Ep #288: XYPN's 2020 Benchmarking Survey Results Review with Alan Moore and Michael Kitces

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Full Episode Transcript

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XYPN Radio with Maddy Roche

Narrator: [00:00:01] Join your host, Maddy Roche, as she brings you into a community of fee-only financial advisers who are successfully building profitable businesses that serve the next generation of clients. Learn from innovative advisers whose unique stories will inspire you to dream big and take action on your goals. Are you ready to live your best life and help your clients live theirs? Then you're in the right place.

Maddy Roche: [00:00:24] Hello and welcome to this episode of #XYPNRadio. I'm Maddy Roche your host. Today, XYPN co-founders Alan Moore and Michael Kitces join us for a special episode to discuss all the findings of the 2020 XYPN Benchmarking Survey. Each year, XYPN members participate in a comprehensive survey about their businesses, and each year Michael and Alan riff on the trends they see, the themes that have emerged, and of course, offer their perspective on where this industry is headed. If you're interested in hearing about what XYPN member firms are experiencing this year, then this show is for you.

Maddy Roche: [00:01:01] Avocado toast, selfies, a mountain of student loan debt. Gen Y is anything but traditional and with over seventy five million people, it's a population you don't want to ignore. Learn more about how to serve this unique population in our guide called Attract and Profitably Serve Millennial clients in your RIA. Discover three key ways to tap into the millennial market and six things that they want from their financial advisor. Visit XYPlanningNetwork.com/Millennials for your free copy. You can find any of the resources we mentioned during the episode at XYPlanningNetwork.com/288. Also, be sure to go to XYPlanningNetwork.com/VIP to join our private group, just for

#XYPNRadio listeners. It's a community of advisors we've all been looking for that's there to provide support when we need it the most. Best of all, it's free. Encourage you to check it out. Again, that's XYPlanningNetwork.com/VIP. Without further ado, here is this week's conversation with Alan and Michael.

[00:02:02] -- swish --

Alan Moore: [00:02:02] Hello and welcome to this episode of #XYPNRadio. I am your guest co-host Alan Moore with my guest co-host Michael Kitces. Michael, welcome to the show.

Michael Kitces: [00:02:13] Man, I am like, I'm a guest. I mean, I'm not I don't feel like I'm a guest co-host. I'm like a guest co-host of the guest co-host. I'm like I'm a second derivative guest-guest, co-co-host like we, this podcast has come a long way over the past couple of years. (laughter) I-I'm still adjusting to the new reality. Maddy has just been crushing it for a while now. So it'-it's-it's exciting to be back as a guest-guest co-co-host.

Alan Moore: [00:02:40] Yeah. From from the time of this recording because we're recording the week of Thanksgiving. A year ago I was on my way to my sabbatical and Maddy took over the podcast and has been hosting ever since and has been doing a great job with it and thankful that that she's-she's picked up the reins. Today, you know, I'm back and Michael's back to talk about our annual Benchmarking Study. This is a study that we do every year of our members here at XY Planning Network and aggregate that data and put it into a study to to be able to show the realizations, the real life of starting, running, and growing a financial

planning firm as a member of XY Planning Network. So today we're going to go through we've got six or seven different sort of primary graphs that we're going to be talking about. And you'll be able to find that information on our website at XYPlanningNetwork.com/288, for episode 288. To be able to find the graphs if you want to be able to follow along, because we're going to be sort of talking about data and painting pictures with our hands, which of course you cannot see, but that-that will sort of help as we go into it. So we'll sort of kick off, this is what our fourth year doing a benchmarking survey, correct?

Michael Kitces: [00:03:55] It is, it is, this is something we started pretty early on in the-in the network, as I view it, XYPN is kind of kicking off this new business model and approach and focus of doing fee for service financial planning, particularly around monthly subscription fees. Although we, as we see in the Benchmarking Study, they got a growing and wide range of different ways that advisors are charging fees and generating revenue. And I've long had an admiration for a guy named Mark Diversion who I know, you know, Mark Alan and a few people who are listening to as well. Marcus was kind of the the practice management guru of the RIA business in particular, going back for almost 30 years now. And the reason is because he literally made the first Benchmarking Study of RIAs back when, like a really big firm had seventeen million dollars under management in the system because in the 1990s that was a big firm. And he started this benchmarking studies all the way back in the 1990s and has now basically documented twenty five odd years of how the growth and evolution of the RIA model has occurred. And so I really viewed it the same thing that I think as something new gets created in the industry at XYPN, I was really interested in having us kind of capture that basically documented I view our benchmarking studies almost like a documentary of how-how this business model is evolving over time. And so, yeah, we are, I guess, coming up on six years in the network, four years that we've been running the Benchmarking Study, which means kind of five years worth of trailing

data. So almost from the beginning of like, how does this actually work over time? Like when when you do this and you get going, like what is actually growing at up to over time?

Alan Moore: [00:05:49] Yet admittedly, early on in XY Planning Network, you know, I'm the-I'm the vision sales guy. And so I was selling this vision of entrepreneurship and that how great it would be to start a business. And I got a lot of pushback and really critical feedback that was helpful. That said, hey, look, I think you're overselling entrepreneurship, you're overselling the journey. It's harder than you're making it out to be. And so one of the things I found so helpful about this, this Benchmarking Study is the results showing, you know, ultimately the path and people it's somewhere faster, some are slower. But in the end, we're going to talk about sort of the average journey of a of someone who's starting a firm with XY Planning Network and getting going. And so that are sort of first chart that we're going to talk through is revenue over time. And what this allows us to say is how much someone earns in year one, year two, three and four years as they as they grow their firm. And shockingly, what we see is that you make more money every year. Right. So your income does go up. But the first couple years are really, really hard. And now we have sort of four years. We have four cohorts and sort of what year one look like, each time. In year one for everyone, ever since we started the study is really hard.

Michael Kitces: [00:07:06] Yeah, it's really hard. And we we have like four good years worth of first year data. Like, what was it like for a first year member in 2016. What was it like for first year member in 2017. What was it like for first year member in 2018. What was it like for first year member in 2019. Obviously we don't have the 2020 data yet. We'll tell you in a couple of months when we run the study looking back at this year. And the first as a note here, we are very specific when we do this benchmarking, saying

some of these numbers in particular, to only look at members who are actually starting from scratch with us because we do have firms that join us like I'm making one hundred thousand dollars my first year is like, cool. What did you have when you started? One hundred thousand dollars? I brought with me with my prior firm, like, okay`, awesome for you, but not not really representative of the average person's experience who doesn't get to bring a whole bunch of clients with them. So this is specifically members who start essentially from scratch with either no clients or like maybe you broke away and your mom and your aunt came with you, but almost no clients came with you. And so those firms that start from scratch, what we've seen from four years of first year data is, as I sometimes put it, like the first year sucks for everyone. Average revenue every single year, somewhere between ten and thirteen thousand dollars gross. Right. Not-not net after expenses. You don't take out 10 to 13 like you. Gross 10 to 13 if you're doing the super lean maybe you broke even. Is what the first year looks like, like it's it's awful for everyone and it's actually stunning to me, having repeated this for four years, how little difference there is in -

Alan Moore: [00:08:50] Yup, it really has been consistent in that-in that.

Michael Kitces: [00:08:53] - the outcome. Yeah.

Alan Moore: [00:08:55] Yeah. And, you know, the realities make sense, right? Even if you start your business on January 1st, you start sending out emails and calling folks, you go to networking events, you host some webinars, clients, you get some prospect meetings in February or March. They think about it. Maybe they sign up in June. They start the planning process. Maybe you start getting your monthly fee or an upfront fee in August, September, October. Right. And so it just takes a while for even

those people who you already know, much less those who don't yet know to sort of come in, build trust, build that relationship and ultimately kick off a financial planning relationship. But then going into year two, you now have an established group of clients. On January 1st, you are going to pay you a full year's fee, whereas no one paid you a full year fee in year one, which is why we sort of see this somewhere. Year one ranges ten to thirteen thousand a year in year two, we're actually seeing this go up over time. In 2017 it was thirty eight thousand then it went to forty five thousand and then it went to fifty four thousand for year two income. And so last year we showed, it showed that in year two people were making on average fifty four thousand dollars in their second year of business.

