GO TEAM!

There is increasingly compelling evidence that financial advisors who work as part of a structured team generate higher net income, writes **Craig Harris**. The benefits extend to recruiting, training, client service and succession planning, as several life insurers have moved to encourage multi-advisor teams. One major challenge is melding entrepreneurial personalities into a collaborative model. Is it really possible for advisors to just get along?

The image of the solo practitioner is deeply embedded in the psyche of the financial advisory community. Whether seen as a lone wolf keen to make it on his or her own, or an entrepreneurial rainmaker who gets results, the individual advisor is often thought of as the *de facto* model of a financial planning firm.

Yet there is a growing awareness of the limitations of this business model. Many advisors and partner companies recognize the huge knowledge hurdles facing solo advisors in areas as diverse as marketing, product expertise, client service, administration/processing, compliance and succession planning.

"I think team structures are evolving because of the increasingly complex nature of the financial services industry," says Vic Kazazian, senior vice president of the career sales force for Sun Life Financial. "It is pretty tough for someone to know and stay on top of everything."

Christopher Annette is vice president of business development at Kitchener, Ont.-based Century Group Financial Solutions Inc., a multi-advisor practice

PHOTO: LARRY WILLIAMS/CORBIS

Advisors are three times more likely to be in the top quartile for net income when they adopt a collaborative team structure.

with six partners, three advisors and 11 support staff. "One of the lessons I learned [when I was solo] is that I couldn't do it all on my own," he recalls. "In my old practice, I wouldn't hesitate to drive three hours to help solve a client problem. But was that really what I should have been doing? Now I am responsible for business development and marketing, and I can focus on the needs of a broader group of larger clients."

The team trend raises some interesting questions. First, how many advisors have actually embraced this model? And second, how do you actually define a "team"?

On the first issue, statistics tend to reinforce the predominance of the sole practitioner. While there are no formal studies of advisory demographics in Canada, many U.S. studies show that the majority of firms go it alone. In a recent survey of 1,200 advisors, the Life Insurance and Market Research Association (LIMRA) and McKinsey Consulting discovered that 55 per cent were solo, 22 per cent were solo with low support (i.e., one assistant), 14 per cent were solo with high support (two or more assistants) and only nine per cent were classified as a multi-advisor team.

Many sources say these numbers are generally reflective of the advisor population in Canada. "I think the statistics coming out of LIMRA in the U.S. are quite similar in Canada," notes Neil Ouditt, national director of the associate advisor program at Manulife Financial, a program that matches junior and senior advisors across the country. "In some ways, we might be a bit ahead or behind, but they are essentially the same."

And how do you define what a real "team" is? Pat Leary is the assistant vice president of distribution at LIMRA. LIMRA and McKinsey's 2009 report, called *Forces of Change: Issues Facing Distribution Leaders*, classified advisor structures on a continuum of the four above-noted models — solo, solo with low support, solo with high support and multi-advisor. But according to Leary, there is more to it than that.

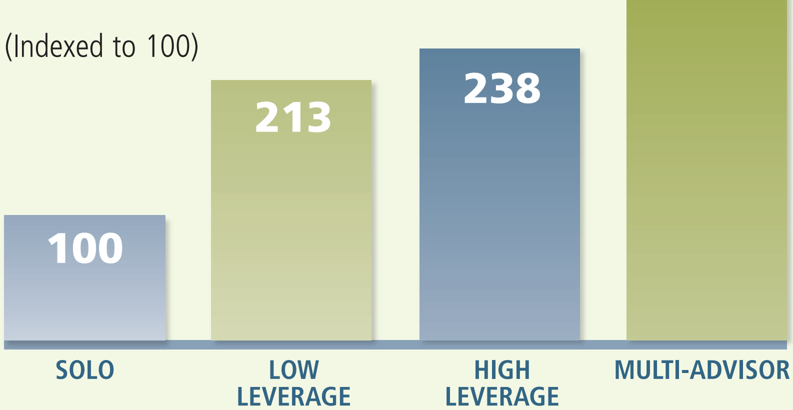
"When we discuss advisor teams, there are two pieces — leverage versus collaboration," he explains. "Leverage is related to support strength — the number of people and human capital an advisor has to help him or her with the business. There are clearly different levels of support. This could be basic administrative support to handle service issues, or it could be specialized support in terms of informal alliances with sales professionals."

The team concept, however, really comes into play when there is a formalized collaborative model for advisors.

"True collaboration refers to a business model in which an advisor works with other professionals," Leary notes. "It could be other professionals in one office or it could be a network of specialists who work as part of an affiliation, but these team members get compensated as part of a collaborative structure. The distinction we make is that the team members' activities must include client prospecting and sales; we are not talking about a network of accountants and lawyers who provide professional advice to advisors."

