500	2.3%	$28,800	2.7%
	Equipment	$14,800	0.3%	$14,700	0.4%	$1,800	0.4%	$5,300	0.5%
	Outsourcing	$34,600	0.7%	$29,500	0.8%	$5,000	1.1%	$11,700	1.1%
	Office expenses	$54,400	1.1%	$51,600	1.4%	$7,300	1.6%	$16,000	1.5%
	Utilities	$29,700	0.6%	$29,500	0.8%	$6,400	1.4%	$10,700	1.0%
	Research	$19,800	0.4%	$25,800	0.7%	$3,200	0.7%	$7,500	0.7%
	Professional services	$69,300	1.4%	$58,900	1.6%	$8,200	1.8%	$13,900	1.3%
	Travel and auto	$44,500	0.9%	$44,200	1.2%	$6,900	1.5%	$12,800	1.2%
	Training and education	$29,700	0.6%	$29,500	0.8%	$4,600	1.0%	$8,500	0.8%
	Business insurance	$34,600	0.7%	$33,100	0.9%	$4,100	0.9%	$10,700	1.0%
	Depreciation and amortization	$24,700	0.5%	$33,100	0.9%	$2,700	0.6%	$8,500	0.8%
	Taxes and licenses	$34,600	0.7%	$11,000	0.3%	$3,200	0.7%	$4,300	0.4%
	Other overhead	$69,300	1.4%	$62,600	1.7%	$6,400	1.4%	$13,900	1.3%
	Total overhead expenses	**$1,598,700**	**32.3%**	**$1,480,200**	**40.2%**	**$169,100**	**37.0%**	**$411,200**	**38.5%**
Operating Income		$1,425,400	28.8%	$611,200	16.6%	$53,900	11.8%	$149,500	14.0%
Other Income and Expenses	Other income	$4,900	0.1%	$7,400	0.2%	$2,300	0.5%	$1,100	0.1%
	Other expenses	$9,900	0.2%	$22,100	0.6%	$2,700	0.6%	$5,300	0.5%
	Total income or expenses	**($4,900)**	**-0.1%**	**($14,700)**	**-0.4%**	**$0**	**0.0%**	**($4,300)**	**-0.4%**
Profit Before Tax		$1,420,500	28.7%	$596,500	16.2%	$53,500	11.7%	$145,200	13.6%
Dividends or Profit Sharing	Dividends	$0	0.0%	$117,800	3.2%	$900	0.2%	$19,200	1.8%
	Profit sharing – Owners	$712,700	14.4%	$290,900	7.9%	$23,300	5.1%	$57,700	5.4%
	Profit sharing – Non-owners	$4,900	0.1%	$11,000	0.3%	$500	0.1%	$2,100	0.2%
	Total profit sharing	**$717,700**	**14.5%**	**$301,900**	**8.2%**	**$23,800**	**5.2%**	**$59,800**	**5.6%**
Standardized Operating Income[1]		$1,737,200	35.1%	$596,500	16.2%	$65,300	14.3%	$134,600	12.6%

1. Standardized operating income is based on a single level of per principal base and bonus applied to firms of a given size and business model.

Note: Percentage values are the average of the percentage of revenues value for each firm within the group. Dollar values are this average percentage value multiplied by the average revenues for the group.

