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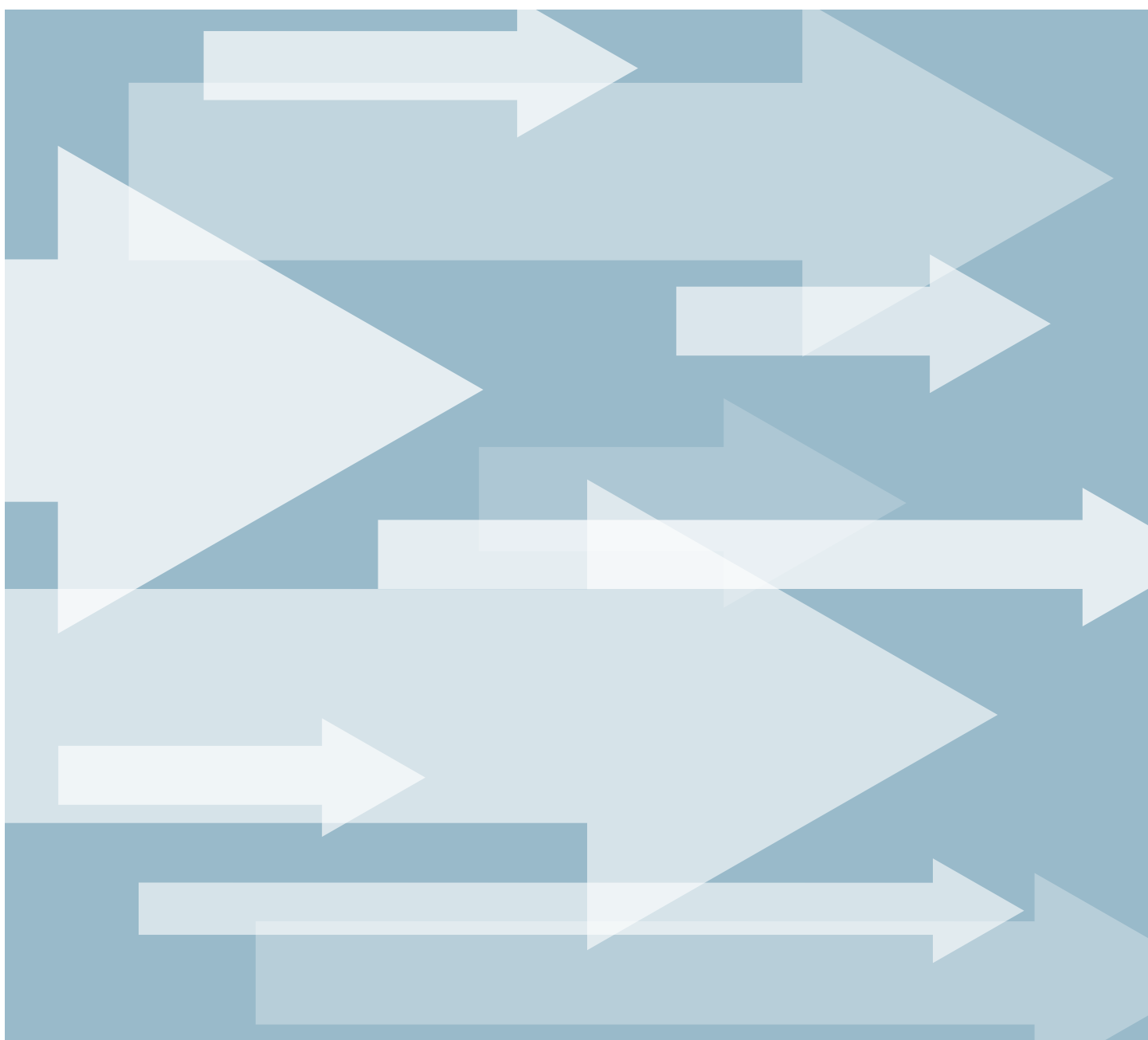
PRACTICE MANAGEMENT



# Driving Growth with Business Assessment Tools

A discussion about positioning your practice for success

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For use with financial advisors. Not for use with clients.