TEAMING UP FOR SUCCESS

Research shows that financial advisors who work in a leveraged or collaborative team structure are significantly more successful than their solo peers.



Source: Forces of Change, LIMRA/McKinsey & Company, 2009

For the roughly 10 per cent of the advisory community that is truly collaborative or multi-advisor, the financial results are measurable. Leary says this model correlates with higher net income. LIMRA has found that advisors are three times more likely to be in the top quartile for net income when they adopt a collaborative team structure.

This comes as no surprise to Kazazian. He says Sun Life has been tracking results of what he calls "multi-advisor corporations" (MACs) since the late 1990s because they are easier to monitor than more informal team arrangements.

"The average MAC generates about 110 per cent higher net income than a sole practitioner," Kazazian notes. "It is a much more efficient model; there is a much higher income potential."

CHEAPER BY THE DOZEN

It is not just net income, but the other side of the balance sheet that can improve with a multi-advisor approach — expenses.

"The reason this structure works is that it cuts down on expenses associated with sole practitioners," says Herb Braley, president and CEO of Braley Winton Financial Group, a team-based firm with 12 advisors and 10 support staff, located in Dollard-des-Ormeaux, Que. "If you are a solo generating $150,000 in revenue, you are, in the end, making very little because of your expenses. We have three marketing assistants, and we also cover processing of life insurance, seg funds, mutual funds, compliance, wealth management, technology and accounting services. This is expensive to run, but we can streamline it."

Braley's firm has been buying up individual financial practices over the past 10 years and bringing the principal advisor into an integrated structure. "In each case, these were highly successful producers who were looking for a different model," he explains. "I provide all the administrative and back-office support, and they can focus on what they do best, which is selling."

Christopher Annette, whose Century Group practice is structured differently according to a compensation agreement amongst the firm's six partners, agrees that net income and expenses can both benefit from the team model.

"I have seen lateral growth in my own production. I can focus on bigger clients, and can increase profitability and net income," says Annette. "The other reality is that our operation runs on a 30 per cent expense ratio. Any commission we get, we can retain 70 cents on the dollar. That is a much lower expense ratio than I had previously."

ENERGIZE ME

Beyond the numbers, several sources say there is a mutually reinforcing dynamic of energy when advisors team up — often in a scenario of older advisors partnering with younger advisors. "Many insurance and investment companies have found that more seasoned advisors tend to plateau when they get to a certain level," Leary notes. "In terms of productivity, bringing on new or different advisors can help take them to the next level."

Neil Ouditt, whose Manulife Financial program now has 140 associate advisors across the country, says he has seen this invigoration first-hand when matching junior advisors with more established counterparts. "The senior advisor can really benefit from the injection of new blood into the practice," he observes. "Many of our senior advisors tell us that this is an energizing process."

This process could involve complementary areas of expertise, such as tax and estate planning, or living benefits, or it may be as simple as sharing ideas at a meeting.

"Our six partners are responsible for different product areas and we all have our own areas of interest, but we meet regularly and share ideas," says Annette. "I know I am getting a lot more information in this type of environment."

"When our advisors come into the office, they can share ideas and approaches," echoes Braley. "It makes a lot more sense. They also have a lot more time to focus on things like prospecting and client segmentation."

Another plus with the team approach is recruiting, or what LIMRA calls "onboarding" of new advisors. "We find that advisors can take a tiered approach to training," says Leary. "The new advisors are not overwhelmed right at the start, which can definitely happen with sole practitioners. We also think it helps with retention. A lot of the younger advisors coming in are Generation X and Y, who are generally more receptive to a team approach and collaborative work environment."

Recruitment and advisor selection are areas in which the financial services industry has not traditionally had a great deal of success, according to Ouditt.

"In this industry, organizations have spent a lot of time and money to attract new advisors, but the statistics show that they only keep 25 per cent of recruits within five years," he comments. "That is a lot of attrition for the time and money spent. Our approach is very different from the traditional recruitment model. We spend a lot more time on the interview and selection process. The retention rate in our program is 85 per cent."

If done properly, the recruiting and training of younger advisors can address a critical issue that often stretches the resources of an established principal: client service.

"At the advisor level, a team structure means that they can handle more clients and they can meet the needs of existing clients," Leary maintains. "With the onboarding of new advisors, senior advisors can segment their client base between A, B and C."