Average Common-Sized Income Statement—2010

		$250–$500MM		$500MM–$1B		$1B+	
		AVERAGE $	**AVERAGE PERCENTAGE**	**AVERAGE $**	**AVERAGE PERCENTAGE**	**AVERAGE $**	**AVERAGE PERCENTAGE**
Revenue	Asset management fees	$2,073,500	92.7%	$3,976,500	94.4%	$10,878,400	92.9%
	Planning and consulting	$98,400	4.4%	$122,200	2.9%	$503,500	4.3%
	Securities commissions	$20,100	0.9%	$37,900	0.9%	$46,800	0.4%
	Insurance commissions	$22,400	1.0%	$37,900	0.9%	$128,800	1.1%
	Other revenues	$22,400	1.0%	$37,900	0.9%	$152,200	1.3%
	Total revenue	**$2,236,800**	**100%**	**$4,212,400**	**100%**	**$11,709,800**	**100%**
Direct Expenses	Professional salaries – Owners	$496,600	22.2%	$728,700	17.3%	$1,815,000	15.5%
	Professional salaries – Non-owners	$315,400	14.1%	$669,800	15.9%	$1,604,200	13.7%
	Professional bonus – Owners	$69,300	3.1%	$151,600	3.6%	$538,700	4.6%
	Professional bonus – Non-owners	$40,300	1.8%	$92,700	2.2%	$374,700	3.2%
	Fees paid for referred business	$44,700	2.0%	$101,100	2.4%	$175,600	1.5%
	Total direct expenses	**$966,300**	**43.2%**	**$1,743,900**	**41.4%**	**$4,520,000**	**38.6%**
Gross Profit		$1,270,500	56.8%	$2,468,500	58.6%	$7,189,800	61.4%
Overhead Expenses	Back-office and admin salary and bonus	$246,000	11.0%	$484,400	11.5%	$1,569,100	13.4%
	Retirement benefits – Owners	$31,300	1.4%	$29,500	0.7%	$117,100	1.0%
	Retirement benefits – Non-owners	$22,400	1.0%	$42,100	1.0%	$128,800	1.1%
	Health insurance	$58,200	2.6%	$122,200	2.9%	$269,300	2.3%
	Payroll taxes	$58,200	2.6%	$113,700	2.7%	$245,900	2.1%
	Marketing and business dev. expenses	$44,700	2.0%	$71,600	1.7%	$210,800	1.8%
	Office rent	$100,700	4.5%	$176,900	4.2%	$433,300	3.7%
	IT (equipment and outsourcing)	$62,600	2.8%	$92,700	2.2%	$292,700	2.5%
	Equipment	$8,900	0.4%	$16,800	0.4%	$23,400	0.2%
	Outsourcing	$15,700	0.7%	$29,500	0.7%	$82,000	0.7%
	Office expenses	$31,300	1.4%	$42,100	1.0%	$105,400	0.9%
	Utilities	$17,900	0.8%	$29,500	0.7%	$58,500	0.5%
	Research	$15,700	0.7%	$37,900	0.9%	$105,400	0.9%
	Professional services	$35,800	1.6%	$54,800	1.3%	$187,400	1.6%
	Travel and auto	$26,800	1.2%	$33,700	0.8%	$140,500	1.2%
	Training and education	$15,700	0.7%	$25,300	0.6%	$46,800	0.4%
	Business insurance	$22,400	1.0%	$29,500	0.7%	$93,700	0.8%
	Depreciation and amortization	$20,100	0.9%	$42,100	1.0%	$128,800	1.1%
	Taxes and licenses	$8,900	0.4%	$12,600	0.3%	$46,800	0.4%
	Other overhead	$35,800	1.6%	$59,000	1.4%	$304,500	2.6%
	Total overhead expenses	**$879,100**	**39.3%**	**$1,550,200**	**36.8%**	**$4,578,500**	**39.1%**
Operating Income		$391,400	17.5%	$918,300	21.8%	$2,611,300	22.3%
Other Income and Expenses	Other income	$2,200	0.1%	$8,400	0.2%	$58,500	0.5%
	Other expenses	$11,200	0.5%	$29,500	0.7%	$117,100	1.0%
	Total income or expenses	**($8,900)**	**-0.4%**	**($21,100)**	**-0.5%**	**($58,500)**	**-0.5%**
Profit Before Tax		$382,500	17.1%	$901,500	21.4%	$2,564,400	21.9%
Dividends or Profit Sharing	Dividends	$76,000	3.4%	$8,400	0.2%	$585,500	5.0%
	Profit sharing – Owners	$203,500	9.1%	$446,500	10.6%	$1,370,000	11.7%
	Profit sharing – Non-owners	$8,900	0.4%	$4,200	0.1%	$11,700	0.1%
	Total profit sharing	**$212,500**	**9.5%**	**$450,700**	**10.7%**	**$1,381,800**	**11.8%**
Standardized Operating Income[1]		$348,900	15.6%	$905,700	21.5%	$2,857,200	24.4%

1. Standardized operating income is based on a single level of per principal base and bonus applied to firms of a given size and business model.

