

Closing the Workload-Capacity Gap

The Key To Breaking Through Production Plateaus

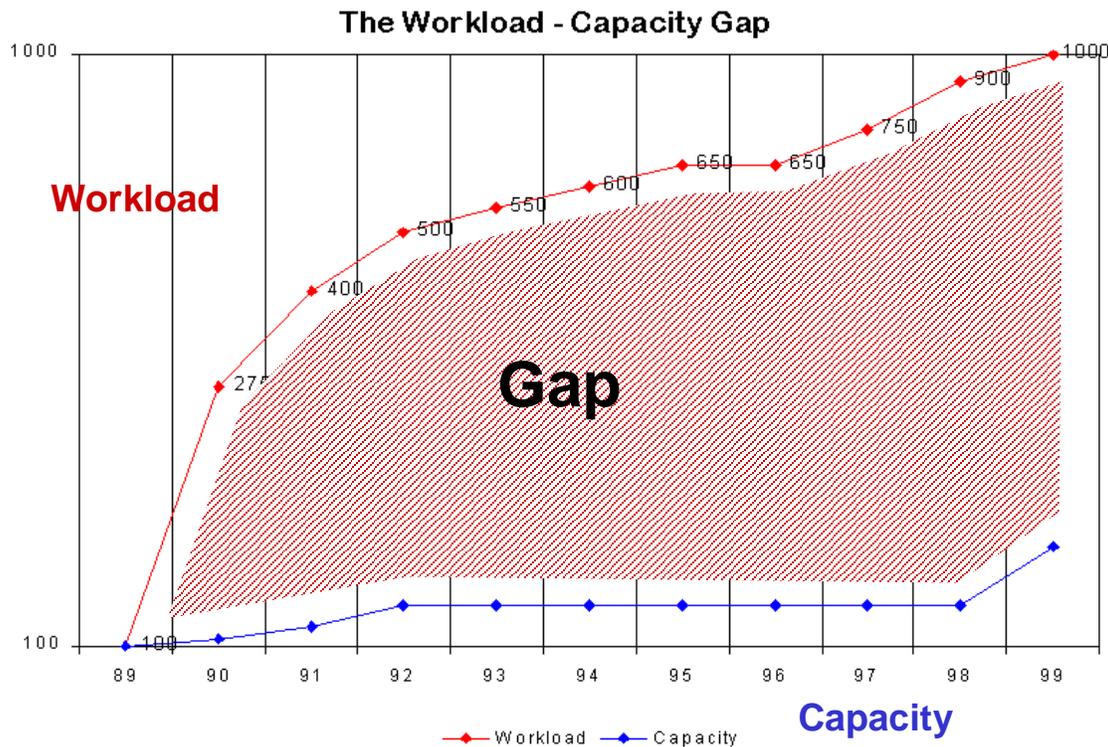
By Stephen A. Saenz / August 2001

Overview

Since I can remember, people in our industry have wondered why most investment advisors hit certain plateaus and find it difficult to break through to higher levels. After analyzing hundreds of investment practices, I can confidently say that the main explanation lies in something called the "Workload-Capacity Gap" (WCG). WCG is the difference between the amount of work it takes to run your business at its optimal level and the capacity (people, time, systems, etc.) that's in place to do the work. WCG exists in every successful business. The only question is HOW BIG it is. If you are serious about OPTIMIZING your business, you must come to terms with the WCG and take the necessary steps to close it. This paper was written to help you do just that.

Workload

Before I give you a real life example, please understand that in order to determine the proper STRUCTURE for your business, you must first QUANTIFY your workload. WORKLOAD is the sum of everything you do and SHOULD be doing for every new client and every existing client you have. In other words, it is the work that has to be done to operate your business at its OPTIMAL level. My "discovery" came after years of helping successful consultants (with large practices) quantify their workloads. If you have tried to do this, you know that it can be a very challenging and frustrating exercise. I now believe that the reason it is so difficult to quantify workload is that the WCG in most investment practices is so large, most consultants can't see the proverbial forest for the trees. They are simply trying to do the impossible. Let me explain...