# Get Started by Taking a Step Back

Conducting a simple, yet thorough business assessment of your practice will help you gain important insights about your growth potential. The goal of the business assessment process is to create a roadmap that will help you identify the key steps needed to reach your new objectives, as well as drive the long-term health of your business' value.

## UNDERSTAND THE DRIVERS OF VALUE AND SUCCESS

In building and evolving your ideal business, approach key business components knowing the management decisions you make will impact long-term health and value. To best leverage your time and resources, evaluate your business as if you were trying to sell it (even if you may not be trying to do so at the moment). With this approach, you'll always keep the most important value drivers top of mind, and execute against scalability and growth challenges without compromise.

## AVOID COMMON MISCONCEPTIONS

Over the past few years, the valuation of a practice has been part of a rapidly changing landscape. The independent side of the industry has witnessed an evolution in valuation approaches, moving away from simple gross revenue multiples towards a more comprehensive approach. The latter takes into account the holistic health of a business and its key operational components.

Always keep the most important value drivers top of mind. ▲

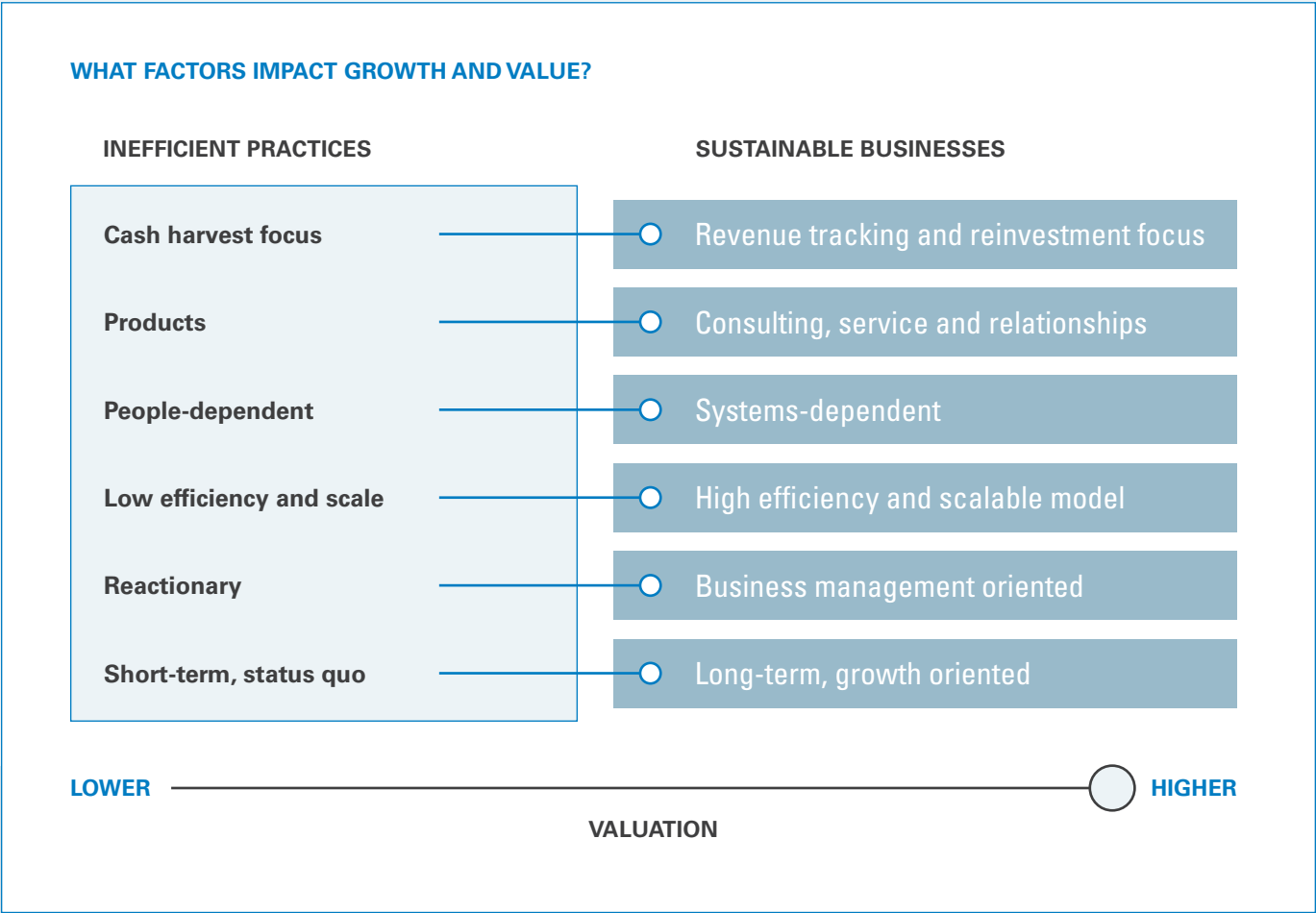
## DO YOU RECOGNIZE THESE MYTHS?