Note: Percentage values are the average of the percentage of revenues value for each firm within the group. Dollar values are this average percentage value multiplied by the average revenues for the group.

APPENDIX E: BEST-MANAGED FIRMS PERFORMANCE RATIOS

Performance Ratios—2010

		Best-Managed Firms		Other Firms		$25–$100MM		$100–$250MM	
		MEDIAN	80TH PERCENTILE	MEDIAN	80TH PERCENTILE	MEDIAN	80TH PERCENTILE	MEDIAN	80TH PERCENTILE
Firm Profile	AUM ($MM)	$559	$1,018	$386	$724	$61	$83	$151	$200
	Revenue	$3,100,000	$7,327,000	$2,145,000	$4,575,000	$440,000	$604,000	$1,044,000	$1,360,000
	Clients	280	774	287	559	89	153	156	250
	Principals	2.0	4.0	2.0	4.0	1.0	2.0	2.0	2.0
	Total professionals (includes principals)	5.0	11.0	6.0	11.0	2.0	3.0	3.0	4.0
	Total staff	10.0	20.0	10.0	20.0	3.0	4.0	5.0	6.5
Firm Growth	AUM annual growth: 2008–2010	7.3%	13.2%	2.4%	9.3%	3.6%	10.9%	4.2%	11.9%
	Revenue annual growth: 2008–2010	6.5%	17.2%	1.3%	6.7%	1.9%	11.4%	2.5%	12.2%
	Client annual growth: 2008–2010	5.1%	11.1%	3.2%	9.7%	5.0%	11.2%	3.8%	10.8%
	Annual growth from organic assets: 2008–2010	7.2%	13.1%	3.0%	8.5%	4.6%	10.6%	4.8%	11.1%
	Change in revenue per client (2010)	15.0%	23.1%	13.9%	20.9%	13.7%	23.9%	15.1%	24.1%
	Asset attrition rate (2010)	1.8%	3.7%	1.9%	4.5%	1.3%	5.0%	2.0%	4.3%
	Client attrition rate (2010)	2.8%	5.2%	3.3%	5.7%	2.3%	6.8%	3.2%	6.3%
Firm Profitability	Bps on assets	68	85	67	81	79	98	70	88
	Operating margin (as reported)	30.0%	38.6%	15.2%	27.0%	6.5%	24.6%	11.6%	22.4%
	Standardized operating margin[1]	34.7%	42.6%	16.8%	27.8%	19.3%	35.6%	15.1%	29.3%
	Pretax income per owner[2]	$761,000	$1,296,000	$405,000	$668,000	$169,000	$258,000	$294,000	$440,000
Staff Productivity	Clients per professional	64	121	44	76	40	87	47	95
	Clients per staff (total headcount)	34	62	26	44	29	56	30	54
	Revenue per professional	$563,000	$832,000	$383,000	$504,000	$213,000	$338,000	$343,000	$500,000
	Revenue per staff (total headcount)	$326,000	$399,000	$229,000	$270,000	$151,000	$202,000	$209,000	$280,000
	AUM per professional ($MM)	$94	$126	$60	$82	$27	$39	$50	$75
	AUM per staff (total headcount) ($MM)	$53	$68	$37	$46	$18	$27	$31	$44
	Revenue per client	$11,000	$17,000	$8,000	$13,000	$5,000	$8,000	$7,000	$10,000
	AUM per client	$1,720,000	$2,840,000	$1,290,000	$2,300,000	$650,000	$1,020,000	$970,000	$1,510,000
	Cost of staff time per $1MM AUM (excludes bd time)	$2,600	$3,400	$3,200	$4,100	$3,900	$5,200	$3,300	$4,500
	Cost of staff time per $1MM New AUM (business dev only)	$2,900	$5,900	$5,000	$10,400	$2,700	$7,400	$3,400	$8,000
	Total firm cost per $1MM AUM (all costs)	$4,700	$5,400	$5,400	$7,000	$6,900	$8,700	$5,700	$7,700
Marketing	New clients per professional	4.5	11.1	3.1	6.4	4.3	9.5	4.3	8.9
	New clients per staff (total headcount)	2.8	5.6	1.9	4.0	3.2	6.0	2.7	5.0
	New AUM per professional ($1MM)	$5.7	$11.0	$3.2	$6.0	$2.0	$4.9	$3.3	$6.7
	New AUM per staff (total headcount) ($1MM)	$2.9	$6.3	$1.9	$3.3	$1.3	$3.0	$2.0	$3.8
	Organic growth – Client referrals	2.3%	5.6%	2.4%	4.3%	2.5%	6.8%	2.8%	5.9%
	Organic growth – Professional referrals	1.5%	3.7%	1.0%	3.0%	0.7%	2.9%	1.1%	3.3%
	Organic growth – Retained clients net flows	-0.6%	1.6%	-0.8%	1.9%	0.0%	2.4%	-0.3%	3.3%
	Organic growth – Total all sources[3]	6.7%	12.2%	3.7%	10.5%	5.4%	14.4%	6.7%	12.5%