Michael Kitces: [00:10:06] And again, we should clarify like grossing fifty four thousand dollars. We don't have expenses in this yet. We'll talk a little bit later about kind of expenses and net profitability. But just we are we are talking gross revenue numbers. But-but generally, by the time you're getting anywhere from 38 to fifty four thousand dollars of-of revenue out, like this is cash flow positive. You are probably not making your own salary and you are probably not supporting yourself on this. Like this is cash flow positive and-and is feeling better. And what we certainly see just in practice for most-most firms that that start from scratch like the first year feels awful for everyone. The second year still doesn't feel great because you're not making the dollars that you probably hope or wish or were making before you made this switch into this thing. But it's cash flow positive and the numbers are going up.

Alan Moore: [00:10:55] Yeah, I mean, this second year, really early second year, mid second year, we like to call the oh crap, what did I do phase. Right. This is when it's like I'm working a lot, I'm working hard but I'm not making a lot of money. But-but you're starting to see that income go

up. And really year three I would say is when you start to hit income replacement. So in 2018 we showed that in year three you're making eighty three thousand on average. In 2019 it did drop just a little bit to seventy nine thousand, which is three thousand dollars difference, four thousand dollars difference. Not a big shift, but what that shows is that really year three is when we start to see advisors taking a paycheck from the company, that that is getting really close to their pre leaving their prior employment income and sort of growing because then leading into year four, we see a huge jump going into year four or four plus, I should say, which is it jumps from seventy nine thousand to one hundred and eighty one thousand. And so we really see that it does take three to four years to really gain traction. Some are able to do a little faster. Some are able to do a little slower. But really that three year mark is really when you're going to hit your stride.

Michael Kitces: [00:12:04] And again, these numbers have been amazingly consistent. When we ran this study last year, members that were in their-in their fourth year we're doing, I think was one hundred and seventy nine thousand dollars in this year. The average was one hundred and eighty one thousand dollars. It-It is actually amazed me how consistent these numbers are of just at the end of the day, we can only grow so fast. We can only get so many clients, we can only prospect so quickly, we can only onboard them so quickly. We can only figure out all the stuff there is to figure out just learning the business and going through our-our personal growth journey. And so we continue to run these numbers year after year after year. And they are just stunningly consistent, I think, as we've gotten a little bit better at helping members kind of find niches and focus in into niches and get their growth engines going a little more quickly. We are seeing second year revenue growth get a little bit better as the years go by. And I'm kind of curious, see if that translates into better third year growth and just carries momentum as we get more years of the study in the and the research in place. But-but the essence of it I mean, if you just want to

think of the progression of a firm, again, these numbers have been really, really consistent from-from year to year with almost no change. I mean, literally just a thousand or two of of change throughout. What you're essentially talking about is year one. You do-you make ten grand of revenue. Year two, you make 40. Year three, you make 80. And you're four, you make one hundred and eighty, and so that progression like ten, forty, eighty, one hundred and eighty. Is-is essentially what we're seeing plus or minus just a remarkably few thousands of dollars.

Alan Moore: [00:13:48] To be fair, this year was fifty five, not forty. It was ten, fifty five, eighty, one eighty.

Michael Kitces: [00:13:53] Yeah. So -

Alan Moore: [00:13:54] year two even higher

Michael Kitces: [00:13:54] - we are seeing-we are seeing a little bit of a lift up in-i- in year two. And on the one hand I feel like there's, there's just some natural frustration that that comes from this, that again we see this year after year in the study that for the average member, the growth in year four is more than all of the first year, three years combined. Right. Just that kind of sequence, like ten, fifty, eighty, one eighty. Like, it took me three years to get to eighty. And then the fourth year I had one hundred on top of the 80. And-and on the one hand, I feel like some people give sort of a WTF moment of like what's so, what's so great by then. And I think a lot of people naturally ask like, well cool, how do I make year four happen in year three or two? Because I'd really like to get to that number a little bit quicker. And we're, I think we're trying to figure that out in what we can do in help to

build and train and facilitate it at XYPN itself. But at the end of the day, like we live in a business of building trust and relationships. And the reality is you can just only speed up relationships and business building so fast. The-the famous saying in the business, people do-people do business with people they know, like, and trust. And you can just only get known, liked, and trusted so quickly. And I feel like that's part of what we're seeing in-in this. You know, maybe we can pull these growth curves forward a little bit in, you know, trying to figure out, like better systems that accelerate the process of-of building and growth. But frankly, I don't think we're ever going to see some world where, you know, you can just launch and be at one hundred and eighty of revenue by-by year two just it takes time. It takes time to be known, liked, and trusted. It takes time to establish yourself. The truth is, for so many of us that launch, it takes time just to get comfortable in our own skin to kind of get over the imposter syndrome that we feel sometimes to be able to say to a client with a straight face, like I charge five thousand dollars a year and you're going to be super happy to pay me that five thousand dollars. For the average member that starts, like we saw, say like my fees fifteen hundred dollars. We'll even say it is a question because it's so, so not comfortable. Not confident yet. It just it's really hard to to say it. It's a little freaky, like you're putting a price on your value. What if they say no? Because I don't have any other prospects right now. So we start discounting or stop and pressuring herself. And like all just all the all the stuff that layers on. And it just takes some time, I think, as human beings sometimes to-to work through that and power through that. And so the numbers may shift a little bit as-as we try to help members accelerate this curve. But, you know, just realistic expectations for people. I mean, if you start looking at this of a growth curve of like ten, forty, eighty, one eighty or maybe ten, fifty, eighty, one eighty, of what revenue looks like over the first four years. That's the-that's the benchmark. And that's part of why we urge so hard. Make sure you've got a foundation in place. To be able to get through the tough years when you launch like you don't get the one hundred eighty in year four if you didn't have enough savings to get through year two.

Alan Moore: [00:17:16] Yeah, I mean, and we're going to talk about a couple of these and in some of these points, but we've talked about this in previous years as well, where we see folks, pretty much everyone in the network raise their fees over time. And so, you know, coming into this, there are a couple of things you can do. And people say, what should I be working on if I'm planning to launch a firm one day? One is get your CFP®, CFP® designation matters, define a niche, okay. Define who you want to work with and start building relationships in that community. It helps when you ultimately get started, price your services appropriately out of the gate. Don't underprice yourself when you're first launching. And most of all, as you just said, have a financial foundation in place. Have a plan to cover expenses both business and personal for the first several years, because in the end, it just takes a couple of years.

Michael Kitces: [00:18:04] And I think the crucial thing to note in that as well is it's mostly about having a business plan to cover your personal expenses. It's actually not the business plan to cover the business expenses. Your business expenses are not what-what bury you. Like we don't run, we're not running factories. We're not running restaurants where you have to take out six figure loans to buy all the equipment and the space and the lease and the rest. We still see a lot of members that are building firms, maybe the low end at ten thousand dollars of expenses. That's really bare bones. And some members, I think they've tried that have not been happy and finding out it takes a bit more than that. But even if you're looking at a firm that-that you spend 20 thousand dollars on between the technology, the website, is a little bit of marketing expenses, is a little bit of compliance support, just the things that you need for most to start firms like it's not that whatever it is, ten, twenty, thirty thousand dollars even of business expenses, that makes it a problem to survive the first two or three years. It's your personal expenses. It's the mortgage and the family and

the-and the food and shelter and clothing and all those things that go along with your personal expenses side. It's still why we often see a lot of people launch firms from dual income households like spouse number one has stable income while spouse number two launches their advisory firm or building savings or doing something not just to handle the business expenses, but to have a plan on how you handle the personal expenses both A so you can literally handle them and B frankly, for a lot of people so that you have a plan to handle them that your spouse is on board with as well. Because one of the fastest ways to have your business not work out is not being able to provide for your family and have your spouse say so when are you going to stop this advisory firm thing and go earn some more money for the family? Because we're really financially stressed. It's hard enough starting a business without having that layered on top of yourself. So if only for your spousal and marital sanity, at least if you're starting this is a couple you need to have a plan for how your personal expenses get covered while you get through the first few years, because it's great every year thereafter. Like, it just keeps compounding. It just keeps growing. We'll talk a little later about what we see in revenue for firms that get further out into the kind of scaling and growth phase. But you don't get to win the long game if you get knocked out in the short game.