- **2.5x-3x Revenue:** This revenue multiple may be the most common misconception because revenue multiples are only proxies for underlying business health. This means your practice may or may not be worth the multiple given. The amount of risk a buyer will take on is based on underlying health, and greater risk leads to a lower valuation.
- **Trail Business:** Trail business is often linked to a product, but fee business tends to be linked to ongoing advice you deliver. From a buyer's perspective, a product is not necessarily linked to a relationship. Ongoing relationships mean more deeply engaged clients who are likely to continue to sustain the business over time.
- **Ongoing Profits:** Buyers look for a track record of success, not just the current year's output. Effective management of your business over time enhances value because it can improve your expense and profit ratios, as well as drive consistent high growth rates.

**FOCUS ON FACTORS WITH THE BIGGEST IMPACT**

Business value is based on a variety of components that represent your overall business health. Take a closer look at how you evaluate practice risk versus firm value. Some key components include whether the practice is owner-

driven or process-driven; advisor-centric or business-centric. Generally speaking, the more a business is process-driven and scalable, the more valuable it will be to you, your staff and to a potential buyer.



# Transition from Value to a Targeted Plan with Assessment Tools

Now that you have a better understanding of which factors impact value, you'll need to relate these drivers back to your business assessment process. This approach will help you develop a more targeted set of management decisions. You may have a variety of resources already at your disposal to begin the assessment process, such as industry research with performance benchmarks or accounting software to track your financial data.

You can supplement these resources with a more powerful platform, such as **AssetMark's Business Assessment Tool** (see sample results on next page). The enhanced level of detail provided by the tool can help you:

- Evaluate historical performance and establish projections
- Set benchmarks for tracking and goal-setting
- Measure performance against your benchmarks
- Monitor key performance indicators to manage outcomes
- Plan business improvement projects

In order to provide you with a detailed view of your performance in critical business areas, the Business Assessment Tool displays a comprehensive set of results across three key sections:

## 1. FINANCIAL PERFORMANCE REVIEW

Your financial model shows how top-line revenue flows to the bottom line and consists of multiple components that can work together to ensure stability and success.

You will see financial information such as total AUM, direct and indirect expenses, and total number of employees, advisors and new clients. This creates an overview of your financial model, showing you how your business performs relative to peer group benchmarks and key performance indicators such as AUM per Client and Total Firm AUM.

## 2. VALUE MAXIMIZATION INDEX™ (VMI)

Value Maximization Indicators are comprised of your Value Maximization Index score. These indicators are used to assess your business operations within four key areas: managing your practice, marketing your business, optimizing your operations and empowering your team. You can better understand your firm's overall practice risk, as well as help to identify priority areas of improvement, relative to top performing firms.

To track your business health, you can also use a valuation range relative to your benchmarks. If you're below these benchmarks you can look at underlying factors (operating profit, projected annual growth rate and VMI) to find opportunities for improvement.

## 3. KEY PERFORMANCE INDICATORS

These are underlying business performance metrics to help you see whether changes you've made are having the intended impact.