		Best-Managed Firms	Other Firms	$25–$100MM	$100–$250MM
Operations Standardized procedures % firms with documented procedures		PERCENTAGE OF FIRMS	PERCENTAGE OF FIRMS	PERCENTAGE OF FIRMS	PERCENTAGE OF FIRMS
	Prospecting / lead generation	43%	43%	21%	29%
	Account opening	92%	90%	72%	87%
	Client communications	84%	89%	68%	84%
	Day-to-day client service	84%	85%	58%	76%
	Asset allocation / new client asset selection	84%	87%	74%	80%
	Client portfolio rebalancing / trading	84%	86%	66%	77%
	Data reconciliation	94%	92%	82%	87%
	Quarterly reporting and billing	100%	98%	95%	99%
	Compliance / regulatory requirements	98%	98%	91%	95%
	Employee training	55%	51%	30%	38%

1. Standardized operating margin is based on a single level of per principal base and bonus applied to firms of a given size and business model.
2. Pretax income per owner is the total of all principal base and bonus pay plus firm pretax profit, divided by the number of principals.
3. Includes "Organic growth – Other" not shown.

Note: The data shown is calculated for each firm independently, and then the median or 80th percentile of that value is taken across all firms for each line item.

Performance Ratios—2010							
		$250–$500MM		$500MM–$1B		$1B+	
		MEDIAN	80TH PERCENTILE	MEDIAN	80TH PERCENTILE	MEDIAN	80TH PERCENTILE
Firm Profile	AUM ($MM)	$361	$440	$672	$831	$1,700	$2,195
	Revenue	$2,121,000	$2,800,000	$3,937,000	$5,081,000	$8,780,000	$13,116,000
	Clients	260	450	381	670	727	1,340
	Principals	2.0	3.0	3.0	4.0	4.0	6.0
	Total professionals (includes principals)	5.0	7.7	8.8	11.7	15.0	22.0
	Total staff	9.0	12.0	15.0	21.0	30.0	43.0
Firm Growth	AUM annual growth: 2008–2010	4.1%	11.5%	3.8%	10.2%	2.6%	7.3%
	Revenue annual growth: 2008–2010	2.0%	8.5%	2.9%	10.8%	4.0%	7.7%
	Client annual growth: 2008–2010	4.7%	10.2%	4.1%	10.7%	3.1%	8.4%
	Annual growth from organic assets: 2008–2010	3.2%	10.5%	4.5%	10.2%	3.7%	6.3%
	Change in revenue per client (2010)	12.9%	20.8%	14.5%	21.4%	13.7%	22.0%
	Asset attrition rate (2010)	1.8%	4.5%	1.7%	4.2%	2.3%	5.5%
	Client attrition rate (2010)	3.4%	6.5%	3.1%	6.1%	3.7%	7.7%
Firm Profitability	Bps on assets	66	82	61	80	56	70
	Operating margin (as reported)	16.2%	29.2%	23.8%	35.8%	24.4%	33.1%
	Standardized operating margin[1]	17.8%	27.9%	22.5%	34.8%	25.0%	34.8%
	Pretax income per owner[2]	$389,000	$600,000	$593,000	$901,000	$785,000	$1,439,000
Staff Productivity	Clients per professional	48	81	44	80	41	85
