Ep #323: XYPN's 2021 Benchmarking Survey Results Review with Alan Moore and Michael Kitces

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Maddy Roche

XYPN Radio with Maddy Roche

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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 advisors 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: [00:00:25] Hello and welcome to #XYPNRadio episode 323. I'm Maddy Roche your host. For the past four years, XYPN has conducted an annual benchmarking study, a comprehensive survey that gathers core performance indicators of member participant firms and ultimately draws conclusions about the success of different business models, fee structures, and niches. On today's episode, Alan Moore and Michael Kitces XYPN co-founders discuss this year's 5th annual results and you'll see with our maturing network and maturing member firms, the study is showing a much clearer understanding of what's working and what's not working in fee-only RIAs. Like every year, this episode of Alan and Michael talking about the benchmarking study is particularly interesting and helpful for those of you who are considering starting the long play of the entrepreneurial journey, as well as those who have already begun it. I encourage you to listen closely and then go back to the previous conversations about the surveys in years past and use them as resources to build your ideal firm. If you're interested in what really works, yes, meaning proven with data when it comes to building your firm, then this show is for you. Without further ado, here's Alan and Michael's conversation about XYPN's 2021 Benchmarking Study.

Maddy Roche: [00:01:46] Tax planning and preparation is an enormous value-add for your clients, but taxes can (very) quickly become overwhelming as an advisor. XY Tax Solutions is the tax team in your corner that works with advisors to offer expert tax services to their clients, with three different client engagement options to choose from to meet your unique needs. Partner with XY Tax Solutions to integrate tax preparation and planning into your firm, and don't sweat tax time this year. Visit xyplanningnetwork.com/xytaxsolutions to learn more.

Maddy Roche: [00:02:20] Also, be sure to go to XYPlanningNetwork.com/VIP to join our private group just for #XYPNRadio listeners. It's a community of advisers we've all been looking for that's there to provide support when we need it the most. Best of all, it's free. I encourage you to check it out. Again, that's XYPlanningNetwork.com/VIP.

Alan Moore: [00:02:40] Michael Kitces and Alan Moore here today with you. It has been a very long time since we have recorded a podcast episode together. It's possible has been approximately 12 months since we recorded our conversation last year talking about the benchmarking survey. So, Michael, welcome to #XYPNRadio.

Michael Kitces: [00:02:59] Thank you, Alan. It's good to be back. It's good to be back. So just out of like random curiosity, what do you think we're going to talk about today?

Alan Moore: [00:03:05] I'd say we're going to talk about benchmarking survey results. I'm very excited to be talking about the benchmarking study every year. You know, we do a survey to our members and collect data on a variety of topics related to revenue, expenses, growth rates, types of clients, where their focus is, all of those sorts of things. And we work with a third party, you know, statistical analysis team that this is what they do is help pull all of this sort of thing together. And they've helped us sort of aggregate the data. Really, look at it, be sure that we're sort of telling the story, looking at the data correctly and so excited to bring, I think this is our fifth year doing this, if I'm not mistaken, trying to think I think our first conference we did this out would have been San Diego. So that was five years ago. So anyway, so without further ado, we'll kick off and sort of talking through this. So we're going to put the charts and graphs that we talk about. We will put in, we'll put online so you can go, look at that. If you are a member or came to the conference, then you will also be able to get you just pull it up either PDF or print version if you have that. And so we'll be talking about the figures, I will do my best to draw them with my words. I know that's not always fun when it comes to when it comes to statistics, but we will do the best we can since we're talking about it here on the podcast. So I guess to kick things off, Michael, before we dig into any of the specifics, just like high, high level, what did you learn this year from this study? Like, what did this study ultimately tell you?

Michael Kitces: [00:04:35] Well, so at a high level, I think to me by far, the biggest news of the study was just, you know, XYPN is heavily focused on this fee for service model. If you like the question, always and forever has been. But what happens when there's a recession and like people are laid off and you know, do they do they cut their financial planners? Do they do they cut their subscription fee planners because they're trying to save money in a in a recession? What happens? And so, you know, just to me, the biggest high level result here like this is the 2021 benchmarking study with the 2020 data otherwise known as the pandemic year. And the answer is like the firms didn't blow up, like revenue didn't go backwards, it continued to grow and chug along. There's a little bit of indication that some firms maybe grew a little bit slower, particularly if they were still earlier stage and hadn't quite hit the traction in their niche yet in the first place. And we'll talk more about growth and traction niches later. But, you know, ever since XYPN launched in 2014, it feels like one of the most common refrains I've heard is like, Yeah, but let's see what retention looks like in a bear market. And the answer was retention looked fine in a bear market. Like people, people still want advice when their finances are going crazy, and that holds in subscription models as well as others. And so just firms grew. They did find like the sort of the forecasted blow up or blow up risk of fee for service models in recessions just, it just didn't happen. I don't know if that's a forever guarantee or anything, but just it didn't happen.