Evaluate your current practice and future needs with the Business Assessment Tool. ▲

# Assess Your Business to Improve Value

## FIRM FINANCIAL PERFORMANCE

## VALUE MAXIMIZATION INDEX™ AND VALUATION RANGE

## KEY PERFORMANCE INDICATORS

Jane Q. Advisor

### Business Assessment Report: Jan - Jun 2013

Firm Performance Relative To Firm Goals and Peer Group Benchmarks  
(note: all Firm Financial values are annualized)

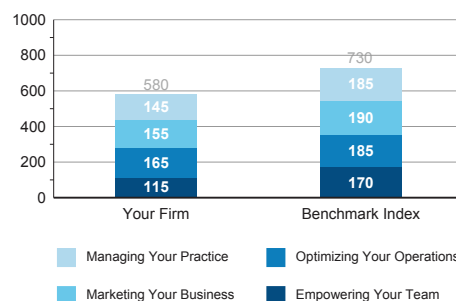


Peer Group \$250K-\$499K

Firm Financials	Your Firm	Your Goals	% of Goal	Benchmarks
Total Firm AUM	\$47,500,000	\$50,000,000	95 %	\$56,095,321
Total Clients	113	115	98 %	141
Recurring Revenue	\$260,000	\$300,000	87 %	\$391,043
Total Revenue	\$364,000	\$440,000	83 %	\$465,572
Total Expenses	\$284,000	\$340,000	84 %	\$367,394
Operating Profit	\$80,000	\$100,000	80 %	\$98,179
Projected Annual Growth Rate	11 %	12 %	92 %	24 %

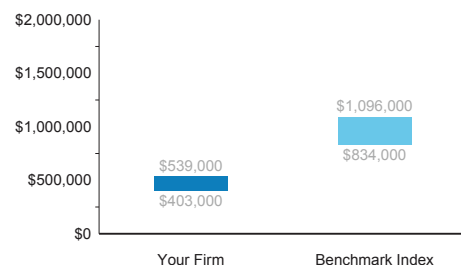
#### Value Maximization Index™

Firm Relative to Peer Group Benchmark



#### Valuation Range

Firm Relative to Peer Group Benchmark



#### Key Performance Indicators(KPIs): Firm Performance Relative to Goals and Peer Group Benchmarks

(note: a maximum of 9 KPIs are displayed, all values are annualized)

Metric	Jan Jun 2013	2013 Goals	% of Goal	Benchmarks
Recurring Revenue per Client	\$2,301	\$2,609	88 %	\$4,235
Recurring Revenue per Advisor	\$260,000	\$300,000	87 %	\$270,963
Total Revenue per Client	\$3,221	\$3,826	84 %	\$4,913
Total AUM per Client	\$420,354	\$434,783	97 %	\$556,138
Total AUM per Advisor	\$47,500,000	\$50,000,000	95 %	\$35,690,864
Profit per Client	\$708	\$870	81 %	\$893
Profit as a % of Revenue	22 %	23 %	97 %	21 %
Clients per Advisor	113	115	98 %	96
Revenue as BPs on Assets	77	88	87 %	108

Valuation ranges shown are for illustrative purposes only and in no way constitutes a guarantee of individual practice valuation by AssetMark. Actual practice valuation may vary from tool results. Visit <https://ewealthmanager.com/eWMLLogin/TermOfUse/PracticeManagementTermOfUse> to view the full terms of use for this tool.

# Create and Follow a Strategic Plan

Once you have metrics that can substantiate your decision making, you need to create a strategic plan that will help you prioritize your time and efforts. This approach will help to ensure you're covering the necessary objectives and goals of your business. The steps on the right will direct a smooth delivery of your plan.

## ▲ DELIVER YOUR PLAN WITH CONFIDENCE

1. Review assessment results to understand where gaps need to be filled
2. Establish your vision and goals
3. Outline clear priorities and owners for each deliverable
4. Reassess where you are spending your time so you can focus on your most relevant priorities
5. Execute the plan with discipline
6. Monitor business performance and ongoing results
7. Adjust your plan as needed based on performance and results

Creating a strategic plan will help you prioritize your time and efforts. ▲

# Maximize Your Time to Meet Growth Goals

Understanding where you're spending time now is the starting point to leveraging it more optimally moving forward. As you define the elements of your value-driving strategic plan, it's critical to focus on areas that will directly influence your growth goals. Top financial advisors achieve success by spending meaningful time with their clients, focusing on revenue-generating activities and managing their practice like a business.