Alan Moore: [00:20:38] Absolutely. So one of the things you talked about earlier was, was niches matter. And-and obviously, Michael and I have been big proponents of having a target market, having an ideal client profile, having a niche market ever since we started XY Planning Network in prior. And so I'm going to give you a little bit of language that we use here at XYPN because that'll help. It'll be necessary as we start to explain this next chart, sort of the data that we see. But we break down sort of firms into four phases or four stages that they go through, pretty much every business goes through. Stage one or phase one is preparing. This is when you're you're getting ready to launch your firm. You're getting your ADV in place, your client agreements, all of that. Then you ultimately launch and

then you go through the implementing phase. And the implementing is where you're ultimately implementing the business plan that you created in the preparing phase. Implementing goes from zero up to twenty clients. At about twenty clients, is when you flip into what we call the building phase. This is really when you start building the business and so you go from twenty clients to seventy five. And then at seventy five clients you go into the scaling phase. And the scaling phase is ultimately when, when you've hit scale you're starting to grow. And that's when sort of the firm can break apart into sort of three different types. We see enterprise firms who want to grow really, really big, they want to, they want to be hundreds of team members. You have boutique, which is smaller, maybe five to 10 people in the firm. You have a couple of advisors. You as the owner are doing financial planning as well as running a business. And then we have the solo practice. That's where you really want to stay solo. You don't want to hire any full time team members. Maybe you outsource some of your investments or your bookkeeping or to a outsourced VA, but in the end you're the only full time team member. So again we have preparing, which is getting started, implementing up to 20 clients, building up to seventy five clients and then scaling, which again splits into the solo, boutique, or enterprise. And so the next data set that we see is that niches do matter. They do ultimately provide long term benefit, but there is a short term cost to launching with a niche which does make sense when you really think about it. And something that we've seen ultimately from many of our members who have said, well, I'm going to I don't-I don't want to launch with a niche on a launch without one and the transition to having one later, because I think it'll be easier to get started without a niche. And they're not necessarily wrong in that-in that assertion. I think we have recommendations for how to better implement it, though.

Michael Kitces: [00:23:08] Yeah. The-I think the fear that a lot of firms have when getting launched and-and thinking about how am I going to have a niche or am I going to focus somewhere, really comes down to

when we're getting started from scratch. A lot of advisors have some level of natural market. So natural markets like the industry term for some people that are already in your-in your life, in your ecosystem, to whom you could naturally market and to whom you already have a relationship, so you don't have to do the whole build relationships from scratch, which takes several years to be known, liked, and trusted. More commonly known as friends and family, think that's basically what we're talking about is friends and family. So when-when members launch entirely from scratch with no niche and no focus, we tend to just cast a wide net, which essentially starts out at friends and family referrals and trying to grow from there. And so the firms that start with friends and family referrals, we looked one of the things we looked at is just how much new revenue did you get in the implementing phase? So that first phase, like you're going for your first 20 clients, how many-how many clients and how much new revenue did you get? Firms that had no niche focus, wer.e averaging twenty three thousand dollars last year. That's really a combination of firms that are in their first year and firms that are in their second year that are still trying to get to that 20 client threshold. So average of twenty three, almost twenty four thousand dollars of new revenue. Firms that were new and started out in niches averaged ten thousand dollars of new revenue in the implementing phase. So if we go a little bit more focused, yes, we may end up excluding a little bit of those friends and family connections. And-and we do see that showing up in the data. But then when we go to the next stage, firms that are in the building stage now, you've gotten past 20 clients. You're trying to get to 50. You're trying to grow to the next level. So firms that have no niche went from growing twenty three thousand dollars a year to growing about thirty one thousand dollars of new revenue. You get a little bit larger. You got twenty clients. There's a few that can actually finally give you some referrals. So growth starts to pick up a little bit. And we saw growth, growth revenue as you move from implementing to the building phase, going from about twenty four to about thirty one. If firms had a niche though, as we said, they start off smaller just over ten, but by the time they get to the building phase they're growing at thirty three. So suddenly firms with niches

start sling shotting forward, so yes, you were a little bit slower on growth in that first year or two in the implementing phase, but the growth pace starts to pick up to the point that even by building phase, firms with niches are growing revenue slightly faster than firms without niches, because we're at thirty, thirty three for niche firms versus just thirty one for non niche firms. And picking up pace faster because non niche firms went from twenty four to thirty one and niche firms went from ten to thirty three. When we then look out to the next stage and we get to scaling, non-niche firms continue to pick up momentum. No great surprise like you've got even more clients by definition, if you're in the scaling phase, you're over 50 clients. And so as you get to the scaling phase, there's a lot of people giving you referrals and we see revenue growth for firms in the scaling phase goes from thirty one to fifty eight thousand. So the average firm that's at that stage is adding fifty eight thousand dollars a year of new revenue on top of the one hundred and fifty, one hundred and eighty or whatever it is that they're out at that point. But niche firms, as they go from building face to scaling face, go from thirty three thousand of new revenue and building fees each year to eighty seven thousand dollars of new revenue in the scaling phase. So just to kind of paint these in sequence non-niche firms in terms of the annual new revenue that they get, go from twenty four to thirty one to fifty eight. As they get bigger and they have more clients get referrals from. Niche firms go from ten to thirty three to eighty seven. And so by the time we get out to the scaling phase, the average niche firm is growing almost 30 thousand dollars per year of new revenue, faster than non-niche firms. And of course, that kind of just continues and compounds. If you're growing that much more every year, your numbers just get big bigger with compounding over time. And so cumulatively what we see like the first year of niche, by the time you get to scaling phase makes up more revenue than you ever gave up in the first year or two in implementing, like that's why it matters so much. Basically, what we find is non-niche firms grow linearly, twenty four, thirty one, fifty eight. And niche firms grow exponentially, ten, thirty three, eighty seven.

Alan Moore: [00:28:08] And I know what people are thinking, which is well then why don't I just launch without a niche? I'll get some of that early business and then I'll implement a niche when I'm in the building phase, when you sort of see this crossover. And then I'll take advantage of having a niche long term because we just talked about the first couple of years are tough and here we are saying, but we still encourage you to pick a niche and have an even worse first year. It's even harder than what we did earlier. And the challenge is that you don't get the benefits in the building and scaling phase of having a niche. If you don't have a niche in the implementing phase because these things take time, you can't just throw it out there on your website. Oh, now I have a niche and suddenly you get all the benefits. These are relationships. These are your clients referring other clients. If you have a whole book of clients, whole base of clients that are referring clients that are kind of like them, that aren't in your niche, you're not benefiting from-from the client referrals, the center of influence referral from the-the marketing that takes, you know content marketing that takes years to ultimately build a following and build a presence. And so you can't cheat the system if you ultimately launch without a niche. And then in the building phase, you sort of swap over to having one. Well, then you've just set yourself back two years from the benefits of that niche. And so you just going to have to wait two more years to ultimately benefit. Maybe you're making a little bit more money in the process, or maybe you're going to have to be the one who has that hard conversation with the client that says we're no longer a right fit for you because you took on a lot of clients that no longer meet the sort of the target market that you want to work with. And so there is just no shortchanging this process. It just takes time.

