

A foundation for success

Guiding Principles for
Advisory Firm Success

GPS

Guiding Principles Series™

Executive summary

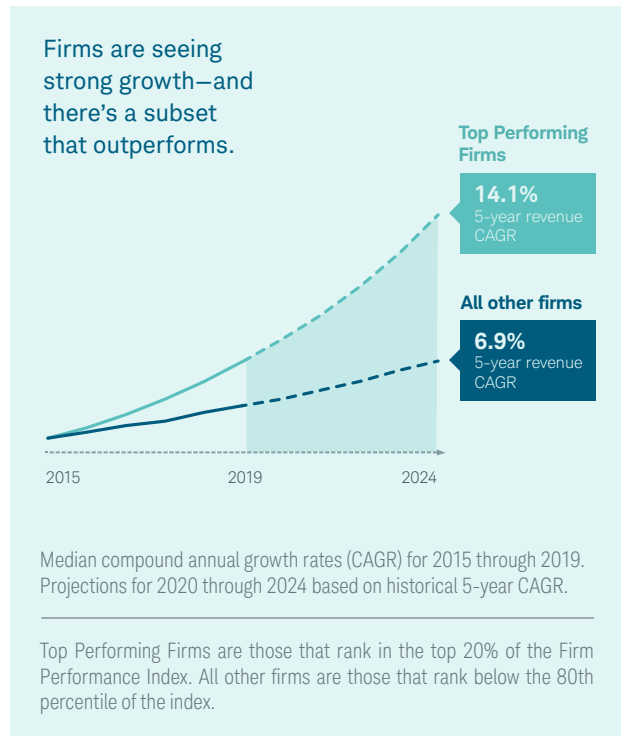
This executive summary is the first of a series of six white papers examining what Top Performing Firms are doing differently that enables them to outperform their peers.

Registered Investment Advisors (RIAs) continue to be the growth story as advisors seek greater autonomy and investors become more aware of the RIA model. For all firms that participated in the 2020 RIA Benchmarking Study from Charles Schwab:

- Assets under management (AUM) have grown 107% at the median since 2015
- Clients have increased 28% since 2015
- Revenue has increased 29% since 2015

And while the performance of these firms is notable, a subset of firms, regardless of their size, are able to outperform their peers. These Top Performing Firms rank in the top 20% of Schwab's RIA Benchmarking Firm Performance Index and at the median have:

- A 5-year revenue compound annual growth rate (CAGR) of 14.1%—two times larger than all other firms at the median
- A 5-year client CAGR of 11.3%



Further, Top Performing Firms outperform in terms of growth in AUM, have lower rates of client and staff attrition, and have healthy operating margins. These are also the firms that are more likely to have a strategic plan, a succession plan, and an ideal client persona and client value proposition; to integrate data sources and systems with their client relationship management (CRM) system; and to adopt digital touchpoints.

These key areas highlight Schwab's practice management point of view, which we have mapped out in a simple framework—the **Guiding Principles for Advisory Firm Success**—to show how advisors can address the complexities of growing their firms and create enduring enterprises. The results can be significant:

-  **Strategic planning:** 75% of Top Performing Firms—regardless of their size—had a written strategic plan.
-  **Client value:** Firms that documented their ideal client and value proposition attracted 28% more new clients and 45% more new client assets.ⁱ
-  **Operational excellence:** Top Performing Firms spent 13 hours per client annually on operations and administration, nearly 25% less time than other firms, and were more likely to adopt digital solutions.
-  **Marketing and growth:** Effective referral and marketing strategies helped Top Performing Firms realize two times the asset growth from new clients versus all other firms.
-  **Talent:** Firms with a higher commitment to staff had a 5-year client CAGR that was 22% greater at the median and nearly 30% more new clients at the median than firms with a lower commitment to staff.ⁱ

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Introduction

The strength of the independent model continues to grow as investors become increasingly aware of the RIA industry and the demand for and adoption of financial planning has increased overall. And as we look to the future, RIAs continue to be the growth story.

A closer look reveals the power of RIAs' performance and AUM growth. According to the 2020 RIA Benchmarking Study from Charles Schwab, for all firms AUM has grown 107% at the median since 2015, and the median firm experienced a 5-year client CAGR of 4.5%. Additionally, revenue has increased 29% since 2015, and the median firm produced a 5-year revenue CAGR of 7.2%.

