

Management Insight

A new consulting firm is born out of a familiar name--and offers some perspective on today's planning environment.

Unless you have been a client of the Moss Adams Consulting group recently, or worked in the firm, you probably haven't heard of a company called FA Insight (www.fainsight.com). But you may have heard of the principals: Moss Adams alums Eliza De Pardo, who had been a senior practice management consultant for the firm, and Dan Inveen, who served as the senior research manager with the Moss Adams business consulting group, and was instrumental in the annual benchmarking initiative.

No definitive word has come from Moss Adams regarding its consulting initiative, but FA Insight has taken over the relationship with former Moss Adams client advisory firms, offering marketing advice, strategic planning, organizational design and compensation planning. "We have the rights to continue working with the Moss Adams clients," De Pardo explains. "We continue to receive referrals from Moss Adams, both on research and consulting."

FA Insight also seems to have inherited a variety of close outsource relationships, giving the firm capabilities in mergers and acquisitions and other more specialized areas. "There are a variety of people we used to work with at Moss Adams," says De Pardo, "who will become our external consulting

and research partners, and we will be working with them collaboratively as needed in our engagements."

The new firm may also become the heir to the compensation, staffing and profitability studies that Moss Adams pioneered--or, if that doesn't pan out (an announcement has been awaited for months), FA Insight will almost certainly create its own research initiatives. "When we were at Moss Adams, having the consulting and research activities working together under one roof allowed the two to feed off each other, and broaden the depth of the offer," says Inveen. "We want to continue that synergy with FA Insight."

The new firm also has the blessing of Mark Tibergien, who founded the consulting firm and brought it to Moss Adams, and who, in his role as CEO of Pershing Advisor Solutions, is working with FA Insight on consulting and research projects. "I am very excited about what they're doing because they're going to be able to carry on the legacy of Moss Adams research and consulting, and because they were two outstanding associates of mine at Moss Adams," he says. "Eliza was a key part of what I thought was the best practice management offering for any financial services company that I have ever seen, coming out of MLC in Australia. Dan brings a broad base of research

experience that really helped to enhance what we were delivering at Moss Adams for the industry. The fact that they are going to continue that legacy and build upon it is exciting for the industry and important for us. They are one of our value alliance partners, and I have a high degree of confidence in introducing clients to them to help them with different practice management issues."

As longtime observers of the planning profession, Inveen and De Pardo are quite interested in how advisors are responding to the current environment. "If there is ever a year that I would want to do a survey, it is right now," says Inveen. "My guess is that your typical advisor is experiencing a revenue drop from 20-40% right now, and margins have taken a lesser hit. Typically in the past," he adds, "a good performing advisor is going to be generating 20-25% profit margins, and that may likely have moved below 15%. That may be better than some other industries, but relative to past years, these are very challenging times for advisors."

What about compensation trends? "As you know, in years past we made quite a big deal about the scarcity of talent and increasing levels of compensation," Inveen says. "I suspect that has subsided some. There seems to be a lot of talent in motion. We are hearing about defecting wirehouse advisors who are at least exploring the waters of independence. My thought is that most of them will probably land in the independent broker-dealer world before ultimately transitioning to an RIA model."

Of course, I asked what advice they offer to advisory firms today as

they manage their firms through the mayhem of the market downturn. De Pardo says that this is a time of enormous opportunity. “Many clients who are not happy with their advisors and are looking for better solutions, which creates huge opportunities for businesses that are well-placed now to take advantage of them,” she says. In addition, a lot of people who didn’t think they needed advice a year or two ago are being pushed off the fence by the meltdown.

For De Pardo, the first step to taking advantage of this opportunity is also the first step to getting your business back into the black: defining and focusing on the ideal client. “Many businesses have been working with multiple types of clients; they haven’t had a specific target market,” she says. “And they have been delivering multiple types of advice.”

What’s wrong with that? “In a strong market, when revenues are good, you can afford to spread yourself thin, even though it is not ideal,” she says. “But now that there is so much pressure on revenues, and assets under management, people need to be much more focused and delivering only in those areas that are going to be profitable for the business. If you believe you want to be working with small business owners,” she adds by way of explanation, “and you have 30 staff people, if that is your target market, it is really about pursuing that strategy wholeheartedly, and having all of your team members aligned to that one strategy—as opposed to having pieces of your business focused on other areas, which may not be as profitable.”

De Pardo is concerned that not all advisory firms understand the

economics of their offering, which areas generate greater revenue and profits. “A lot of businesses don’t understand the cost of delivering advice to clients,” she says. “We work with businesses to figure out what it costs them per client relationship and how many hours are invested in that relationship on an annual basis. Once you understand the cost of what you are delivering, you can, of course, change your pricing structure or adjust your service level to make sure you are adequately compensated for what you are delivering.”

Does that mean giving up clients? Not necessarily. “In stronger markets, better-paying clients can compensate for those low revenue-generating clients,” says De Pardo. “But in times like these, it begs the question of how long you can really sustain that. You have a couple of options; the option to change your pricing structure for those lower-revenue clients, or find a different solution for them. The different solution might mean referring them elsewhere, or delivering a different level of service than you have delivered in the past.”