Michael Kitces: [00:29:39] Well and again to emphasize even more. If you want to think about this over, say, the 10 year cycle of your firm, most firms spend a year or two in implementing. Another two years in building and

usually somewhere out by year's four to five, we get to the-we get to the scaling phase and then we live there for years, five through 10. So just to put this in practical terms, like you're talking about potentially making an investment and focus of ten thousand dollars a year in the first two years of revenue you may not get because you're focused so you can get thirty thousand dollars a year every year for the last five years of additional growth, which is stacking up in annually recurring. You're talking about giving up 10 or 20 thousand dollars at the beginning for one hundred and fifty thousand dollars a year of annually recurring growing compounding revenue down the road. Like this is frankly one of the best possible investment ROIs you ever get the chance to make is turn 10 or 20 grand into one hundred and fifty thousand dollars a year annually recurring in the long run, which is what it adds up to, when you do this for years. But Alan like as you put it so well, like the niche benefits aren't just because you're in the scaling phase. The niche benefits for-for firms in the scaling phase are because they spent the years making the growth investments to become known in their niche. So if you start in if you start out with a non-niche and you-and you try to shift and pivot later, you're just still going to be several. Not only are you going to be several years behind on this growth curve because you literally spent time not building your niche. What we see for most firms in practice, it's actually harder because now you're specifically not known for the thing that you're suddenly trying to become known for. And the marketplace gets confused and people start asking, like, what does that mean? Like, you don't work with people like me anymore? And your revenue actually now goes backwards because the people that you tried to pick up early on realized that they're not a fit for where you're going. And so you can end up stalling the practice later. And we see a lot of firms that get stuck in the building phase. They're like 30 or 40 or trying to push to 50 clients, but it's getting harder, it's getting slower. They're really beginning to struggle with this because it's you know, there's all this work to get new clients and there's all this work to service the existing clients. And they don't feel like they're gaining momentum because they didn't have a focus. And that's a really busy time to start trying to figure out how to find

your focus for the first time, because now you actually got a lot of people service and a lot of stuff to do.

Alan Moore: [00:32:06] I do want to go back to it's easy for you and I to sit here and say, oh, just take it, make less money in your first two years because it has a 10 year ROI, trust us. And it does. But telling someone to make less money in the first two years is hard. And I get that from the listeners perspective, you're thinking, well, I need to make twenty thousand. I can't only make ten in what you're hearing from us and just want to say it more directly is that it's worth waiting one more year to launch your firm. It's worth waiting a year, save up some money, build up that side stream of income, let your partner get a more stable revenue source, whatever that is. It's better to wait a year, even two years and be ready and launch with a niche, make less money in year one and maybe year two so that you're building a sustainable business that ultimately is providing what you want it to provide over the course of ten years. Because, yes, there are there are short term considerations and long term considerations. But don't launch your firm so early that you have to make the long term sacrifices that you're going to regret for short term revenue.

Michael Kitces: [00:33:08] I think that's such a good way to frame it. Like what this really comes down to is, I'm going to call it investment readiness. If-if you are not ready to make a ten thousand dollar income investment in your business for one hundred and fifty thousand dollars a year of long term recurring revenue, then you're not ready to make a ten thousand dollar investment into starting your business. It's like, cool. Then-then figure out what you need to do to get to the foundation where you can build the business right, instead of building business desperately.

Alan Moore: [00:33:38] So I do want to touch on a third graph, I think we can do this one quickly because I want to be sure we get to all of these. But the third graph and folks you're just going to have to go to, again, XYPlanningNetwork.com/288 to be able to see this, because it's going to be a lot of data here, but is showing ultimately just how growth compounds and how crappy those first couple of years really are and how amazing those later years are when you, when you're ultimately focused on building the business the right way.

Michael Kitces: [00:34:10] Yeah, the-the chart in, the chart here essentially shows for members that are in these different stages, implementing, building, and scaling, like how has their revenue grown and progressed over the past couple of years? Now, the folks that are in the implementing and building phase, the numbers kind of don't move up and bounce around a bit, because if you do really well in the implementing phase, when you do next year study, you're not the case anymore because you actually grew out of it to the building phase. And if you do really, really well in the building phase, you're not in the building phase in the following year because you grew to the scaling phase because you got enough clients. So the real focus here is, is what happens in the scaling phase, because once you're in the scaling phase, you're in the scaling phase. We have sort of different segments of whether you're trying to build sort of a soloprenuer style practice as a solo, whether you're building a boutique or you're trying to build an enterprise. But once you're in the scaling phase, everyone's in scaling phase. And so when we look at the scaling phase and how income levels have progressed and the scaling phase over the years of the network. What we see is over the past four years, back in 2016, the average member that was in the scaling phase was doing one hundred and thirty nine thousand dollars of revenue. A number was even a little bit lower than because a lot of members were earlier in figuring out this model and as we said earlier, had a tendency to undercharge. By 2017, the average member in scaling was doing one hundred and seventy one thousand

dollars of revenue. By 2018, the average member in scaling was doing two hundred and fifty five thousand dollars of revenue. By 2019, the average member in scaling was doing three hundred and nineteen thousand dollars of revenue. And so, again, not only do we see this sort of effect for the first few years are sucky and then suddenly in year four you add more growth in the first three years combined. But it keeps going like after that, keeps compounding upwards and two hundred and two hundred and fifty thousand, three hundred and three hundred plus thousand of revenue. Ironically, I do think we may start seeing some of these revenue growth rates slow a little bit as members get higher from here, only because at some point we see a subset members say, you know what, like my practice is doing three hundred plus thousand dollars of revenue and I'm taking home more than 70 percent of it after expenses. Like, I'm cool. Like I'm netting two hundred. I don't need any more clients. I don't need to grow any more because I'm like making all the money I want and achieving all the goals that I wanted. So these numbers get dragged down by the fact that a subset of our largest firms actually choose to stop growing because they got to their income goals. Not everyone wants to keep going and their businesses have other other dreams and visions, but even slowed down by the fact that firms that hit their lifestyle goals sometimes stop growing because they hit their lifestyle goals. We see that this growth of fifty, sixty, seventy, eighty thousand dollars a year of new revenue, it just keeps going because now you're even more known. You have even more clients to refer you. You're even more established in your niche. You're even for demonstrating your expertize, you're even more credible. You probably got more confidence in your pricing and are charging a little bit more for the full value of what you're offering. And all of that cumulatively is it just keeps getting better. And I know that's still not the best consolation when you're in year one and you're trying to be a record breaker who gets like fourteen thousand dollars of new revenue and not ten. It's hard for everyone in the first year, but I think it's really important to note and highlight how this compounds out over time if you can just stay focused and stay in the game. That's why we talk so much about having a good financial foundation for

what you're building towards, because you don't get to do these numbers in the later years if you didn't have enough foundation in place to survive the first year or two.

Alan Moore: [00:37:58] You know, just taking this back to our personal story, you know, people will ask how how did XY Planning Network grow so fast? How did how-how ultimately what-what has made it successful? And I do think it's worth noting that, you nor I, took a salary from XYPN for almost two years. I didn't for two years. And then you didn't for four and a half years, I believe. I think going into year five and a half, I guess you started taking a whopping three thousand dollars a month. So -

Michael Kitces: [00:38:28] I'm the lowest paid W2 employee in this nation (laughter).

Alan Moore: [00:38:32] - Yeah, and so people ask about that and that there are in the end there we were fortunate that we had put ourselves in a position where we were able to afford to not take a salary for the first two, three years. Had we not and we both needed to to fund our personal lifestyle and the business off of the business, we wouldn't have been able to reinvest in the business. We couldn't have hired the people that we hired to-to sort of sustain the growth and provide all the services and provide more benefits to our members so we could continue growing. So this is something we have lived as well, is that those first couple of years are really tough, even if you're you're making a lot of money as a business, that in the end, if you're reinvesting for growth, it is a tough road. But, you know, it ultimately does have long term benefits.