Alan Moore: [00:06:11] Yeah, I mean, I agree with you. This is saying COVID, COVID was tough. COVID sucked for everybody. However, a lot of financial planners and many of our members did still well. Pretty much everyone grew. Some of them grew very well. Again, a little bit slower maybe than in years past. But but, you know, members still grew. You know, the second thing we have to recognize is that one, you know, probably not fair to call it a bear market. It was it was a very the shortest bear market, maybe of all time. Just you saw the quick dip and then you saw it come back. But obviously, this, you know, the recession that we went into 2020 did not impact the typical client profile of XYPN member, either. And so unlike a 2008 that really did hit a lot of your higher income earner, middle income earners. COVID really crushed the, our sort of your service industries -

Michael Kitces: [00:07:00] like hospitality industries. But, you know, not not so much the white collar worker that you know at the end of the day, I think, is where financial planners tend to skew a little bit more or just higher income, a little more financial decisions, a little more financial complexity, a little more financial wherewithal to hire a financial adviser to get advice. The complexity and challenges, and I, true to be fair, like that was the segment that weather this storm particularly well, at least just from a job stability end, you know, work from home was challenging for many balancing your-your professional services work and your kids who were doing kindergarten at your kitchen like mine were. But but they kept their jobs right and they had their income more-more so at least than others there. Clearly, there were still layoffs and some downsizing, but you know, they kept their jobs, they kept their financial advisers and there and they're still chugging along like members grew.

Alan Moore: [00:07:55] Yeah, absolutely. Well, let's go ahead and dig in. So we've got a few different figures and charts and graphs we're gonna be talking about, but we'll kick off with figure number one. Seems like a great place to start.

Michael Kitces: [00:08:05] That seems like a good place to start.

Alan Moore: [00:08:07] If you have the PDF version. It's page six, I believe

Michael Kitces: [00:08:11] With the infamous it's-it's-it's page, it's-it's page, it's page six of the document. But page four on the thing because the cover page doesn't have a number. So sorry about anybody who freaks out about the whole page six, says page four, its six, page six of the PDF, page four if you're following the numbers on the document.

Alan Moore: [00:08:28] Yes. So and this is a graph that I believe we showed for the first time last year in our benchmarking survey and-or benchmarking study, and this is articulated a little bit differently than it was last year. So if you just look apples to apples from last year that the data got sort of just sliced a little bit differently. So when you're looking at it, don't be surprised. But basically, this chart is showing us for all of the advisors who joined XYPN with either none or very few clients. All right. The way it's worded here is that fewer than 10 percent of their clients were clients whenever they joined XYPN, basically who started from scratch because we want to be able to give a realistic picture to folks who are thinking about launching a firm of what does your one, two and three really look like so that you're prepared. Right? We would much rather you be prepared to launch a firm and wait two or three years, get your income in order, you know, assets, all of your debt payments, all of those things right. Be ready financially, then to launch a firm, be surprised and then ultimately not be successful. And so trying to give that realistic picture of what what those early years look like. And so what this shows is, you know, for someone who joined who this is their first year, how much money did they make? And for someone who this is their second year, how much did they make over the last two years? So how much they make 2019, how much they make 2020 all the way up to five year members. And how much did they make per year for the for each of the last five years to really just show that sort of progression of income and I would say what we found was pretty consistent with years past, which is the first two years suck, right? The first year is really bad. The second year is tough and by year three, you start to hit that sort of the holy grail of replacing your pre quitting or getting fired salary.