	Clients per staff (total headcount)	30	44	26	43	22	36
	Revenue per professional	$394,000	$564,000	$460,000	$621,000	$588,000	$829,000
	Revenue per staff (total headcount)	$237,000	$287,000	$260,000	$331,000	$281,000	$407,000
	AUM per professional ($MM)	$58	$94	$76	$106	$117	$163
	AUM per staff (total headcount) ($MM)	$37	$49	$44	$60	$56	$80
	Revenue per client	$8,000	$12,000	$11,000	$16,000	$13,000	$25,000
	AUM per client	$1,290,000	$2,030,000	$1,820,000	$2,910,000	$2,470,000	$6,290,000
	Cost of staff time per $1MM AUM (excludes bd time)	$3,200	$4,100	$3,000	$3,700	$2,400	$3,100
	Cost of staff time per $1MM New AUM (business dev only)	$4,600	$10,100	$4,300	$10,000	$4,100	$6,300
	Total firm cost per $1MM AUM (all costs)	$5,400	$7,100	$5,000	$6,000	$3,900	$5,500
Marketing	New clients per professional	4.0	8.2	3.9	7.4	2.7	8.8
	New clients per staff (total headcount)	2.5	4.8	2.3	4.4	1.5	3.9
	New AUM per professional ($1MM)	$3.2	$6.6	$3.7	$8.0	$6.0	$14.3
	New AUM per staff (total headcount) ($1MM)	$2.0	$4.1	$2.1	$4.2	$3.0	$6.4
	Organic growth – Client referrals	2.6%	5.0%	2.2%	5.0%	1.8%	3.9%
	Organic growth – Professional referrals	1.1%	2.9%	0.7%	2.9%	1.2%	3.1%
	Organic growth – Retained clients net flows	-0.9%	2.6%	-0.5%	1.9%	-1.5%	0.6%
	Organic growth – Total all sources[3]	3.9%	12.5%	4.5%	11.0%	3.1%	8.5%
Operations		PERCENTAGE OF FIRMS		PERCENTAGE OF FIRMS		PERCENTAGE OF FIRMS	
Standardized procedures % firms with documented procedures	Prospecting / lead generation	38%		45%		49%	
	Account opening	88%		89%		93%	
	Client communications	87%		81%		86%	
	Day-to-day client service	84%		76%		86%	
	Asset allocation / new client asset selection	84%		83%		87%	
	Client portfolio rebalancing / trading	85%		77%		87%	
	Data reconciliation	95%		88%		94%	
	Quarterly reporting and billing	99%		94%		99%	
	Compliance / regulatory requirements	100%		100%		99%	
	Employee training	50%		48%		63%	

1. Standardized operating margin is based on a single level of per principal base and bonus applied to firms of a given size and business model.
2. Pretax income per owner is the total of all principal base and bonus pay plus firm pretax profit, divided by the number of principals.
3. Includes "Organic growth – Other" not shown.

Note: The data shown is calculated for each firm independently, and then the median or 80th percentile of that value is taken across all firms for each line item.