Michael Kitces: [00:39:16] And the irony to that worth noting as well, that- that I think sometimes firms don't appreciate our kind of advisers looking at going down this road. Don't appreciate is, the faster you want this growth to happen, the less you tend to make. And we'll talk about that more in a-in a few minutes with some additional charts. But I hear a lot of like well, I'd really like to make this make these curves go faster because I want to grow faster and make more money in my business faster. That's not actually how it works in practice. You can make these you can make these revenue numbers grow faster. But that involves putting dollars in. That means spending more on marketing. That means spending more on staff. That means hiring team members or outsourcing sooner and faster so that you can free up more time to market and do other things that bring in business. But it means you've got to reinvest more faster, which means your revenue might faster, but your profits actually probably grow slower and you get-you get less money out and it takes longer to get there. And so I think that's the other thing that's important to note in this is not only is it hard drawing dollars out, but when you try to accelerate the process by-by investing more into it, you can accelerate the revenue growth process. But that actually tends to make the the profit growth slower, not faster. Again, there just there really aren't shortcuts to this. I mean, you can shortcut one thing, but it has tradeoffs.

Alan Moore: [00:40:46] So one of the other things that that we talk about is the scaling phase. And I know people hear me say scaling, but no, I'm a solo practice. I'm not scaling, that scaling just for the enterprises. And we define that differently. We define scaling in from for a solo practice, a scaling yourself, scaling your own time so that you can still serve more clients, spend less hours at the office, ultimately make more money and have more time and freedom. And so one of the ways that we see people scaling, whether that be in as a solo practice is a boutique or as an enterprise is in what they outsource. Because in the end, the most valuable time that's being spent in the firm, the most expensive resource you have is

your time as an advisor. And this year we asked sort of-of those who are I guess actually this is in the implementing phase is what we're seeing is in those-in those phases, what are people ultimately outsourcing? What are these firms outsourcing so that they can and set themselves up for success long term? And not surprising, it's a lot of operational tasks, right? The two most outsourced components of the business were investment operations, twenty nine percent of firms in the implementing. Is this right? In the implementing phase, we're outsourcing investment operations. Twenty four percent, were outsourcing bookkeeping and accounting.

Michael Kitces: [00:42:11] So when we talk about this phenomenon of like if you do want to accelerate your growth path further or faster, like, how do you make it grow faster? At the end of the day, the way you make it grow faster is you free up more of your time and resources to be able to do this. And so when we look at like what are the members doing who do manage to grow faster in the implementing phase, who are making these reinvestments like this is overwhelmingly the primary areas that we see-that we see them spending 13 percent are spending on business development. So they're-they're spending money externally, trying to-trying to market. But for so many of us, the primary way that we market and grow is ourselves, being out there. It's networking, it's building relationships, it's creating content, your niche, whatever it is that that you do with your time to focus on growing the business, and so the big ROI on your time is often not paying for business development, it's paying for everything else so that you can focus your time on business development. And so basically what we see is the primary areas that get outsourced first and foremost for advisers who want to grow the fastest is outsourcing their investment operations. So we're working with tamp providers and investment outsourcers and out keeping their books, outsourcing, outsourcing, their bookkeeping, letting go of that business accounting like it's not that we can't do it. In building my business, literally, the first thing I outsourced was, was my bookkeeping. And it's not that I don't know how to do taxes and business accounting. Like

I nerd out about this stuff and I write a thousand word articles on how to do tax planning for your business. But that's the point. Like my business, ROI was much better to spend time showing my expertize to grow the business about even something as straightforward as books and accounting than doing my own books and accounting.

Alan Moore: [00:43:59] Yeah, same here my-my first I bet I was making ten thousand dollars a year when I hired my first bookkeeper or outsource my bookkeeping. And I outsource to my mother Rhonda, who was was getting her degree in accounting at the time and started doing bookkeeping for myself and some other financial planners. And now she's a full time bookkeeper with the bean team, FA Bean Counters, our in-house bookkeeping solution for-for advisors, both members and nonmembers. It's kind of funny how that ultimately worked out. But yeah, I mean, at what point you're making ten to fifteen thousand dollars a year, we start to see folks signing up for bookkeeping services because it's usually once you're making fifteen thousand and then on December thirty first you realize you haven't opened QuickBooks in 12 months. Is when-is when when you're -

Michael Kitces: [00:44:48] trying to reconcile and clean up. And there's got to be tax reporting that you have to do because you're filing on your own schedule C, you're a LLC or a partnership return or yep.

Alan Moore: [00:44:57] - Yep, FABC does a lot of cleanup work or going back and rebuilding books from previous years because advisors have just been focused on other areas. And so either you're spending time on bookkeeping and you shouldn't be, it's cheaper to outsource or you're not spending time on bookkeeping and you need to outsource because you need someone to be sure your books and records are are kept up to date

because we're actually starting to see more heavy hitting from the regulators around this, where they're looking for GAAP, you know GAAP accounting balance sheets that are -

Michael Kitces: [00:45:30] running accruals for your.

Alan Moore: [00:45:32] - yeah, a lot of states are now requiring accrual accounting. But they're looking for balance sheet. They're looking for income statements. They want to see that it matches up. They want to see that clients are being invoiced correctly. And so the-the-the regulatory burden actually in this area is increasing, which is probably also why we're starting to see more folks hiring a bookkeeper and outsourcing that-that early on.

Michael Kitces: [00:45:53] But the I do feel inclined to point our knowledge as well. Like, obviously, XYPN has has some services around this. Right. We have FA Bean Counters for-for providing bookkeeping services and XY Investment Solutions for-for tamp providers. But we're-we're not talking about this because we have solutions for it. Like we built solutions for it because we're talking about this. Like the-the reason why we created these is because these are the pain points that members were regularly going through that we could see in the data and that we could see in or I guess just to hear from members when we went and said, what are your pain points and where are your challenges and what can we do to help solve that to-to make it easier for you to grow? And this was the answer. So this is what we what we went in and put out and provided for.

Alan Moore: [00:46:45] Another interesting sort of data set that we asked about and gathered was, was how frequently advisers are meeting with their clients and what the average revenue is per client. How much money are you making per client and how often are you meeting with clients? And I do know that especially when we first started XYPN, we talked about charging a monthly fee. And what people heard was, well, if I'm charging a monthly fee, I need to be offering a monthly service. And that was-that was a messaging mistake that we made that we've been working on correcting that. We say -

Michael Kitces: [00:47:18] well your message hit was just sort of what got interpreted like, oh, if we're charging on a monthly basis. Well, of course, we're-we're meeting with clients on a monthly basis. And we did then try to put out some guidance, like, well, if you want to meet with people monthly, I guess here's what you can do.

Alan Moore: [00:47:32] Yeah. And that is a tough business to scale. And so the way we like to frame it now is it's an annual fee billed monthly, billed monthly or quarterly. But we see a lot of folks billing monthly. But it's an, in the end, you're charging a certain amount of money per year for the services you're providing. And so our next chart is sort of breaks down, meeting frequency revenue per client based on these three phases, implementing, building and scaling and implementing up to twenty five clients or 20 clients and then building up to seventy five clients. And interestingly, we do see there are still a handful, only about 10 percent of advisors in the implementing phase that are meeting with their-with their client monthly actually. By building phase that goes completely away, which makes sense. You start out, you're like, I'm going to overservice these early clients. I'm going to be sure they don't leave. And by the time you're getting to twenty five, 30, 50 clients, you realize there's no there's not enough

hours in the day to meet with them every month unless you're charging a ton of money. And quite frankly, the people who are willing to pay a lot of money for financial planning aren't necessarily the ones who have time or interest in meeting with you monthly. And so we really see sort of a monthly meeting cadence go away. But we do start to see this shift of even quarterly start to get compressed. And more advisers are meeting with sort of an even amount between semiannually or even annually, which is-which is really interesting. We think of financial planning as a quarterly service and yet many advisors, as they're as they're growing in their business, moving through the building phase into the scaling phase, are meeting with their clients less frequently.