Michael Kitces: [00:10:14] Yep, yep. And it has been interesting in kind of seeing the ramp up of how this is going. So like if we look at our our five year members, five year members, their journey was like. It's basically like nothing like they got a client or two who paid them a fee once. By year two, they were thirteen thousand of revenue. By year three, they were at sixty six. When we look at our four year members, the path is accelerated a little twelve thousand in almost thirteen thousand dollars in year one, up to sixty by a year two, up to ninety by year three. When we look at our three year members, we're seeing it pick up even a little bit more. Thirteen thousand in year one, sixty two thousand in year two, which is similar up to one hundred and twenty thousand in year three. And as we'll share in some of the stats later, one of the biggest differences that we're seeing in practice is members are niching earlier.

Alan Moore: [00:11:14] Do we have to go to the niche already? I was going to try to avoid it.

Michael Kitces: [00:11:17] We're going to get there later. But just it's-it's-it's the difference that we're seeing the members are niching earlier than they did before, and they're growing and gaining momentum faster than they did before with the caveat again, like year one sucks for everyone. It's, you know, it's still a five, ten, fifteen thousand gross revenue year, which means you're-you're probably zero or negative after the expense of getting started with the business. But they're getting more traction faster in year two, and they're getting a lot more traction faster in year three. We're-we're seeing that pace accelerate.

Alan Moore: [00:11:52] So in-in here, it says, you know, the one year members, they made twenty four thousand in their first year, whereas those who have been with us five years, they only made $2000 in the first year. What do you make of the the difference between two thousand five years ago to, you know, to $24000 this year? Do you think that's a discrepancy in the data? Or I guess what's the story there?

Michael Kitces: [00:12:14] My gut is-is a piece of this again, is just we're getting clear about the value proposition, you know, to be-to be candid, I-

I'm skeptical how many members are really like drastically ramping up their, you know, like their niche growth right out of the gate and literally in year zero. Although I will say, at least anecdotally, I'm seeing that a little bit more. Some some advisors that are joining, particularly those who are joining from from like career changing and starting in the industry, not necessarily coming out from another firm who are-who are figuring out what niche they're going to go after before they even launch and they actually start laying the groundwork in the pre-launch phase. Maybe they're getting involved in that community or getting involved in social media with them, or like starting some blog or things so that by the time they launch, they actually already have a little bit of presence. But my gut as well is just, I think, for the whole financial planning space in the aggregate, which is getting at least a little bit better, explaining what the heck financial planning is and what we're going to do for you. Like, bless the soul of the people who are starting this five years ago. But there were very, very I mean, just there were very few advisors and XYPN. There were very few advisors doing fee for service, like there were no models. No one was talking about client service calendars. No one was talking about how to-how to show the value of ongoing financial planning fees. At best, it was like, well, I'm going to I'm going to make a comprehensive financial plan for you. It'll be a little skimmed down so that it's not too-too expensive. And like, we'll do these quick start plans and try to get going like that was the model then. Now we're seeing a lot more of I know what I'm doing and what I'm offering. I've already put together our client service calendar that explains what I'm going to be doing. I'm clear on my fee structure. I know what I'm offering out into the marketplace and I can-I can believe that also is just getting a little bit more revenue growing-growing quickly. I don't think this is ever going to be like we get so good at launching firms by understating fee for service that advisors can just do like fifty or a hundred thousand of revenue in the first year, just it failing anything else. Even as we get better at describing our value proposition and the rest, it just it takes time to get established. It takes time for just your community of wherever it is that you mark and show up for, as the saying goes, people do business with people they know, like and trust, you know, they can trust and who have a decent service for sale. So like, we're getting better at the at the decent service for sale and how we explain it. But you can only get people going so fast. You can only show up the first time at a meeting so many times and have someone say like, Well, I've never seen you before, and you're basically a total stranger, but it seems like you know what you're doing. Let's just do my comprehensive financial plan right here, like it still takes time. It still takes some time.

Alan Moore: [00:14:52] Yeah, I also wonder if some of this is telling the story that advisors are more ready to launch a firm when they're joining XYPN. Very early on, I was certainly guilty of it, sort of sometimes overselling and not intending to, but just being really excited and-and.

Michael Kitces: [00:15:07] You were just overly, you got people overly enthusiastic.