Once you know who you want to target, and have your ideal client pretty well defined, marketing becomes less of a chore. But here again, De Pardo expects some adjustment. “Unfortunately, many businesses, during the good times, let their marketing muscle completely atrophy,” she says, “and they are not accustomed to having to go out and generate brand new client relationships. I think over the next 12 months to two years, businesses are going to have to relearn how to generate new relationships in order to

continue to grow.”

Step one is to talk to existing clients about the clients you want to work with. “There is no point leaving it open to interpretation,” she says, “because that is only going to create more hard work for you down the track, when you are working with clients who are not ideal.” What do you do if you get referrals that are not appropriate? De Pardo envisions a future where all advisory firms are feeding each other in a referral ecology; you know who in your area would be a better fit for that non-ideal client.”

Growth vs. shrinkage

Inveen believes that the planning profession is unconsciously segmenting itself into two camps: those firms that aim to shrink to survive, and those that intend to thrive on the current opportunity. For the former, there is danger of cutting back on future capacity by losing scarce talent. “I would hope that you would somehow find a way to keep hold of your best people,” he says, “because this market WILL turn around at some point, and those who do have the capacity will be best positioned to benefit.”

For those in the second camp, there is precedent for their hope to grow in the mayhem. Inveen points to a study that he worked on for Pershing when he was at Moss Adams; in 2007 he and others looked at all the firms that had given data since 2003, when advisory firms were reeling from the Tech Wreck downturn. They isolated the fastest-growing firms, and discovered that they had one

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thing in common: they maintained excess capacity while everyone else was cutting back. “They were ready to pounce when the market turned around,” says Inveen. “They were lining their people up during the downturn, and were ready to go.”

Isn't this a bit of a gamble? Yes. But you want to throw some chips on the table when the opportunities are greatest. “I don't know when this is going to end,” Inveen admits, “but at some point we're going to look back on 2008-2009 and think, gosh, what a time of opportunity. If I only would have done this or that. The mindset of the second camp is that they won't experience that regret because they're preparing to seize that opportunity.”

In other words, it pays to be a contrarian in the practice management world as well as in the realm of investments.

Is there a way to tilt the odds in your favor? De Pardo thinks that firms with growth expectations should pay special attention to their organizational blocking and tackling. “During the good times, a lot of companies went about hiring people without putting a lot of thought into how they are going to fit into the rest of the group or how the business is really structured,” she says. “Because of the strain on revenue at the moment, we are having a lot of principals contact us, asking, how can I align my team better with the growth of the business? Do I have the right people to begin with? Do I have the right roles? Can we be doing things more efficiently? We do an awful lot of work in organizational design, which is everything from what the new structure needs to look like to

the responsibilities, the career paths, reporting lines and everything else that is required to get that structure up and running. There are a number of strategic questions they have to ask themselves.”

As the bear market continues, Inveen expects there to be an uptick in merger and acquisition activity, probably sometime in the second half of this year. “I think you have folks out there who are getting on in years and want to sell their practice or transition out of their practice,” he says, “and if they are not able to do that, you might just find them quietly closing the doors and winding things down. I just see an attrition of folks who have lost the gumption in this day and age to reinvest in their practice, looking for growth in the future.”

De Pardo thinks that one key to growth by acquisition is to be open and flexible as you enter into the negotiations; there may be outright purchases of advisors who are tired of all the angst and mayhem, while younger or more vigorous advisors may be looking to end to the hassles of being a business owner. For the latter, the structure may look more like “buy my clients and give me a job.”

“Potentially, I think there are going to be many different opportunities,” she says. “Deals will take all different shapes and forms from what we have seen in the past, and there is going to be some more urgency around some of the deals than we have seen in the past.”

Since De Pardo talked about advisory firms defining their ideal client, I asked her about hers, and the conversation took an interesting turn. She looks for businesses that recognize and appreciate the value of

advice (sound familiar so far?), have a mindset of change, are progressive in their thinking, and have the resources to support any changes they may be making. “They typically have more than \$1 million in revenues, because at that level, most businesses have to make some very big decisions in order to grow to the next level.”

Most of that, I think I expected. But De Pardo goes on to say that many of the first that meet this criteria have been successful in the past, and now have younger owners in the shareholder group, who are more motivated than the older folks to drive business growth, and are more able to embrace potentially radical change. “They typically have their own ideas around how they see things moving forward,” she says. “They come up with new ideas and perspectives, and they are eager to see a growing return on their investment.”

For the new consulting firm born out of the Moss Adams Consulting Group, there is an obvious contradiction. Firms can benefit from FA Insight's services more today than during calm, sunny market (less exciting?) environments, but many planning practices are also watching their budgets and are less likely to spend additional money unless they can see a clear return on their investment. De Pardo recognizes contradiction, but says that growth in this environment requires advisory firms to execute the twists and turns more efficiently than others. “There is no easy way,” she says. “It comes down to a lot of thoughtful planning about how they want their business to look as they get bigger, or as they grow over the coming years. It won't happen by chance.” ■