In order to put the importance of your time into perspective, independent advisors spend over 40% of their time in administrative, non-revenue producing activities that include administrative tasks (separate from business management), investment research, asset management and professional development.



Advisors who outsource investment management\*

**\$187M**   
**\$232M** 

Have larger practices than those who don't (in AUM)

**\$168K**   
**\$182K** 

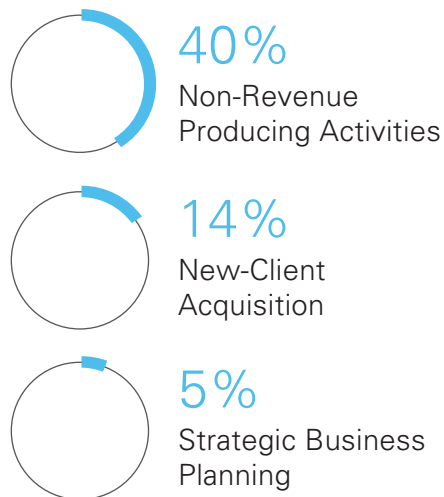
Earn more money than those who don't

A mere 38% of their time goes to engaging with existing clients in the form of meetings. Only 14% is devoted to new-client acquisition and barely 5% is spent on dedicated business management time.\*

## POSITION YOUR FIRM FOR SUCCESS BY LEVERAGING STRATEGIC PARTNERS

As you look at where you spend your time, assess where you need to enhance competencies, systems and technology. This will help to create time and scale through the lens of leveraging a strategic partner.

### HOW DO MOST ADVISORS SPEND THEIR TIME?\*\*



\*Q2 2014 Aite Group Online Survey of US-based Financial Advisors

\*\*2014 Cerulli Advisor Metrics



# What Should You Outsource?

When deciding which areas to outsource, think about the current framework of your business. Which of the areas outlined below would benefit your existing operations the most to ensure you spend time in the most profit-

driving segments of your business? Ultimately, your goal should be to build value by increasing scalability and leveraging time wisely in key growth areas.

## CLIENT EXPERIENCE & VISION BUSINESS

- Relationship Building
- New Client Acquisition
- Client Experience and Service
- Proposal Generation
- Specific Service Offerings
- Strategic Business Planning and Goal Setting
- Leadership and Vision

## BUSINESS OPERATIONS & MANAGEMENT

- Staff Management
- Compliance
- Account Maintenance
- Technology and IT
- Account Aggregation
- Accounting & Taxes

## PORTFOLIO MANAGEMENT

- Research
- Investment Policy
- Asset Allocation
- Trade Management
- Overlay Management
- Performance Reporting
- Billing

LOW

ABILITY TO OUTSOURCE

HIGH

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# Take the Next Steps to Reach Your Business Goals

The most growth-oriented advisors find strong strategic partners to help outsource some of their firm's important responsibilities and add valuable time for more revenue-based activities. In fact, these top-performing advisors consistently report that the primary reason they turn to outsourcing solutions is to have more time to focus on their business and deliver an exceptional client experience.

When you leverage your time to work on your business with a defined assessment process, powerful tools and the right partners, you'll gain important insights into the

key elements that drive your business. Understanding which elements are driving your sustainability and growth expectations is critical. AssetMark can help you translate this information to create a roadmap that identifies key steps needed to successfully realize new objectives and goals, as well as reach the true value of your business.

Learn more about how AssetMark can become your strategic partner, and provide business assessment tools to help grow your business. Contact us at 800-664-5345. ▲

## **AssetMark, Inc.**

1655 Grant Street  
10th Floor  
Concord, CA 94520-2445  
800-664-5345

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20466 | C30341 | 03/2015