Alan Moore: [00:15:11] Exactly. And so maybe some folks launched businesses before they were really ready and they weren't sure what their target market was going to be. They hadn't spent much time focused on that target market. You know, they're getting distracted with side hustles because they have no income. They don't have enough cash in the bank. So they're spending half their time doing other stuff instead about getting clients. Also wonder if just, you know, the advisers who are joining, you know, I guess these are folks who joined in 2019. You know, those who joined in 2019, their 2020 revenue was really just they were just they were more prepared to-to ultimately launch a firm.

Michael Kitces: [00:15:44] And I think the broader thing that just we're seeing overall, and I'm curious to see whether or how the numbers hold for this next year as well is just historically it was basically you had to get to year four before you cross six figures income like it took getting to year four to get to one hundred thousand of income. And and now we're seeing members getting there by year three. I mean, they were creeping higher. Like the five year members were only at sixty six grand by year three. The four year members were at 90 grand by year three. The three year members now got to one hundred and twenty grand by year three. So the ramp up pace seems to be getting a little bit faster as well. And again, I don't-I don't want to project that indefinitely. Like, well, if this trend continues by a couple more years from now, you'll just make one hundred thousand in your first month. Like there's going to-there's going to be some leveling off to this. But I do think we're seeing this fundamental phenomenon that just as advisors get clearer about how to launch, what it takes, how to get off on the right footing, how to get focused on your marketing, your offering the refined and more quickly that the time to get back to one hundred thousand of gross revenue is is coming down. It is getting faster.

Alan Moore: [00:16:55] Yeah, I mean, basically, we're saying like success is guaranteed. No. And again, just to reiterate, we are not here to paint a rosy picture of the difficulty. This is showing the numbers of average revenue of those who are joining with-with no clients. If we showed you those who are joining with substantial clients like these numbers are astronomically higher, right? But this is from scratch. What does this take? And the answer is, you know, yeah, to your point, we're now earning in year three what we used to earn in year four. We're earning in year two. You know what? What used to take almost three years to get to or sort of on that path, so you know, you should still plan on your three is when you will take a breath. All right. The first two years are just tough. They're grindy. That is part of it. But I also think it's interesting. So figure one is also

Figure 19, it got pulled up sort of into the executive summary. But then Figure 20, so down on Page 20 or number 20, you know, we separate members into four distinct groups to help us sort of classify where they're at their business. We have the preparing members these they have not launched an RIA. They are getting ready to launch, once they launch, we call those advisors implementing, they are implementing the business plan. They're implementing their-their RIA, they are they are getting started. So these advisors, by definition, have one to 20 clients. So 20 or fewer clients. Then they move into the building phase. This is when you start to get a little busier, right, that you're you're starting to see, you know, more clients, but you're doing a lot of I mean, you're still doing everything because you haven't yet hit a revenue point where you're able to bring in outside staff or not a lot and things are getting busier. You're starting to refine your process, but you're really building that firm. You're starting to grow. And then when you hit seventy five clients, you move into what we call the scaling phase. Now scaling then gets broken out into a couple of categories. This survey, this study sort of groups everybody in scaling into one group, but scaling then gets sort of separated out into the solo practice. I never want to hire anyone full time. I just want to be. It's just going to be me. We have the boutique firms which are sort of that one to 20 employee size firms that I want to grow, but I don't want to grow too big. Then we have the enterprise. And so just for some sort of, I guess, to sort of set the stage here and what what chart or what figure 20 is telling us is revenue growth rate for those who are in the implementing phase, the building phase in the scaling phase. So again, implementing sort of that one to 20 clients was pretty substantial. On average, they brought in almost 10 new clients, which-which is a lot and they brought in, you know, I guess it's showing eighty five percent revenue growth, the building phase, so that twenty five or twenty to seventy five clients, they brought in twenty three new clients on average, which is a lot. I mean, that's one every two weeks. I mean, that is a lot

Michael Kitces: [00:19:47] Two a month-two a month like you get known and things start moving.

Alan Moore: [00:19:50] And then by that scaling phase, they're growing by thirty one new clients a year, which is-which is really high. But the number that's really interesting down here is second from the bottom, and that's average client size, average revenue per client. And if we just compare implementing to scaling or scaling members who by definition have been in business probably at least three years, maybe four. So they're capturing that four to five year membership, their average revenue per client is twenty seven hundred dollars. For the implementing members who are a lot newer in their business, their average revenue is thirty thousand seven hundred dollars. So a thousand dollars more per client, which I think speaks to what we're talking about as well, is it's a lot easier to make a lot more money in that year, when you bring on 10 clients, you just make an extra 10 grand when you charge those 10 new clients, an extra thousand. And they probably had some-some clients coming in as well. So that just extra thousand per client. I guess we're saying on average they had we're not showing total number of clients here that's somewhere else in the in the survey. But either way, you're probably bringing in an extra 15, 20 grand just because you're charging a thousand more. So do you think that's telling the story and sort of that that's a big part of why we're seeing that higher revenue in the early years.