- Workload in this case is represented by the advisor's annual production since 1989 (his/her first year in the business)
- Capacity is represented by the total number of hours per week available to do the work that has to be done.
In computing this figure, I added the number of hours per week worked by the advisor to the number of hours per week worked by his/her assistant. I used a fixed number of 60 hours per week for the advisor and the following schedule for the amount of assistant hours he/she was entitled to during this period:
1989 = 8 hours (1/5 of an assistant); 90 = 10 hours (1/4); 91 = 13.3 hours (1/3); 92-98 = 20 hours (1/2); 99 = 40 hours (1)
- This gives us the following capacity: 89 = 68 hours; 90 = 70 hours; 91 = 73.3 hours; 92-98 = 80 hours; 99 = 100 hours

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Consider a rookie broker (at a wire house) coming into the business ten years ago. Mind you, this is not just ANY rookie broker, this is a future million-dollar producer! What is MDP's first year like? Lot's of time, very few clients. Kind of reminds me of Dr. Stanley's "big hat, no cattle" metaphor. Now that I think about it, that's pretty much how most of us acted during our first year in the business. Big hat, no clients. In any event, MDP is jazzed and pumped. He LOVES smilin' and dialin'. In fact he is darn good at it, thank you! Next thing you know, MDP wins a trip to Hawaii. He has opened more accounts in his first 6 months than most brokers open in a lifetime! He finishes Year 1 numero uno in his class in production and in the top 10 in the FIRM in new accounts. BOM is very happy. RD is even happier. With 200 new accounts in his first year, this guy is going to be a STAR, a MDP for sure. And so it goes in Year 2, 3, 4... You get the picture.

During the early years, while PRODUCTION is looking like a red-hot IPO on the first day of trading, what's happening to ASSET growth? Exploding right? This is an EXCELLENT investment advisor. He is an asset gathering MACHINE! What about the number of RELATIONSHIPS he is trying to manage? Same thing. This guy is a one-man wrecking crew. He has opened an account with every breathing person in his hometown. He has now moved on to the next town and is about to kick some you know what and take some more names. And this is only Year 3! In Year 6, he sees the light and starts converting his book to managed money. In Years 7, 8 and 9 he is the firm's leader in managed money and begins offering estate-planning reviews to his clients. He is forming strategic alliances with accountants and attorneys and, by this time, has converted almost 70% of his book to fee-based managed money. In Year 10, we propose a toast to MDP because he hits the \$1 million mark. Cheers!

Here's the best part. What happened to his CAPACITY (to do the work he created) during his first ten years in the business? Let's look at it. Remember that MDP is a machine. He started out working 60 hours per week and he is still doing it. In fact, he's really working about 70 hours per week now. He has a strong work ethic. In his first year, he got 1/5 of a sales assistant (we'll be generous). In Year 2, BOM put him 4 on 1 because he saw that MDP had good potential. In Years 3 and 4 he was 3 on 1 and in Year 5 he got to share an S/A with one other broker, a female version of MDP (you know, hole in the wall, shared a Quotron). They shared that hole for another four years until Year 10 when he got (and deserved) his OWN sales assistant!

If we measure "capacity" in terms of MAN-HOURS PER WEEK it breaks down something like this:

- Year 1 = 68 (his 60 plus 1/5 of a S/A)
- Year 2 = 70 (his 60 plus 1/4 of a S/A)
- Years 3 - 4 = 73 (his 60 plus 1/3 of a S/A)
- Years 5 - 9 = 80 (his 60 plus 1/2 of a S/A)
- Year 10 = 100 (his 60 plus 1 S/A)

In other words, his CAPACITY during this 10-year period basically increased by 41% (from 78 to 110). Let's see what happened to MDP's WORKLOAD during the same time period... While it is very difficult to quantify workload, we can get a pretty good idea by looking at his business today. Production = \$1 million, Assets = \$120 million, Accounts = 1700, Client Relationships (households) = 800. You get the picture? THAT is the Workload-Capacity Gap!

As stated at the outset of this article, I believe that the WCG is the mother of all root causes in most investment practices. We could argue all day MDP's added "capacity" to his business through back and home office resources, but I don't think it would make much of a difference given the size of the gap in his business.

In this article, I discuss three strategies that can be used to close the WCG. While the approaches described below were developed with the investment consultant in mind, any type of investment professional can use them effectively.

