RIA GROWTH GUIDE

A blueprint to sustainable scalability for Wealth Management firms.

www.edgepartner.com

In the competitive RIA business, growth is a mantra, and for some, it's an imperative.

47%	33%+	700
OF RIAS SAY INDUSTRY GROWTH HAS NOT YET MATURED	OF RETAIL-FOCUSED RIAS CREATED AFTER 2016	NEW RIAS FOUNDED ANNUALLY WITH $180B IN TOTAL AUM

However, growth for growth's sake never works. To be successful, growth has to be scalable and sustainable.

To get there, your business will need sufficient capital, infrastructure, and know-how to absorb rapid growth while still delivering the level of service promised to clients.

This guide offers a roadmap to sustainable, scalable growth.

A vision for accelerating and augmenting your firm's growth, potentially achieving or exceeding your goals faster than you might think possible.

- The Edge Partners Team

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by The Edge Partners Team

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What does the growth landscape look like at the moment?

There is consolidation at the top, with large RIAs growing larger, often by acquiring smaller competitors.

At the same time, we see fragmentation at the bottom, creating hundreds of new small firms every year and wirehouse teams breaking away into the RIA channel for higher monetization potential.

88%

GROWTH IN NUMBER OF RIAS OF $20B+ AUM SINCE 2016

2X

HIGHER MONETIZATION FOR ADVISORS IN RIA CHANNEL VERSUS WIREHOUSES

200+

ANNUAL ACQUISITIONS BY LARGE RIAS

RIAs' growth and profitability potential, particularly in the wealth management space, has also attracted a lot of outside capital and control.

75%

OF BARRON'S 2020 TOP RIAS ARE WHOLLY- OR PARTLY-OWNED BY PRIVATE EQUITY FIRMS

+12%

ANNUAL GROWTH FOR RIAS VERSUS 7% FOR OTHER ADVISOR-CENTRIC MODELS

+40%

VALUATION INCREASE FOR RIAS IN PRIVATE EQUITY TRANSACTIONS IN THE LAST 5 YEARS

Some key growth tailwinds may soon begin to ebb.

- When bull markets falter, RIAs can no longer rely on rising asset prices to artificially pump up AUM and revenue: the underlying quality of the business matters.
- Massive private equity inflows into the largest RIAs—those with billions in AUM—have inflated RIA valuations and growth expectations: that may soon end with a change in the macro-environment.
- Consolidation trends favor large firms with a proven ability for rapid growth—often by acquisition. They attract the most capital and opportunity, while middle-market and smaller firms may struggle for traction.

This means increasingly intense competition for the best merger, acquisition, and capital investment candidates. Which should make you wonder: How attractive of a potential partner are you to other firms?

Securing your future in a consolidating industry means finding sustainable ways to create rapid, high-quality growth.

Ascending to the top tier of wealth managers can make your firm more competitive in attracting clients, strategic partners, and capital investment.

But without a proper, scalable plan, you face many potential risks:

Client Risks: Decline in client experience; client attrition pre- or post-acquisition, loss of client wallet share, unsuccessful onboarding of acquired books of business.

Growth Risks: Growth plateau, unrealized growth (inability to monetize new clients), insufficient resources to support newly acquired business.

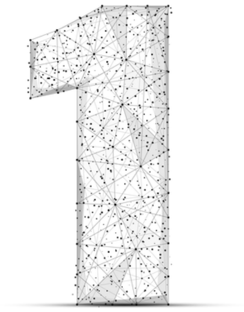
Legal & Compliance Risks: Weak financial controls, inadequate legal controls (e.g. AML), slips in fiduciary oversight, slow or inaccurate reporting.

Deal Structure Risks: Inaccurate deal valuation, poor transaction structure, equity, and control issues, overlooked transfer rights or dissolution provisions.

The opportunities are vast. A solid and scalable growth plan can help you reach a wide array of complementary goals and aspirations:

- More wealth-management clients.
- Expanded capabilities, services, and service tiers.
- New tech to support greater scale and deeper client interaction.
- Better human capital to deliver on the service mission.
- Greater wallet share to increase the value of each client relationship.
- Achieve sufficient size to survive the pressure of consolidation.
- Growth while maintaining or improving the service quality.
- Build a robust business that can continue serving clients and supporting your valued employees long into the future, even if you decide to step away.

HOW TO CREATE SCALABLE, SUSTAINABLE GROWTH.

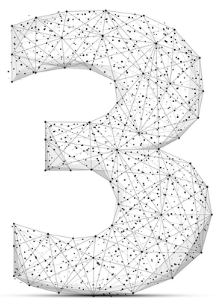


CHOOSE YOUR STRATEGY

- Set Goals
- Set A Starting Point
- Pick A Path

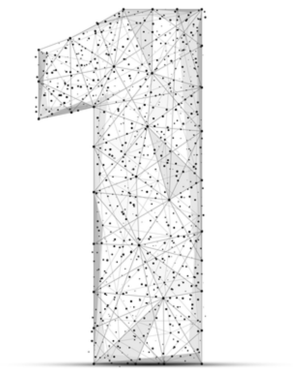
EXECUTE YOUR STRATEGY

- Scalability
- Expansion
- Growth



SUPPORT YOUR STRATEGY

- Leadership
- Operational Lift
- Deal-Making
- Marketing



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To map out a growth plan, you first need to establish your destination.

