**Measuring and Improving Your Success**

By David L. Lawrence

 At the most recent Tech Leaders Conference in Dallas, Texas, hosted by Peter Montoya, a discussion was held on how Broker Dealers can best support their advisors. One aspect of this discussion focused on measuring the success of financial advisors and/or their practices. Among the discussion points, an interesting observation involved the apparent disconnect between success as measured by a broker dealer versus a practical approach for the financial advisor to take in measuring and controlling their own success.

Broker dealers typically look at gross dealer concession (GDC) figures, assets under management (AUM) and/or new client acquisition. GDC is the actual commissions or other compensation paid to the advisor through the broker dealer. AUM is sometimes used as a yardstick to measure the growth of an advisor’s practice. And, new client acquisition may be measured in terms of net gains in client count. There is also a measurement referred to as a new money ratio. This is typically the ratio between AUM in versus AUM that has left the advisor’s practice.

But, the question remains as to whether these types of measurements are for the benefit of the advisor or for the broker dealer. After all, should a financial advisor’s practice be considered less successful, if for instance, they dropped in client count and AUM, but increased their net profitability by virtue of higher profit services, fee-based services or a unique investment product mix that yielded higher revenue numbers? With an advisor’s focus on retaining and growing higher net worth clients, but purposefully looking to decrease their client count, the net result could be lower operational costs and higher net profit numbers for that practice.

Given that there is considerable pressure on broker dealers to serve the needs of their advisors in a more comprehensive way, some BDs have taken a different approach. At the Tech Leaders Conference, one such BD, Securities America, mentioned a new initiative to provide comprehensive practice management services to their advisors that go beyond the usual and customary. Others in attendance at that discussion concurred that this is happening across the profession either internally or through the use of outside consultants. One reason for this is increased competition for those same advisors. BDs may have to do more in order to retain their advisors (reps) in light of that competition.

However, the value of this is that advisors may better understand and relate to their own practice numbers when they have a more personalized approach that focuses on the unique aspects of their practice.

One suggestion is that, in reviewing a financial advisor’s profit and loss statement, emphasis should be made to focus on the net profitability, not just the gross income figure of the P & L. By placing the net profit number at the top of the page (reverse P&L), instead of the bottom, it forces the advisory practice to focus on the most important part of that statement. It also can have the effect of revealing the real cost of doing business.

But a reverse P&L statement is only the beginning. Just looking at numbers does not address the specifics of cost controls that ultimately could improve those numbers. Cost controls applied to a financial advisor’s practice can embrace a number of different disciplines, from quality control studies to Six Sigma practices. With respect to the latter, Six Sigma is a set of practices designed to systematically improve processes by eliminating (or, at least minimizing the negative impact of) non-conforming product or service offerings. Applied to financial service firms, this might utilize a set of basic methodology steps identified as **DMAIC**:

1. **D**efine the process improvement goals that are consistent with client needs and firm strategy
2. **M**easure the current process and collect relevant data for future comparison
3. **A**nalyze to verify the relationship or causality of factors. Determine what the relationship is and attempt to ensure that all factors have been considered
4. **I**mprove or optimize the process based upon the analysis using techniques such as workflow study comparisons (comparing the same process performed by different people in your firm)
5. **C**ontrol to ensure that any variances are corrected before they result in profit dampening. Set up and run oversight procedures and measure control mechanisms to ensure consistency

Though the specific techniques of Six Sigma go way beyond this simple acronym, it serves to illustrate the systematic approach to address process management and improvement in your firm. The term, Sigma, is derived from the statistical function of standard deviation. In a cost control study, Sigma typically refers to the number of standard deviations between the average time (for example) to complete a particular process and the nearest process specification limit.

To illustrate, let us say that to input a financial plan by an employee of a firm, management assumed that it would take, on average, about 3 hours to complete the data inputs. But in studying a firm with several employees who are responsible for such a task, it became apparent that most of the plans were taking about 4 hours to input. In a statistical bell curve, the study of this might look as follows:

This chart reveals that most of the time, the data inputs seem to be accomplished in or around 4 hours. However, there is one employee who manages to get the job done in less than 2 hours and another who took nearly 7 hours to complete. Certainly, this would be valuable information to the owner of the firm as it could uncover a highly efficient employee (or one who is cutting too many corners) and it could also uncover a training opportunity for that employee who is identified as taking too long to get the job done.

Another application of this chart is in identifying the norm or average time to complete a task. If a task takes, on average, 4 hours to complete, then the firm has a basis upon which to objectively determine the productivity of a particular employee as it relates to a specific workflow task. It also permits the firm to set limits on what is deemed acceptable performance (perhaps, in this illustration a range of 3 -5 hours). Anything outside that range might be cause for management concern.

The overwhelming reason to embark on such studies is to determine if the firm is getting the biggest bang for the buck, so to speak. Does it make sense to pay two employees the same where one takes twice as long to complete the same set of tasks? Does it matter to the firm if the employee who takes half as long to complete a task is making so many mistakes that; ultimately, it takes longer to finish due to corrections, costs the firm money due to mistakes, and/or forces management intervention, wasting even more time? These are the sorts of questions that cost control studies can answer. And by applying such a technique to the management of a financial advisor’s practice, the impact is likely to be higher levels of net profitability, efficiency and success.

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