Michael Kitces: [00:49:05] And-and I think there's a, well so first of, the other thing that's so fascinating to note about this is, is the revenue that adviser gendering or basically what advisers are charging in fees. So as you noted, members that are in the implementing phase are much more likely to meet monthly and quarterly with their clients. And the average revenue that they generate is about seventeen hundred dollars by the time we get to the scaling phase. No, no one is meeting monthly. Barely a quarter of advisers are meeting even quarterly. Almost everybody is either semiannually or annually. That's-that's like 70 percent of members are meeting semiannually, annually, and they're charging thirty four hundred dollars as an average fee for clients. Like just to just be clear, in the implementing phase, almost half of members are charging six hundred dollars for quarterly or more frequent. And in the later stages, members are charging double that, thirty four hundred to meet half as often. Just like basically the opposite of how it should work. Right. Normally you would expect, at least if you're meeting more frequently and getting higher touch service, you're-you're paying more for it. And I think what we're seeing here instead really is that-that nervousness that I understand we all have when we're getting started and getting going, like I just want anybody to come on board and say yes and pay me. And we undercharge and overservice and

we can get away with that to some extent because we don't have a lot of clients who are getting started. So we'll take anyone and we'll service them a lot. But to me, what ends up happening here, what we can see so clearly and data is then when you get into it, while you build more confidence in your value, you start charging what you're really worth and you dial back to the service because it gets comfortable, like, oh, they really do pay me and I really am valuable. And I don't need to sell my soul in every single client that I work with to try to justify this fee that I'm charging like I'm really worth it to meet, frankly, not only less often because I don't need to meet more often. But the truth, the end of the day is a lot of people are busy in their own lives. They don't actually want to meet with us every month. I mean, a few do, but because they've got stuff going on, but most clients, they don't actually want to talk to us that often anyways. They can only handle so much financial things with everything else that's going on in their world. So this-this shift from mostly meeting quarterly or more frequently at seventeen hundred dollars to mostly meeting once or twice a year at thirty four hundred dollars, is the shift that we see. And I think that's, that's all about what happens when we really get confidence in our own value to charge what we're worth and provide appropriate service for what we're charging, but not-not overservicing relative to what we need to do for what we're charging.

Alan Moore: [00:51:48] Yeah, really interesting to see this breakdown of-of in the early phases, 10 percent are meeting monthly, 30 percent are meeting quarterly. And by the scaling phase, no one's meeting monthly and only 20 percent are meeting quarterly. So 40 percent combined for monthly quarterly meetings goes down to 20 percent monthly and quarterly. And-and you see that sort of get distributed throughout semiannual, annual. Or we even had some folks who say they meet with their clients biannually, which I do wonder if some folks read biannually as every six months or -

Michael Kitces: [00:52:19] I actually can't remember if we if we had specifically put in there. But just to be clear, biannually is every other year, semiannually is every half year.

Alan Moore: [00:52:27] So we'll have to check that for our next one, because I'm a little surprised that we have folks who as many as 10 percent say they're meeting with their clients every two years. I seriously doubt that, the regulators would not be fond of that. So moving on to our next data set, one of the other interesting things that we see, and I had this conversation with advisors all the time back in pre-COVID days when we could go to conferences, people would say, well, what's the right fee structure? Should I be charging monthly? Should I be charging retainers? What's the right fee structure? And and what I would say is that's the wrong question. The right question is back to our earlier conversation. Who's your ideal client profile? Who are you serving? And then once you're really clear on who you're serving, designing a fee structure for that client base or that ideal client profile is a lot easier if you work with individuals, families, business owners, women, trusts, how do you-how do you structure retainer fee, is it five thousand dollars a year? I don't know.

Michael Kitces: [00:53:25] Or do I just charge a percentage of their pot of money and go off to the biggest pot I can.

Alan Moore: [00:53:28] Exactly. Which is where I think that's one of the reasons that AUM fees have sustained as long as they have and continue to do so. And that's because it does allow you to work with a very wide variety of clients and have a fee structure that's simple and easy to explain. It's one percent of AUM with a minimum of a million in assets. And so what we found and not surprising is that niche firms are commanding or better at

designing and commanding retainer fees versus AUM fees or hourly or really any of the other structures. But we're just seeing these-these niche focused firms able to structure their their retainer fees in a way that makes sense, is profitable for them, is-is sellable to the client and ultimately allows them to build a successful business.

Michael Kitces: [00:54:18] And just the most striking thing that we-that we found in the in the data on revenue mixes, aside from just we have a lot of members that do a really wide range of models. So whatever you're imagining in your head is like the the standard of XYPN they all do blank. The answer is whatever it is you're thinking, that's not the answer. The answer is members are really all over the place in what they're doing because the-the clientele, the niche clientele that members are serving are all over the place and the ideal fee model is the ideal fee model for that client. So if you have a wide range of niches across XYPN, we end up with a wide range of fee models. The biggest takeaway to me around what we see on revenue mixes though, is a very striking distinction that advisors with-with niches are drastically more likely to charge ongoing retainer fees. Advisors that don't have niches are much more likely to charge one time upfront planning fees, but struggle more to charge ongoing retainer fees. Basically, they get the one time revenue, but they struggle with getting the recurring revenue from retainer fees. So then they may end up with AUM fees or other models. But when you get more focused into a niche, in essence, one of the things that we see is, it gets a lot easier to create a clear, distinct, valuable, chargeable, ongoing service when you're super clear about who it is that you're serving and what they want and need and care about. And so the more focused the firm, the more likely they are to be able to charge actual ongoing fees. When they're not focused, we tend to just see a lot of, I charge an upfront planning fee that may or may not fully compensate me for my time and then I just pay, get paid on assets under management.

Alan Moore: [00:56:05] Yeah, it's just it's easier to to sell that to a wide range of people because the upfront fee, I'll just say it's two hundred dollars an hour. And so it's like a 20 hour plan or 10 hour plan. It's a lot easier to do that when, you know, that's really one of the only ways to charge when you aren't clear on who you ultimately work with. If -

Michael Kitces: [00:56:23] The challenge then is it's hard to-it's hard to scale. We don't see a lot of firms that are very large in-in charging upfront or one time fees. And in essence, because if you only get paid for your time, you can only scale your like you can only charge so much for your time. When you end out, when you get a more focused clientele, you can build something that is really meaningful for them, which means, in essence, you change from getting paid for your time to getting paid for your value. And when you're getting paid for your value, it's a lot easier to charge viable ongoing retainer or recurring revenue fee for the ongoing value provides that particular client.

Alan Moore: [00:57:03] So moving into sort of our final data set that we wanted to talk about today or sort of the final data points that we found interesting, was around profitability per client. And so there's sort of this mantra in order to make more money, you need to grow really big. Right? To make more money in the firm, you're going to need to just keep growing, keep growing, keep growing. And and I'll say the second piece, which we can also address, is that the only way to build a firm that can be sold or has enterprise value for my loved ones, should I pass away or want to retire and sell the firm, the only way to do that is to to build a boutique or enterprise firm. And so we this year, I think that's the first year we've asked these questions, was around revenue per client and then started breaking out some of the expenses, some of the direct expenses, some of the

overhead that ultimately got down to a profit per client figure. And-and really interestingly, if you look at revenue per client, a solo practice is making about twenty eight hundred dollars per client. Boutique is making forty one hundred and fifty dollars. An enterprise practice is five thousand per year per client. So revenue per client is higher as an enterprise or a boutique firm than a solo practice. But if you look at profit per client, the opposite is true. So the solo practice is only making twenty eight hundred per client, but they're profiting, their net profit after expenses is fifteen hundred dollars, whereas the boutique is down to about twelve hundred dollars and the enterprise is six hundred dollars per client per year. And so we're actually seeing lower profit, per client in larger firms. So what is your take on that?