Michael Kitces: [00:21:00] Yeah, I mean, it's-it's well, it's two things. So it's-it's that I think we're just getting better clarity about the offering and what the offering and what we're doing. So we're feeling a little bit more pricing confidence early on. And you know, when not to keep beating the drum, that's going to-going to become more of a drumbeat soon. But just early-early members are niching faster. They're-they're getting clear on their value proposition earlier. And one of the things that we see pretty consistently in the study and we have year after year as we've-as we've done this is that firms with niches have to do a lot more retainer revenue or just they're able to command higher fees and they're able to get more retainer clients. And-and so as members build niches earlier, they're getting more pricing power earlier. They're able to charge more earlier. And I think we're just we're starting to see it show up outright in the data here in the in the implementing phase, the point that I think you'll get to it soon. But this is the first year that we saw where members with niches are outgrowing members without niches in every single phase, including even in the implementing launch phase.

Alan Moore: [00:22:14] Yeah, yeah. Used to be that, you know, and sort of the theory was, well, the niche firms take a little longer to get going because, you know, you're not able to work with family and friends, but we're starting to see a little bit of a turn away from that. So yeah, let's-let's jump. We'll go back up to figure two just so that we can look at what we're talking about here, which is sort of the power of a niche now. You know, Michael and I have been talking for years about have a niche. You know, and really, I learned all about niches from Kristin Harad, who is a marketing consultant in our space and and she used to say, you know, go go small to grow big, you know, and get really well defined in your target market. And historically, we have seen that niche firms outperform non niche firms over time. But again, those first two years, they are behind a little bit in terms of revenue. That is not the case this year. So again, sorry to sort of sort of paint the picture with our words when it comes to the data. But this again breaks out implementing, building and scaling firms and then niche versus the firm that does not have the niche and for the implementing. So this is newer. So revenue growth, so this is so Michael, this is new revenue. Not necessarily. Total revenue. Is that accurate?

Michael Kitces: [00:23:27] Correct? This is new-new revenue that got added in 2020. So depending on how large your firm was when you entered 2020, right? Just like how established you were, how much new revenue did you manage to bring in and kind of broken out by, were you doing that where you were in a niche, so majority of your focus was in a niche? Or were you doing this as a-as a no niche generalist?

Alan Moore: [00:23:47] And so for those implementing members, the-the one to 20 clients, those who are in a niche brought in about eleven thousand dollars more than no niche. So twenty eight thousand versus seventeen, which is pretty substantial. I mean, that's what 70 percent higher revenue trying to do that math in my head, they brought in 70 percent more revenue. The building phase is a little closer. They brought in about three thousand more, so forty two thousand versus thirty nine thousand. The scaling is hugely different, which is what we've seen in the past. And so the scaling members brought in about 50000 more than-than those who were in the, those who did not have a niche. So they brought in about one hundred and twenty thousand versus the no niche, which brought in sixty seven thousand. This just continues to reiterate the point of like just the power of a niche. And again, we've always seen this in the longer term. This is the first year we're really seeing this very early on. And again, I think this points back to advisors are coming, you know, to XYPN to get launched already with an idea in mind of who their target market is going to be. They've already been building out that network. You know, they're not starting from day one. Like, You know what, I'm going to work with pilots like, do you know any pilots? No, I don't know any pilots, but I'll figure it out, right? They're coming in with a network of pilots. They've already been talking to the centers of influence. They've already been blogging, creating content. Whatever those things are, they've already been doing is what I'm seeing anecdotally, and I think that's what we're seeing in the data.