"We call it the four 'Cs' of the team approach," adds Sun Life's Kazazian. "You have *consolidation*, in which an advisor team can provide holistic advice but also offer a full range of client service from A to Z. You have *collaboration*, in which team members work together to help the client. You have *consistency* of service — there is always someone there to uphold the standard of service. And then there is *continuity*, which refers to succession planning."

PHOTO: CREASOURCE/CORBIS

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The obvious advantage of a team-based approach in perpetuation strategies is one of the main reasons advisors band together. "Our six partners range in age from 33 to 71, with me being the youngest," says Annette. "Our ages are also staggered roughly every 10 years, and we include that [information] in our marketing to clients. We offer the stability and continuity of service over generations of clients. There is also the knowledge there will be someone there to purchase the shares of the company in any type of succession plan."

"We need younger people in this industry, and this is a great way for a young advisor to get into a growing operation," adds Braley of the Braley Winton Financial Group. "It is the client who needs a succession plan as much as the advisor. Our model is a program for the future in that it asks, How do you transfer knowledge to younger people in today's industry?"

CAN'T WE ALL JUST GET ALONG?

Lest anyone think a collaborative team structure is a panacea for today's time-challenged advisor, sources are quick to point out the potential drawbacks of the group approach. The biggest hurdle is addressing the personality conflicts that invariably emerge in any team environment.

"I think the challenges are mainly the psychological ones," says Kazazian. "You might find out that advisors simply do not get along in a team office structure. With the MAC, however, there is a more formal aspect of legal incorporation. Most MACs have gone through a structured process of business planning and consultation before they enter into any arrangement."

Annette believes it is best to handle any personality issues upfront, before the structure takes hold. "You definitely have to deal with different personality traits," he says. "At Century Group, we are past that now because we put a lot of work into that at the front end. We hired an outside consultant and we did a lot of planning. A big part of that was personality profiling."

Clarifying roles and responsibilities is also a challenge that comes with the territory of advisor teams, according to Leary. "Co-ordination amongst team members is crucial," he says. "Who takes responsibility for what? It is critical to address all the significant items upfront, which include business plans, timelines and areas of responsibility."

"It is a bit like bringing in 12 guys who have all had their own Italian restaurant," says Braley. "They are all successful, but they have different recipes. You have to have one system, and the advisors have to know that when they bring in a client, he or she will have the same standard of service. The real challenge is in integration, and that takes time."

Another thorny issue is compensation for team-based structures. Leary explains that the traditional method of payment and incentive for advisors has been individual, mainly through commission. A lot more needs to be done to recognize group compensation. "Companies need to be able to look at team compensation structures," he says. "That means they will have to change their systems and processes as well."

There is a range of models for how advisors can get paid as part of a team. All models can work, as long as there is the planning and structure built into them.

"There has to be 100 per cent responsibility and accountability established at the start. One of the important parts of that is compensation," Annette says. "A lot of MACs will share profits and income equally, but we have six partners driven by different skill sets and different motivations. We all draw a salary based on the ownership structure, but for the individual portion, we get commission on how much we sell. If you have a desire to sell more, you get more compensation."

Another, perhaps unexpected, challenge for advisor teams is client preferences, Leary notes. While some clients may embrace the collaborative approach of an advisory firm, others will prefer dealing with the same person on *all* their financial affairs.

Even with these challenges, there is little doubt that there is a growing awareness of the tangible and subtle benefits of working as part of a multi-advisor team – from both advisors and their supporting companies. "I have seen a lot of interest in the last year in team work structures," says Leary, who adds that LIMRA released another study on advisor teams exclusively focused on insurance producers in late August. "[The team work structure] is still at the early stages. I think you will see this evolve over time."

"From our perspective, a lot of these team structures have evolved and we have supported them," says Kazazian. "In fact, we are encouraging them by providing a framework and consulting expertise."

So, what of the sole practitioner? Is the lone wolf nearing extinction? Hardly, say sources. "I wouldn't say the days of the sole practitioner are over, not by any means. There are hundreds of different advisors out there and they all have very different kinds of practices," says Ouditt. "There are opportunities on both sides. But over the last 10 years, I have seen how this model can really help senior advisors and act as a better introduction and recruitment approach for the associate advisor."

Much of the work of establishing a successful team-based advisory firm has to start at the very beginning, Annette concludes in his advice for those who may be thinking of going this route.

"You have to put in the work at the front end to benefit at the back end," he says. "People have different approaches and different personalities. If you don't recognize that and work through some of the issues, [the team approach] can fail. You need to spend enough time at the outset on technical planning scenarios, business planning, timelines, responsibility, compensation issues — it all has to be addressed. If these are done properly, the results can be very rewarding." F

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