GATHER GUIDE GROW

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Self-Funding Growth: Balancing Advisor Force Roles to Maintain Profit Margin as You Add Advisors

Tuesday, March 3, 1:45pm-2:30pm ET

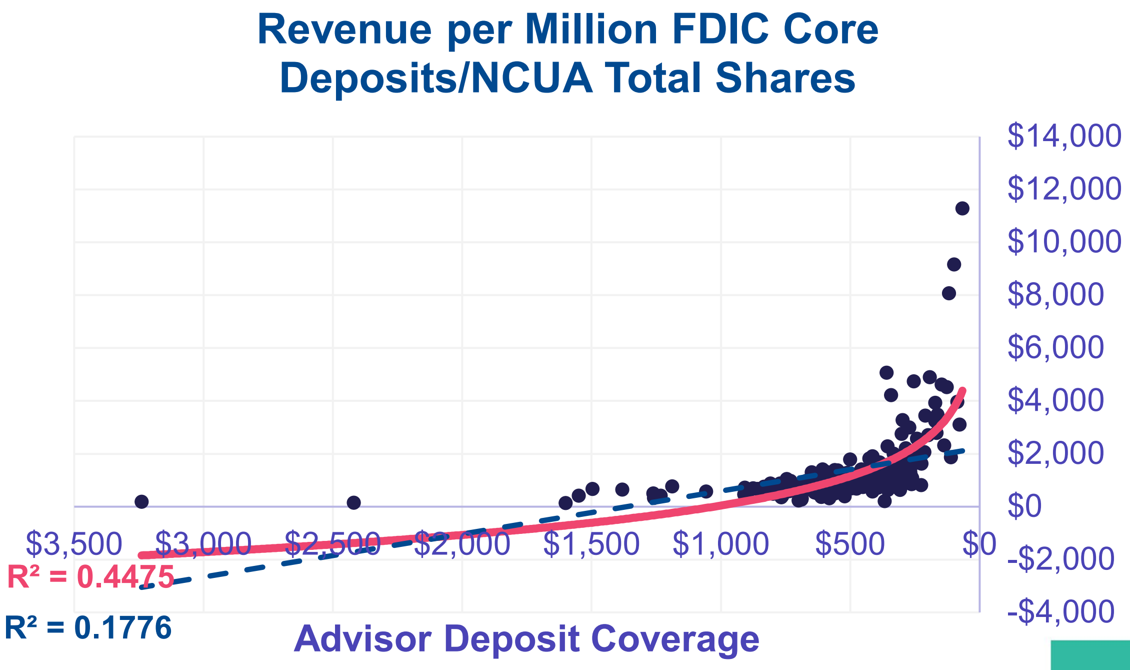
The Most Straightforward Path to Growth is to Add Financial Advisors

Kehrer Group data show that adding advisors increases revenue exponentially.

That is because the principal ways that firms add advisors are to make room for the new advisors by

- Reducing the size of branch territory assignments, or
- Moving senior advisors out of the branches to standalone offices or into other business units of the bank, a role that has come to be called "2nd story advisor."

These moves have proven to make the existing advisors more efficient and productive.



Source: "*Margin Mismatch,*" *Kehrer Group-Cetera, 2023*

How Financial Institutions Add Advisors Tends to Squeeze Profit Margins

Bank and credit union-based investment services firms add advisors in two principal ways:

- **Recruiting an established advisor** from another firm who might or might not bring some clients with him/her
- **Hiring trainees** into an associate advisor role to be groomed into a full-fledged branch-based advisor role.

Recruiting an established advisor typically increases the effective payout rate, and reduces profit margins, due to recruiting inducements and transition compensation.

Some banks are reluctant to choose this route, and prefer hiring trainees, aka "associate advisors." But adding associate advisors also reduces profit margins because their effective payout is elevated during their ramp up period.

The Controlled Growth Strategy: Balancing The Profile of Your Advisor Force to Maintain Target Effective Payout

- The typical bank or credit union-based investment services firm **pays their advisors collectively 42% of the revenue they produce**, on average. But that average is based on different effective payout rates for advisors with different levels of production and tenure.

- With a **controlled growth plan**, a firm can move a tenured advisor, say, to a second story role and offset the higher payout earned by the second story advisor with a below average payout of a less experienced advisor.

Kehrer Group Growth Model

To grow advisor headcount without breaking through the effective payout ceiling for the firm, the firm needs to have enough advisors in the **$300,000-$400,000 annual production range** to offset the extra cost of trainees and the higher cost of second story advisors. This is a more challenging balancing act for smaller firms. But with sufficient data, even a smaller firm can **time when to promote advisors to the second story and when to hire a replacement**, given the production and payout profile of the existing advisor force.

Kehrer Group has developed an interactive tool to help firms with this process.