As amazing as that growth is, some advisory firms outperform on nearly every key metric. Firms that rank in the top 20% of Schwab's RIA Benchmarking Firm Performance Index—known as Top Performing Firms—have a median 5-year revenue CAGR of 14.1% and a 5-year client CAGR of 11.3%.



What are these firms doing that allows them to consistently outperform their peers?

Understanding what leads to the highest levels of performance within advisory firms has been one of the most consistent questions advisors ask us. For 30 years, we've built trusted relationships with RIA firms of all sizes, and this unique experience has given us a deep understanding of advisory firms and how they thrive. One of the most significant outcomes has been the development of a clear perspective on how some of the industry's Top Performing Firms are able to outperform their peers on a consistent basis. We are so committed to these findings, in fact, that they have become the basis of our foundational framework—the Guiding Principles for Advisory Firm Success—which we introduce here. We then dive deeper into each of the guiding principles in a series of short white papers (see pages 10–11), along with the actions Top Performing Firms have taken in these key areas, contributing to their outperformance.



For more on Top Performing Firms, see page 7.

Five key areas

Based on our years working with firms, we've discovered that Top Performing Firms are driven by their innovative mindset and ability to effectively prioritize their business needs. Even during volatile markets, these firms understand their biggest risk may

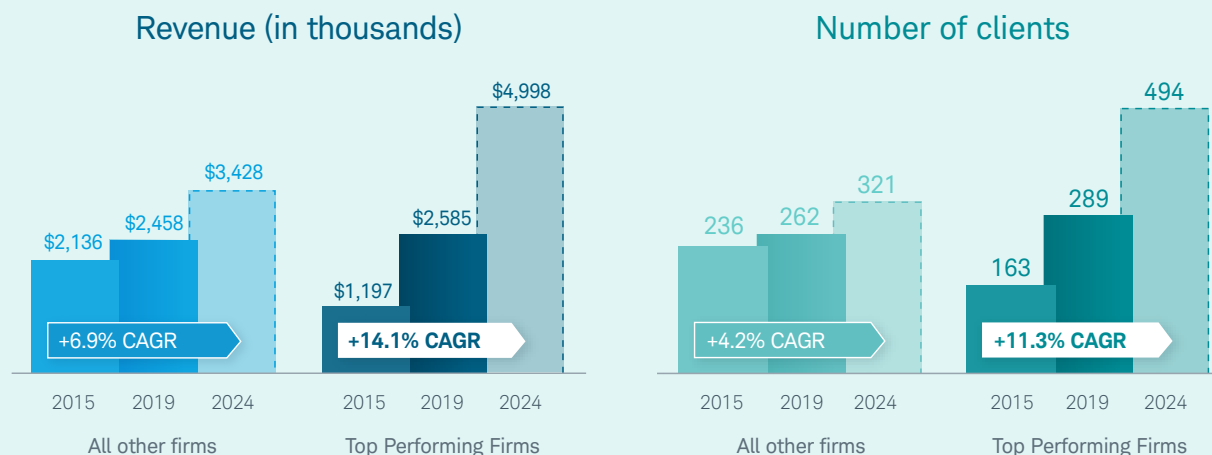
be avoiding change or difficult decisions. Sometimes, what advisors choose not to do is just as important as what they do. Top Performing Firms make the conscious decision to evolve, even during times of uncertainty, and purposefully seek new ways to operate their businesses—and they focus on five key areas. These firms base their decision making on a set of core principles that includes strategic planning, a focus on the ideal client, operational discipline, a strong and differentiated reputation, and the ability to attract, retain, and develop the best talent in a way that supports the firm's goals and vision for the future.



We are passionate about helping advisory firms achieve their goals. We believe the most transformative outcomes happen when the status quo is challenged, unlocking powerful opportunities that lead to meaningful results.”

Lisa Salvi,
Managing Director
Business Consulting and Education
Schwab Advisor Services

RIAs continue to be the growth story



Median results. Compound annual growth rates (CAGR) for 2015 through 2019. Projections for 2020 through 2024 based on historical 5-year CAGRs.

These principles act as a blueprint to help firms:

- Effectively develop and execute their overall business strategy
- Focus on the clients they are best suited to serve and deliver a differentiated client experience
- Build an efficient and scalable infrastructure as well as manage risk through strong cybersecurity and compliance programs that help protect their business
- Create a culture of growth through referrals and marketing
- Invest in and develop their most important asset—their people

The principles are designed to act as a filter as firms work to create a clear path forward, empower everyone in the firm to make decisions they can live by, and provide behavioral clarity in everything they do. In our experience working with advisors, firms that outperform tend to delve deeply into each of these principles, making lasting and significant business improvements that propel them to new levels of growth. Firms tend to come back to these principles year after year as they

evolve, and their approach to each of these principles often evolves as well.