Call it your "vision" for the future. What does it look like? Where do you want to go? What priorities are you setting for yourself and your firm?

That destination should include both personal and professional goals, both of which need to be clearly defined.

It often helps to have an objective partner review and validate the plan—to give it a "gut check" and provide some assurance that not only is it doable, but that it will ultimately give you all that you're looking for.

> AN EXPERIENCED STRATEGIC PARTNER CAN HELP TURN YOUR STRONG RIA "PRACTICE" INTO A THRIVING WEALTH MANAGEMENT "BUSINESS."

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CHOOSE YOUR STRATEGY

- SET GOALS
- SET A STARTING POINT
- PICK A PATH

GPS systems need two pieces of information to map your route: you need to know where you're headed and where you're starting from.

What's your starting point? What do you offer potential clients and partners? What sets you apart?

WHAT ARE YOUR STRENGHTS?

- Technology
- Operations
- Marketing & lead generation
- Subject matter experts on staff
- Unique service model or mission
- Unique investment philosophy
- Unique personal strengths as an advisor, manager, or strategic thinker

WHAT ARE YOUR WEAKNESSES?

- Poor client retention
- Draining cash flow or resources
- Poor legal or tax structures impacting future monetization
- Capital constraints or lack of re-investment into the business
- Non-growth-focused operations

CHOOSE YOUR STRATEGY

- SET GOALS
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- PICK A PATH

Once you know where you are and want to go, you can plan the most efficient path to get there.

Not every firm will follow the same growth path because every firm is different in its combination of strengths, weaknesses, and vision for the future.

Your growth path needs to be specific about:

- What are you going to change
- How are you going to do it
- Who is going to do it
- Why that change will make you a compelling advisor platform, M&A partner, or wealth management destination for clients

Most firms will need to add skills and resources—the skills and resources that got you where you are may not be the ones that will get you to that next level of growth and success.

HERE ARE A FEW EXAMPLES OF "PICKING A PATH"

Do you have great infrastructure and technology?

Your best path may be to recruit advisors and other RIAs to plug into your existing infrastructure. Or leverage that infrastructure to expand your service tiers.

Do you have great marketing and client acquisition but weak technology?

Your best option may be to find a merger partner who is potentially over-resourced and has the tech stack to match your client acquisition strength and value proposition.

Do you already have strong share of wallet for investment management clients?

Consider adding new capabilities such as tax, accounting, or in-house asset management to reduce costs and increase your level of service to clients.

EXECUTE YOUR STRATEGY

- SCALABILITY
- EXPANSION
- GROWTH

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The biggest growth challenge to any wealth management business is sustainability: sustaining a high-quality client experience and firm profitability as you add clients, AUM, and revenue.

WE BELIEVE THE BEST WAY TO APPROACH THE SUSTAINABILITY CHALLENGE IS TO EXECUTE YOUR STRATEGY IN PHASES

PHASE ONE

SCALABILITY

Invest in infrastructure, the “bones” of your firm: people, process & technology. It’s the best way to ensure a world-class experience as your client volume doubles, or even triples.

PHASE TWO

EXPANSION

Diversify your offerings to improve client retention, differentiate your firm to advisor acquisition targets or potential partners, and increase the profitability of each client.

PHASE THREE

GROWTH

Execute organic growth initiatives to win new clients, and inorganic growth strategies such as advisor recruitment, practice acquisition and strategic partnerships.

WHAT ARE THE POTENTIAL BENEFITS OF APPROACHING THE GROWTH CHALLENGE AS "SCALABILITY > EXPANSION > GROWTH"?

A firm built for speed

High-quality client experience even while you grow

Multiple service offerings to benefit clients

Multiple revenue streams to benefit your bottom line

A differentiated destination for both advisors and clients

An exciting business case to join or partner with

EXECUTE YOUR STRATEGY

- SCALABILITY
- EXPANSION
- GROWTH

Scaling requires bolstering the capacity of your people, processes, and systems.

Often that means acquiring new talent and ensuring that every team member is deployed to their highest and best use.

Many firms also need to upgrade their technology infrastructure –not just selecting the right tech but implementing and integrating it with existing systems.

And in all cases, scaling up resources has to be done with the improvement of the client experience top of mind.

What is your practice prepared to handle in terms of new clients and assets?

Can you double or even triple your size without risking client experience, operations, or profitability?

Are you ready to take on new clients and new strategic growth programs at the same time?

EXECUTE YOUR STRATEGY

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- GROWTH

Expanding “wallet share” means doing more things for each client.

Building an integrated suite of services can increase client satisfaction by simplifying their financial life. It creates a more attractive, valuable business as you enjoy diversified revenue streams, potentially stronger client retention strategies, and more doors for new clients to walk through.

It may also improve the M&A calculus: if your service suite is broader than the firm you’re buying, you’ll have more opportunities to increase the value of that book of business post-transaction.