APPENDIX F: ADDITIONAL RESOURCES ON STRATEGIC PLANNING

Resource	Description
External Resources	
Collins, James C. and Jerry I. Porras. "Building Your Company's Vision," *Harvard Business Review* (Sept.–Oct. 1996).	A classic *Harvard Business Review* article on the fundamentals of creating a lasting vision (i.e., values, purpose, and Big, Hairy, Audacious Goal). Includes many examples to bring concepts to life. Find many online tools to create a vision on jimcollins.com.
Collins, Jim. *Good to Great: Why Some Companies Make the Leap … and Others Don't.* HarperCollins Publishers, Inc., 2001.	One of the most popular business books ever written about what it takes to build a successful firm. Excellent research and easy to read.
Drucker, Peter F., et al. *The Five Most Important Questions You Will Ever Ask About Your Organization.* Jossey-Bass, 2008.	A simple and thought-provoking book with the top five questions a leader should ask to bring an exceptional level of performance to his or her business: What is our mission? Who is our customer? What does the customer value? What are our results? What is our plan?
Kaplan, Robert S. and David P. Norton. "Using the Balanced Scorecard as a Strategic Management System," *Harvard Business Review* (July 2007).	This *Harvard Business Review* article presents the concept of a balanced scorecard, a new way of measuring success that augments traditional financial measures with benchmarks for performance in three key non-financial areas: a company's relationship with its customers, its key internal processes, and its learning and growth.
Kim, W. Chan and Renee Mauborgne. *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*. Harvard Business Press, 2005.	This book challenges readers to think about unique, out-of-the-box ways to innovate and create new value to grow their firm.
Porter, Michael E. *Competitive Strategy: Techniques for Analyzing Industries and Competitors.* The Free Press, 1998.	A classic book of strategy that provides the tools and techniques for completing industry and competitor analyses using the famous framework of five forces.
Porter, Michael E. "What Is Strategy?," *Harvard Business Review* (November 1996).	A classic *Harvard Business Review* article and primer on the three principles of developing an effective strategy to differentiate your firm.

Resource	Description
Small Business Specific	
Harnish, Verne. *Mastering the Rockefeller Habits: What You Must Do to Increase the Value of Your Growing Firm.* SelectBooks, Inc., 2002.	A practical and simple guide to executing a one-page plan from someone who coaches thousands of small businesses. The author has many free resources at gazelles.com and delivers popular seminars.
Warrilow, John. *Built to Sell: Creating a Business That Can Thrive Without You.* Portfolio/Penguin, 2010.	Warrilow is a storyteller who presents the reader with a fictional business owner who follows the advice of a mentor. He shares the three keys to building a business that endures beyond just the founder. This book is a quick read and does a wonderful job of providing simplicity to ideas like those found in *The E-Myth Revisited*.
Execution	
Kotter, John P. *Leading Change.* Harvard Business Press, 1996.	An outstanding book for leaders of larger firms who want to better understand what it takes to effect change and drive results with teams.
Neilson, Gary L., Karla L. Martin, and Elizabeth Powers. "The Secrets to Successful Strategy Execution," *Harvard Business Review* (June 2008).	A classic article on the key principles to successfully implementing strategy. This is based on research representing more than 1,000 companies.
Schmitt, Terry. *Strategic Project Management Made Simple: Practical Tools for Leaders and Teams.* John Wiley & Sons, Inc., 2009.	A hands-on book with good frameworks and examples to help firms execute their business plans. Includes frameworks for action plans, timelines, and metrics dashboards.

APPENDIX G: FIRMS INTERVIEWED

We thank the firms listed below for their participation and the insight they shared during interviews for this project.

Aspiriant, LLC	**Los Angeles, CA**
Bingham, Osborn & Scarborough, LLC	**San Francisco, CA**
Budros, Ruhlin & Roe, Inc.	**Columbus, OH**
Dowling & Yahnke, LLC	**San Diego, CA**
Harris SBSB	**McLean, VA**
Heritage Financial Services, Inc.	**Norwood, MA**
Howard Financial Services, Ltd.	**Dallas, TX**
Maryland Capital Management, LLC	**Baltimore, MD**
Vista Capital Partners, Inc.	**Portland, OR**

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