Watch this short video on the Guiding Principles for Advisory Firm Success.

Gain key insights about your business and boost your performance

With so many demands on your time and resources, it's important to pinpoint the efforts that will impact your business the most. With Schwab's RIA Benchmarking Study, you'll get a window into other firms and discover how you compare. Glean important insights from Top Performing Firms as you look to make strategic decisions that optimize your business and create a clear path forward.

[!\[\]\(47734e4656765d20df4fdbd5b7aff048_img.jpg\) Learn more about the study](#)

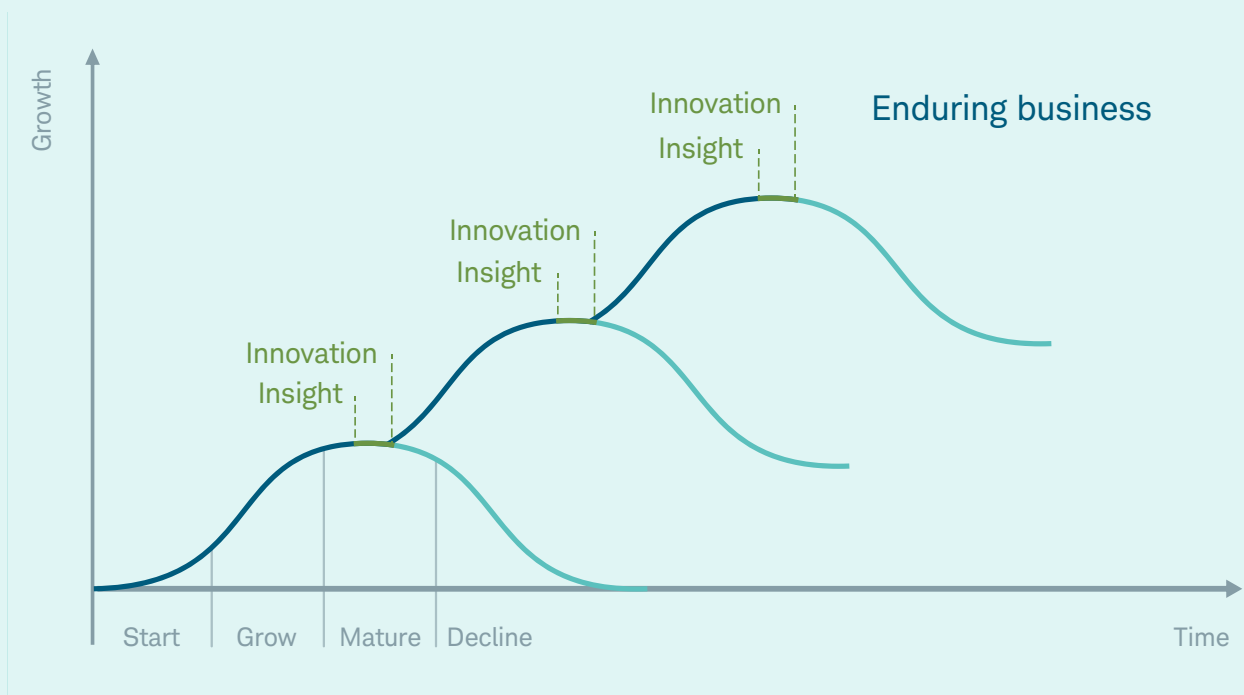
Please see page 12 for a full list of Additional Resources.

Jumping the curve

All businesses go through phases and, at some point, reach plateaus that ultimately lead to decline unless the businesses seek new insights and adapt accordingly. Typically, these plateaus are first experienced by advisory firms as they approach \$200 million in AUM and face new challenges that can cause their growth to slow. For example, as firms take on new clients, it can become more difficult to service existing clients. In the past, principals may have chosen to meet with every client. However, as their firm grows,

placing more demands on their time, the need to manage their business increases. A growing client base can create the need to hire a new employee, which, in turn, means increased time training that new team member to ensure the person delivers the same client experience for which the firm has become known. As a result, the founding principal may find it harder to meet with everyone and prepare for client conversations at the same level as in the past.