Michael Kitces: [00:58:41] Yeah, I just want to really emphasize those numbers for how striking they are and well and first, I just want to note again, we're only talking about members that are in scaling phase here like they have already reached critical mass. Profitability gets kind of weird when you're like, well, I have six clients and I brought in eight thousand dollars of revenue what's my profit. So we're-we're only talking about those who are in the scaling phase who have already hit a critical mass of-of-of clients. I think this group was averaging north of one hundred clients each. So just to give some context, we are talking about firms that have gotten to that level of-of establishment. And so within that group, then we have this kind of breakout of firms that are solo practices and focus that way versus the firms that are-that are building enterprises. And so I just want to repeat those numbers because they are so striking. So the average solo practice is working with, is generating twenty eight hundred dollars of revenue per client and is keeping fifteen hundred dollars of it as a net profit. So roughly, you know, roughly 60 cents on the dollar. And that's not uncommon. When you -when you look at thriving solo practices, it's not uncommon to see owners taking home 60 cents on the dollar, some really high profits solo practices take home as much as 70 or 80 cents on the dollar. But your

broad based average we're seeing here was pretty close to 60 cents on the dollar. The enterprise firm so your bigger, more people, more stuff, more mass, more revenue, more affluent clients. We do see this trend that the-the larger the firm, the more it-it tends to attract more affluent clients. So the average revenue per client almost doubles from twenty eight hundred to five thousand. But enterprises might be making five thousand dollars of profit, might be generating five thousand dollars per revenue, of revenue per client. But they're profiting six hundred bucks per client, so it's a profit margin, we're talking about 12 percent. So you go from a solo practice to an enterprise and basically your profit margin is going from 60 to 12. So much so that even though the enterprise is working with clients with double the-the fees, they're still only making one third the profit on double the fees. It is really hard and expensive to scale an enterprise. Now, I know at least some people are listening. Yeah, but you have an enterprise at the end, like you have a you have a firm you have a thing with mass and economic value that you can sell. It's like, well, well yeah. But if you're actually making only one third of the profit over time, you darn well better have a bigger firm that you can sell for more. You need that just to make up all the income you didn't make for the three, five, 10 years that you were trying to build this enterprise just to get it to the point where it would be valuable enough to make up all the income that you're-that you're not generating. And the truth is, high income solo practices are extremely salable as well. Right now, huge numbers of buyers for every seller FP transitions I know does a lot of tracking and documentation of this. And they routinely see purchase prices of two times revenue and as much as three times revenue for solo practices, because as I'm sure a few people who are listening this might think about. So let me get this straight, somewhere out there, there's an adviser who generates like two hundred and fifty thousand dollars a year of revenue and keeps more than one hundred and fifty of it net. Like forget all this it takes years to build crap. Like, I just want to buy me a practice with two hundred and fifty thousand dollars of revenue that nets out one hundred and fifty grand a year of profits. I'll buy a job that makes me one hundred and fifty thousand dollars a year. And when you ask the

question like, well how much would you pay for a job, makes you one hundred and fifty thousand dollars a year. The answer is probably five hundred plus thousand dollars. That's the-that's the going rate in the marketplace because there are a lot of people who would happily take a loan to buy a job that makes them one hundred and fifty thousand net after after expenses. So solo practices are very salable as well. Granted, not as big as what you grow with the enterprise, but when your profit margins go from 12 to 60 percent or even up to 70 or 80 percent, you're suddenly in a realm where you may very literally net a lot more money by not trying to build huge and just trying to build focused. And I think the trap that a lot of people get into, if they are solo practices and they're trying to figure out how to grow their income further, is you don't add more clients and start scaling up the size because as noted, you have to hire staff, hire team and your overhead goes up and your direct expenses, go up and your profits go down. It's-it's get more affluent clients. Like if you want to know how to how the solo practices get from 60 percent margins to 80 percent margins, it's the ones whose average clients pay five thousand as a solo. Instead of only air quotes, only twenty eight hundred dollars as a solo. We had an adviser on the Advisor Success podcast a couple of years ago named Sunit Bhalla. And Sunit has a super focused lifestyle practice of this-of this nature. And it's just an amazing practice. He has three hundred thousand dollars of revenue, an eighty five percent profit margin. Right. You can do that math. Seventeen clients. Just -

Alan Moore: [01:04:11] And works like 20 hours a week, if I remember correctly

Michael Kitces: [01:04:14] - Yeah, it doesn't take a ton of time to service 17 clients, even if you service the heck out of them. And like he is-he is actually a pretty high touch deep advisor, a former engineer out of the

technology world works with engineers, which a lot of us know to kind of be a little bit more detail, high maintenance clients. But 17 affluent clients and three hundred thousand of revenue, eighty five percent profit margin. And even when your high touch does not take that much time to service 17 clients and Sunit's growth plans in any particular year is like I'm thinking about taking a new client. I think I might -.

Alan Moore: [01:04:53] I'm going to lose one next year.

Michael Kitces: [01:04:54] - So I think I might add one because I might lose one at some point. That's how he thinks about the the practice. And- and it's not scaling the heck out of it, hiring more advisers and recruiting and all this other stuff, like it's just lifting your average revenue per client or if you want to think of it simply like if you're already in the scaling phase and feeling some of this pain and challenge, like it's not about getting more clients it's about thinking about every time you add a client, you remove one and you're only allowed to add clients above your average. You're only allowed to remove clients below your average. And over time, your average revenue will lift and your costs won't go up in any material way because it's still the same number of clients. And the biggest thing that drives costs in an advisory firm is the number of clients. And so this is why these are important numbers, looking at things like revenue per client as well as profit per client. But the key distinction here is if you want the path to make more money, you do it by getting more, getting more fees per client by creating more value in the marketplace. Not just by adding clients and going bigger. You know, if you just want to be big for the sake of being big, there are people like that. That's how they're wired. More power to them. Go, go build your enterprise huge. But the data is pretty clear. Like it's-it's-it's certainly not the easiest path to-to more income and financial success as an advisor. And it's not even clear that it's it even nets out more at the end of the day

than simply being a focus solo practice that tries to work with more affluent clients while managing its cost structure.

Alan Moore: [01:06:27] And I hope what people hear, I talked to the team and advisors and members about this a lot. But one of the greatest myths of business is that there are right answers. There's a right answer of you should build an enterprise, you should build a boutique, you should be solo, you should make one hundred thousand and you should make three hundred thousand a year. You should work with the niche, you should not. None of those are right or wrong. They just are in they're decisions that as an entrepreneur, you have taken upon yourself, you've earned the right to make those decisions and you should never. Here I said should, don't should on yourself. You can take ownership of those decisions and build the business that works for you, for your family, for your life stage the decisions that Sunit is making right now in his business when he has young kids in school and working 20 hours a week so he can be homeroom dad, which is sort of which is the other half of his week, that may be different decisions than he would have made pre kids or after the kids have left the home. And so just built the business the way that you want, the way that ultimately supports your lifestyle and in your financial goals and and life stage and all of those things. But don't listen to the oh you-you have to grow big to do this thing. You have to stay small to do this thing. And this data really does show that the-the beauty of building a financial planning firm is that you can build it the way that makes sense for you.

Michael Kitces: [01:07:50] And-and the other thing I think that is important to note in that discussion as well, like you're allowed to change your mind.

Alan Moore: [01:07:59] Yes, you are.