How many opportunities do you currently have to expand your client relationships?

Would creating additional service lines deliver value and attract new clients, advisors, and partners?

Given where you are, which additional services would get the most traction and have the biggest impact?

HERE ARE TWO EXAMPLES OF EXPANSION STRATEGIES

CREATE A TAX & ACCOUNTING VERTICAL

Partner with or acquire a CPA practice to expand your value proposition and create new referral and lead generation programs.

BUILD AN ASSET MANAGEMENT CAPABILITY

An in-house, proprietary asset management capability allows you to offer bespoke portfolio solutions at lower cost, improve tax-loss harvesting, asset location and other strategies, while reducing costs for model portfolio execution.

EXECUTE YOUR STRATEGY

- SCALABILITY
- EXPANSION
- GROWTH

Organic and inorganic growth strategies each come with their unique challenges.

Even the best advisors, who have built successful practices, may lack sufficient expertise and resources in these areas.

ORGANIC GROWTH REQUIRES:	INORGANIC GROWTH REQUIRES:
A strong value proposition message, then connecting that message with sales to make the most of lead generation & lead nurturing—this translates marketing into action on the part of prospects and acquisition targets while measuring success accurately.	Getting in front of the right deals, closing those deals, and successfully managing pre- and post-acquisition integration to move and monetize the acquired business. Having a solid leadership team in place during all of this is paramount.

EXAMPLES OF INORGANIC GROWTH

PLATFORM PROVIDER

Recruit outside advisors to join your business as independent IARs. They leverage your technology and other services, creating fee income for you.

Relatively easy and fast, multiple ways to monetize IAR relationships

But low margin and low impact on future valuation (low "stickiness" of IARs and managed assets).

ADVISOR PARTNERSHIP

Merge with, or acquire stake in a firm where there is tangible benefit to both parties, and both parties are aligned in future growth.

High impact on valuation due to acquired assets' stickiness.

But requires capital and must have a strategic fit with partner firm.

PRACTICE ACQUISITION

Fully acquire other RIA firms where owner(s) want to monetize/exit the business.

Highest impact on valuation due to size increase, full ownership of the acquired client wallet, and ability to grow those relationships.

Potentially, the most capital-intensive growth strategy, it requires a team to execute and an astute management due to client retention risk.

EXAMPLES OF ORGANIC GROWTH

CLIENT-BY-CLIENT ACQUISITION

A traditional approach to client acquisition through inbound digital strategies: branding, lead generation and nurturing, client referrals, thought leadership, etc.

Attractive messaging and branding help your business stand out, and attract and engage new leads.

Time-consuming and difficult to execute well without the right personnel and skills.

ACCOUNT BASED MARKETING (ABM)

An outbound, more targeted approach for identifying sourcing and engaging ideal account profiles through advanced marketing & sales integration.

Higher ROI for engaging UHNWI and large accounts.

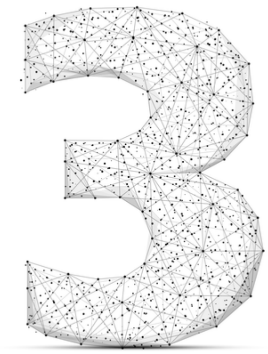
It needs a specialized team, a robust tech stack, and a long-term strategy.

M&A MARKETING

A combination of both traditional & ABM approaches designed to attract strategic partnerships.

Brand upgrades and thoughtfully designed content strategies pre and post-acquisition.

It requires full alignment between the business growth plan and the marketing plan.



SUPPORT YOUR STRATEGY

- LEADERSHIP
- OPERATIONAL LIFT
- DEAL MAKING
- MARKETING

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Successfully executing a plan of scalability, expansion, and growth can deliver your business sustained high-quality growth. But in practice, it needs to be supported in four key ways:

Leadership: guidance and advice as you think through all aspects of your growth plan, from infrastructure to operations to the cultural fit of acquisition targets.

Operational Lift: infrastructure and operations upgrades to optimize your growth potential, from project management to tool sourcing to process refinement.

Deal Execution: territory and service expansion through strategic partnerships, acquisitions, wallet-share referral programs, and new service lines.

Marketing: attract, engage and convert not just new clients, but strategic partners as well.

CHOOSE, EXECUTE AND SUPPORT YOUR GROWTH STRATEGY WITH THE RIGHT RESOURCES AND PARTNERSHIPS

Sometimes the growth challenge may feel daunting, but you can grow your practice into a thriving business.

Expertise and resources are available to help you meet a wide range of growth goals—both financial and non-financial.

Even if your firm is already large and growing, you can grow it faster and further than you may realize.

SCALABILITY. EXPANSION. GROWTH.

Edge Partners focuses exclusively on helping RIAs find lasting, high-quality growth.

We invest time, and decades of experience into every growth initiative we take on for the duration of our engagements – from all aspect of strategic planning to the nuts and bolts of every element of execution.

If you're an RIA looking to join the next generation of industry leaders, you can count on our passion, personal engagement, and unwavering partnership to help get you there.

Book a Consultation

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