Moving from “What is” to “What could be”



The Firm Performance Index:

Built on a foundation of success

Strategic planning, organic growth, operational excellence, and staff development are hallmarks of many Top Performing Firms in the RIA Benchmarking Study. To highlight these and other best practices, Schwab developed the Firm Performance Index.

The Firm Performance Index ranks firms on 15 key metrics to help assess overall performance. The goal of the index is to help advisors identify strengths and potential opportunities that align with the Guiding Principles for Advisory Firm Success, a foundational framework that helps RIAs navigate the complexities of growing their businesses.

The index evaluates all firms participating in the study, encompassing all sizes and lifecycle stages. It considers the most important aspects of running a business: growth in clients, assets, and revenue; client and staff attrition; operating margin; time spent on client service and operations; and the use of standardized workflows. The index also factors in documented strategic plans, succession plans, ideal client personas (ICPs), and client value propositions (CVPs). Top Performing Firms excel in these areas, ranking in the top 20% of the index overall.



Top Performing Firms excel across key metrics

The Firm Performance Index takes a unique look at a broad spectrum of attributes that align with the Guiding Principles for Advisory Firm Success to paint a complete picture of how firms are performing, operating, and building future value. This index is from Schwab's RIA Benchmarking Study and ranks firms on 15 key metrics to help advisors assess overall performance and identify strengths and potential opportunities.

Metric	Top Performing Firms	All other firms	Multiple
Growth in assets from new clients in 2019	8.3%	4.1%	2.0x
5-year client compound annual growth rate	11.3%	4.2%	2.7x
Client attrition	2.2%	3.7%	0.6x
Staff time spent on client service (higher percentage improves ranking)	61.8%	55.9%	1.1x
Staff time spent on operations (lower percentage improves ranking)	26.3%	30.0%	0.9x
Firms with a written strategic plan	74.5%	54.2%	1.4x
Firms with a documented ideal client persona/profile	68.0%	54.1%	1.3x

Median results unless otherwise noted. Top Performing Firms are those ranked in the top 20th percentile of the Firm Performance Index. All other firms are those ranked below the 80th percentile of the index.

We see this plateau effect happen again at the \$500 million AUM level. As the firm grew, it may have developed an easy and proprietary way to maintain client information, for example, but as more staff come on board to service clients, the firm needs a CRM system to help manage its client base and provide a consistent experience every time. While these are just a couple of examples, Top Performing Firms understand that if they innovate and find new ways to operate their businesses, they can jump the curve to avoid a decline in growth. Although these firms maintain their culture and values, they realize they can't keep performing in the same manner and expect the same results; instead, they want to find new solutions, such as offering additional services, embracing new technology, marketing their firms more effectively, or engaging in more diverse hiring practices.

The following pages link to a series of white papers focused on the Guiding Principles for Advisory Firm Success that offer insights into how Top Performing Firms are innovating and finding new ways to manage their businesses. Each paper includes case studies of firms we've worked with to help accomplish their goals. We also offer consulting and educational programs, tools, and resources to advisors who custody with Schwab, so they may continue to explore these concepts in greater detail and take the next steps as they evolve their firms into the future.



Firms who consistently outperform adopt an innovative mindset and a willingness to change, adapt, and seek new insights as they experience new levels of growth and complexity.”

Nikolee Turner,

Director

Business Consulting and Education
Schwab Advisor Services

Unsure of where to start?

We recommend that firms focus on one guiding principle at a time to move their business forward, rather than trying to tackle too many things at once. If you're not sure where to start, developing and implementing a clear strategic plan can create greater focus across all the other guiding principles and set you up for success.



The Guiding Principles for Advisory Firm Success

These principles act as a framework for helping advisors address the complexity of growing and managing their firms. The principles are not a checklist and don't have to be approached sequentially. Rather, they are essential elements advisors will need to address over and over as they approach key turning points at different AUM levels.

 **Click on the following titles to download each white paper and learn more about the principles.**



Effective planning and execution is a leading indicator of success



Growing your firm requires focus, strategic planning, and an innovative mindset. Establishing a shared vision for the future, creating alignment, and driving effective execution power your growth engine and provide a clear understanding of the future and how you'll get there.

"Developing a strategic plan has been a game-changer for us. It has brought us clarity and confidence, and it couldn't have been simpler or more straightforward, thanks to Schwab's process and support."

Matt Taddei,
President and CEO,
WestHill Financial Advisors



Value is defined through your clients' eyes



Firms thrive when focusing on the client experience from their clients' point of view. When every person, process, service offering, and system maintains an extreme focus on your ideal client, you are able to differentiate your firm in an increasingly competitive landscape.