Michael Kitces: [01:07:59] These are not, it's one of the cool things about being the business owner. Like you own it. If you-if you go down one of these paths and decided this at some point that you want to do it a different way, like, cool, go do it a different way. Like, hey, I was lifestyle for a long time, but now I've hit the stage where I want to grow big like that's cool. Then make the change and start growing big. Like I've done that in-in my world for a long time. The Kitces.com platform was just a smaller, narrower blog platform where it was just I was the nerd writing my thoughts on the internet and that was cool. Now I'm at a different age and stage in point of my career. I want to make this thing a little bit bigger and grow it beyond me so that I can spend time across some of the other businesses and in other areas. So I'm changing what the platform looks like. And you get to do that as the business owner. So I spent ten years very consciously running it as a lifestyle practice and now I'm spending a couple of years very consciously trying to build it into a into a boutique so you can make these shifts. These are not lifetime commitments that you make. Build the thing that makes sense for what you want to build, that accomplishes your goals. And just kind of like the financial planning process itself. As your life changes and your goals change, you adapt your plan for wherever your goals are now.

Alan Moore: [01:09:18] So before we wrap up, I do want to address a question that we hear every year. And I just know if we don't address it on here, we're going be talking about it in the VIP group or on the, as part of one of our ask me any things at a conference. What about the firms that didn't make it? Okay, we have all this data of all these firms, but isn't this just survivorship bias that only the firms that ultimately have survived are included in the data? So can you talk from your perspective how-how you think about that with just the number of firms who ultimately leave the network or ultimately fail for financial reasons. It is sort of in regards to the

overall data set how that might impact if those firms data were ultimately included in this.

Michael Kitces: [01:09:59] Sure. So absolutely fair to recognize. Now, there, we track this, we do register what happens with members really pretty rigorously within XYPN because we know what's going on to make sure we're helping members as best we can, as many of them as we can. So, so kind of high level numbers overall, XYPN has something on the order of about one percent of members that leave in any particular month, roughly 12 percent a year annualized. Now, of those, they kind of fall into two broad groups. The first are members that just decide to move on because life and business changes. This is everything from I decided I don't want to be fee-only anymore and I would like to sell life insurance. I'm merging with a broker dealer and now I'm not going to be fee-only anymore. I decided to sell my practice and merge into a much larger one. And I just want to live in tucked into a large room. I don't actually want to be an independent anymore. You know, we've had members like I just found out I'm getting a divorce and that means I can't really run my own solo firm anymore. So I need to make a change. All sorts of stuff that happens, some of its business changes, some of its industry changes, some of its life changes. That's about half of the members that we lose in-in-in any particular month. That just stuff happened had nothing to do with whether they were necessarily succeeding and failing in their business, just external life happened. The other half a problem cropped up and they-and they didn't succeed and-and-and survive. We find it's something right around six percent of members. In any particular year, that in essence, that-that failed, that don't survive and and don't move on the network, and that's actually a number that's gone as a percentage of the network that's gone down for us a little bit over time, because what we find is no great surprise. But almost everybody who doesn't succeed, doesn't succeed in the first year or two. Like they didn't have enough runway. They didn't build enough lead time for themselves. They just didn't reinvest in themselves to do the, learn how to

do business development and sell their value proposition and get clients on board like we do. We offer sales training, a lot of other things within XYPN, but some take to it a little bit better than others. So as the network grows larger and just more members have been in for a long time and are in the scaling phase, the percentage of members that are brand new and starting with us is smaller just because the long term membership grows as time passes. But we see this number somewhere on the order of six percent who joined the network and-and don't succeed. Now, when we look at the implementing phase, their numbers are in there. So when we talk to you about these numbers, like ten, fifty, eighty, one hundred and eighty is the journey over the first four years, the implementing members that are struggling that first year are still in there because they're usually still in that struggling phase. What we see is there's a subset of about six percent of members who start out in the implementing phase and they never get to all the later phases and all the growth patterns that happen because they never get to 20 clients and they never get out of that first stage. So when we look at overall trajectory of what happens with members as they go through building phases, they go through scaling phase and what all those metrics look like, they've been very stable from year to year with almost no survivorship bias that we're that we're seeing in there. Because if you made it that far, the path tends to be pretty steady and failure usually isn't really on the table at that point. You-you might leave the network because some big firms that you and you your life change or you exited. But but we don't see failures that would contribute to survivorship bias. So we do see this in the-in the implementing phase. But the fact that virtually all failures happen in the implementing phase on the one hand means, we're trying to focus on what else we can do to help our members not fail there. But it means if you can survive through the implementing phase, we continue to see this very steady progression with the numbers that we've shared that have been consistent throughout the years. It again, it is why we spend so much time talking about what are you doing to make sure you have enough of a foundation to get through the first few years, we see very, very few members, even among those who are struggling, who are like, I've been

doing this for two years and I have two clients. I mean, just there's enough hours in two years like you end up finding some clients, it's usually I've been doing this two years, I've got 17 clients and I'm up to thirty thousand dollars of revenue. But it's not making enough for my family needs to be and I need to throw in the towel. To which I would say, well okay, you're a little bit below the average because the average is forty or fifty thousand dollars by the end of year two. But some some grow a little faster than others. But that's really a problem of you didn't have enough savings and foundation built up in the first place. And so I don't necessarily think of it as I mean, yes, it is survivorship. There is a survivorship dynamic in who ultimately makes it to these numbers in the long run. But what we see is it's mostly a function of the people who don't do this. It's not because the path didn't work. It's because they didn't give themself enough the foundation to let the path work.

Alan Moore: [01:15:11] Yeah, it's so important to recognize that when someone leaves, as you mentioned earlier, sometimes it is because financially they're not succeeding, but sometimes it's also just they don't like running a business, you know, and then entrepreneurship after two, three, five years. Like, you know what I'd rather just do planning, let someone else do this business stuff. This isn't fun. I'd rather just have a salary and I don't want to do business or whatever that is. And so it is-it is one of those things we look at that. Yes, that-that data could impact the overall data set. But in the end, it's a very small number of advisors that are ultimately not succeeding and closing up just for financial reasons versus the variety of other reasons that we see. And so, to your point, the most important thing is have a financial foundation in place so that that you have a plan that ultimately allows you to survive the first couple of years and understand those hiccups will come in and be able to to ultimately navigate them.

Michael Kitces: [01:16:07] But again, when we talk about like what's happening with niche members who built in niches in the scaling phase and how they're growing, like those are members who had enough foundation to get through the early years. And so we see these numbers come through rather-rather consistently. You know, the, to the extent we worry about, you know, survivorship bias, it's-it's not what these income numbers were and what they added up to it is just recognizing not everybody makes it through the first two years to get to these long term numbers. And again, that's why we just keep talking about the importance of having enough of the foundation that you get to do the long term.

Alan Moore: [01:16:43] Well, Michael, thank you for taking the time to come on the show and help walk through the Benchmarking Survey. Again, for anyone who's interested in learning more, you can go view the graphs or the charts that we talked about on the website at XYPlanningNetwork.com and go check that out. Go check out our show notes and all the resources ultimately that we mentioned. So thank you, Michael, and thank you for all the listeners who joined us today. We'll see you next time.

Michael Kitces: [01:17:06] My pleasure. Thank you.

Maddy Roche: [01:17:08] Avocado toast, selfies, a mountain of student loan debt. Gen Y is anything but traditional and with over 75 million people, it's a population you don't want to ignore. Learn more about how to serve this unique population in our guide called Attract and Profitably Serve Millennial clients in your RIA. Discover three key ways to tap into the millennial market and six things that they want from their financial advisor. Visit XYPlanningNetwork.com/millennials for your free copy. Be sure to join

our VIP community at XYPlanningNetwork.com/VIP to hang out with other #XYPNRadio listeners, ask questions for featured mailbag episodes, and finally to find a community of like-minded financial advisors. Thank you so much for joining me today. We'll see you next time.

Narrator: [01:17:56] You are not alone and you are not crazy. It's scary starting, building, and growing your own financial planning firm and that's why we put together a free private community just for you, the cutting edge financial planner. Go to XYPlanningNetwork.com/VIP or text #XYPNRadio to 33344 and join a network of thousands ready to change the lives of Gen X and Gen Y clients.