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Strategy #1: Reduce the Number of Client Relationships You Have

The quickest way to narrow the gap is to reduce the number of client relationships you are trying to manage. This is a very difficult decision for most advisors because they feel that they have worked hard for their clients and they don't like the thought of giving up part of their "book." Another reason many advisors find it difficult to "give away" clients is that they sometimes feel a "moral obligation" to serve clients they have had for a long time. I once heard an advisor say, "These clients believed in me when I was nothing. I'm not about to abandon them now." Finally, many brokers point out that "small" clients often refer larger clients. Besides, you never know when someone is going to win the lottery...

While all of these reasons are well intentioned, I just don't believe they make good business sense. It is very likely that the bottom half of your book consists of very small clients. If you look at the assets and revenues generated by this group, you will probably find that they are quite low compared to the top half of your book. Another thing to consider is that many of your smaller clients are not getting the level of service you know they should get. It is unlikely that you spend as much time with them as you would like. This is not because you don't want to, but because you just don't have time. In most cases, these clients would be better off being handled by another advisor who has the time to give them the level of service they deserve. This is what it means to have a "win-win-win" situation. You, your clients and the other advisor would be better off in the long run!

Once you come to terms with this reality, you must determine which strategy to use to reduce the number of client relationships you are trying to manage. There are 3 ways to accomplish this. You may choose one, two or all three, depending on your particular situation.

The first is to simply give some of your smaller clients to another advisor in your office. You should personally introduce the clients to the new advisor and, in so doing, explain to them that you are taking this action because you honestly feel that it is in their best interest to do so. My recommendation is that you agree to split (50/50) any revenues generated in the first year only. After that, the new advisor keeps 100%. Make it clean and simple. This strategy works best for clients you inherited, those that are not related to your larger clients and/or those you don't feel particularly close to (for whatever reason).

The second approach is more complicated. This one works best for clients that have remained loyal to you, have sent you referrals and/or have helped you in other ways. In other words, you would feel badly "giving" them away. The idea here is to establish a joint production number with another advisor in your office. In most firms, this means that your name, as well as the name of the other advisor will appear on your clients' statements.

The nice thing about this approach is that the clients still sees YOUR name on their statements. This makes it more palatable for those clients who you feel closer to, but it also achieves the dual objectives of reducing your workload and giving the clients better service. With this approach, you will also have to decide how you want to split future revenues generated from the shared clients. My recommendation is that you give the new advisor plenty of incentive to meet with the clients and grow the relationships (e.g., 50/50 first year, 25/75 second year, new broker keeps 100% after that).

The third approach used to reduce workload is to bring on a "junior partner" to handle your smaller accounts. Under this scenario, you are hiring another advisor to work directly for you. This strategy should be used only if you are willing to build a larger team around you. You have to be absolutely certain that you want to do this before you start adding people to your team.

If you decide to use the junior partner approach, my recommendation is that you pay these individuals a salary + bonus and that you keep all revenues under your team production number. The person you hire to fill this position should be viewed as a Relationship Manager, rather than a "producer." In other words, their primary responsibility would be to manage and grow relationships rather than go out and find new

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business. If you find the right person, this should free up some of your time so that YOU can go out and bring in larger clients. It is highly unlikely that you will ever find anyone who can make rain as well as you do. If you do, it will only be a matter of time before he/she leaves and takes YOUR clients with them.

Strategy #2: Simplify Your Business

You can also reduce the WCG by simplifying your business. Simplifying your business means limiting the number of products you sell and / or simplifying what you do for your clients. You can limit the number of products you sell, for example, by identifying a core group of funds (or stocks) that you will recommend to your clients. Another example is offering investment management consulting exclusively to individual clients, rather than also offering 401(k) plans, cash-less stock option financing and estate planning.

You can simplify what you do for your clients by using money managers exclusively, instead of trying to manage portfolios yourself or trying to do both. I have always maintained that if you can out-perform professional money managers on a consistent basis, you should go into the money management business!

Strategy #3: Increase Your Capacity

The third strategy for reducing workload is adding people to your team (increasing capacity). Normally, this is the last strategy I recommend to advisors because it is the most costly and difficult to implement. If you have tried to hire someone recently, you know that the labor market is extremely tight right now. Even if you're lucky enough to find the right person, you will probably have to pay dearly for them because of the high demand for good help. Finally, when you add capacity, you make your job more difficult because you now have to manage more people (something you probably don't enjoy doing too much). I would recommend that you increase capacity only after you have done everything you possibly can to reduce your workload and simplify your business.