"If you are going to grow your business, you start with the question 'Who is your target audience?' and then evolve your offer around that. That's how you stand out."

Alex Katz,
Chief Growth Officer,
Summitry



Operational excellence creates greater capacity for clients



Institutionalizing your business through technology and operations provides operational discipline, allowing you to maximize scalability, manage risk, and build a solid infrastructure so that you can reinvest time where it matters most—with your clients, protecting the trust you have built.

"Having consistent and repeatable ways of running your business is a reflection of the experience you provide your clients. It helps you to be proactive and thoughtful as well as do things in a meaningful way so that you can scale your business and grow."

Paul Ewing,
Senior Technology Consultant,
Business Consulting and Education
Schwab Advisor Services



Your reputation is your brand



Every aspect of your firm—employees, centers of influence, clients, and even your digital presence—should effectively amplify your firm's reputation within the community you serve, in a way that increases referrals and generates new business.

"Every interaction is an opportunity to reinforce what we do best. From there it starts to snowball as more people talk about what we do. Referrals just start to happen over time."

Brock Gearhart,
Chief Executive Officer,
Greenwood Gearhart



People are your most important asset



Creating a cycle of opportunity to attract and retain top talent helps ensure continuity of your firm's people, culture, and values as you prepare for the future. That's why having a high-performing and diverse team, unlocking their potential, and rewarding and developing the next generation of leadership is a long-term commitment and critical to building a legacy.

"Firms that invest in recruiting and hiring, developing their team, creating a competitive compensation plan, and designing a path to equity are investing not only in their people, but also in the future success of their business."

Nikolee Turner,
Director
Business Consulting and Education
Schwab Advisor Services



Additional Resources

The RIA Benchmarking Study from Charles Schwab

<https://advisorservices.schwab.com/managing-your-business/business-consult/benchmarking>

Guiding Principles six-part white paper series:

A foundation for success

advisorservices.schwab.com/guidingprinciples/executivesummary

Effective planning and execution is a leading indicator of success

advisorservices.schwab.com/guidingprinciples/planstrategically

Value is defined through your clients' eyes

advisorservices.schwab.com/guidingprinciples/createvalue

Operational excellence creates greater capacity for clients

advisorservices.schwab.com/guidingprinciples/maximizescalability

Your reputation is your brand

advisorservices.schwab.com/guidingprinciples/communicatevalue

People are your most important asset

advisorservices.schwab.com/guidingprinciples/investintalent

Unless otherwise noted, median results for firms with \$25 million or more in AUM.

Median results for Top Performing Firms compared to all other firms.

ⁱ Median results for firms with \$250 million or more in AUM.

Matt Taddei is a client of Schwab and was not compensated for his comments.
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About the 2020 RIA Benchmarking Study from Charles Schwab

Schwab designed the RIA Benchmarking Study to capture insights in the RIA industry based on survey responses from individual firms. The 2020 study provides information on topics such as asset and revenue growth, sources of new clients, products and pricing, staffing, compensation, marketing, technology, and financial performance. Since the inception of the study in 2006, more than 3,700 firms have participated, with many repeat participants. Fielded from January to early April 2020, the study contains self-reported data from 1,010 firms that custody their assets with Schwab and represents \$1.1 trillion in assets under management, making this the leading study in the RIA industry. Schwab did not independently verify or validate the self-reported information. Participant firms represent various sizes and business models. They are categorized into twelve peer groups by AUM size. The study is part of Schwab Business Consulting and Education, a practice management offering for RIAs. Grounded in the best practices of leading independent advisory firms, Business Consulting and Education provides insight, guidance, tools, and resources to help RIAs strategically manage and grow their firms.

Past performance is not an indicator of future results.

The Firm Performance Index evaluates firms in the study according to 15 metrics that align with the Guiding Principles for Advisory Firm Success, to arrive at a holistic assessment of each firm's performance across key business areas. It provides comprehensive comparisons for all firms participating in the study, not just within a peer group. The metrics in the Firm Performance Index measure growth in clients, assets and revenue; client attrition; staff attrition; operating margin; time spent on client service; time spent on operations; standardized workflows; written strategic plan and succession plan; and ideal client persona and client value proposition. The Firm Performance Index is calculated among all firms in the study without regard to assets under management or firm type. Firms that rank in the top 20% of the index are included in the Top Performing Firms.

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