Michael Kitces: [00:25:14] Yeah, absolutely. I mean, just and I think you-you frame it well, that just for so long, the-the viewpoint was something the effect of, you know, I'm just getting launched. I don't have the time to focus in on a niche, I just need to get anyone and-and what we're seeing in the data in practice is. It's hard to get anyone like it's hard to get anyone at any point, like even when you're getting started, perhaps especially when you're getting started and no one knows who you are and what you do and what you bring to the table and why they should work with you, why they should give you their life savings and depend on you for financial advice. And all those-all those weights that we put on our shoulders when we're getting started and the imposter syndrome kicking in. You know, we make that worse for ourselves when we don't have any clarity about who we serve and what we and who we're going after and the members who are starting in a niche who are getting clear are getting there faster and worse is, you know, Philip P----, I had once heard it framed this really well, I'm going to. Philip is wonderfully witty about what he says. I do not have his wit, and I don't remember exactly how he frames this in his-in his beautiful, witty way, but something to the effect of, you know, the the fastest way to become the leading expert at something is to pick something really small, like the fastest way to become known and famous in something is to get super focused in what you're going to be known and famous for because you want to be famous for, like everything, comprehensive financial advice for everyone. Good luck taking down Suze Orman and Dave Ramsey and all the rest who have these giant media platforms. But if you want to be the the leading expert in Chick-Fil-A operators, a leading expert in, you know, an ophthalmologist who are building up their medical practices for sale, you can get super focused in a particular thing. All of a sudden there's only like three other people in the country who ever deal with those clients. So you don't have to beat three hundred thousand other financial advisers. You just have to be like two who are in a similar market to you. And if you get even more focused than they are, you literally have to be no one because there's no one else that shows up in the particular market that you're focusing in. And so the-the more focus that we get out of the gate, the faster we're seeing firms get get going and-and sort of exposing what I think is this myth of, well, I'm just going to get anyone who has a pulse and then I'll get around to building a niche later. What we-what we saw in the past was doing that puts you way behind by years three, four and five, because the nichey advisors, who spent three years niching had like a slingshot effect on their growth, and everybody else who was a generalist had to just start getting started on their niche. And we still see that here, right? As you noted, for members who've reached the scaling phase, if they've got a niche, they're growing by one hundred and twenty thousand of new revenue per year, and no niche advisors have barely half that. But now we're seeing it come all the way forward where if you're getting clear enough on who you're going after higher fees out of the gate, more growth out of the gate, more new revenue out of the gate, like just it-it-it works from day one because it's hard. It's a crowded space. It's hard to get stand out. And if you can be the absolute best at something, I know most advisor when they're getting started like, I feel like I'm new and I'm not the best at anything. But that's the point. The more focus you get, the easier it is to actually very quickly get to mastery of-of something because you're not biting off everything like you just just be awesome at like one thing for one group and then just show up for them.

Alan Moore: [00:28:39] No, it's so true. And I think, you know, anecdotally as well without pulling all the data. You know, at AdvicePay, we see, I believe, the-the five fastest growing firms in terms of-of, you know, transaction volume on AdvicePay all five of them are deep into a niche and three of them have their niche in their name like their company name. That's how deep into that niche they are. And so we're seeing this from all sides is just how fast these firms are starting to grow and how fast that traction really does pick up. And the truth is, like, again, that's how you can build a really successful boutique style practice. Now, if you want to build an enterprise practice we can talk about, do you have multiple niches, advisors with different niche markets, all that sort of thing. But if you want to build our super fast growing boutique firm with one to 20 employees and, you know, really run that as a business, that's how you do it is you ultimately pick a niche because if you're going to go super broad generalist, you better become an enterprise or you're going to get crushed because there's there's no differentiation, so.

Michael Kitces: [00:29:37] Yeah, and-and-and I think it's also worth pointing out just in that-in that frame and everybody's got their own income goals and their own business goals. But just the-the other thing to note for that, because it's the other latent fear that I always see and hear for advisors that are-are thinking about niching or not or whether to niche or of just like, you know, like how do I know if there's enough of them, how I know there's enough clients to-to build a business to just, you know, it basically only takes 50 great clients like, you know, how do you make several hundred thousand a year fifty clients paying five grand a year for 50 clients, being four hundred dollars a month like you're going to, you're going to gross almost two hundred and fifty thousand. You can-you can probably handle 50 clients solo and you're going to be netting north of two hundred. Maybe you can go to 60 or 70 clients generate more than three hundred thousand of revenue and hire an assistant and you'll still be making two hundred plus thousand. So for those that want to make much bigger numbers at some point, either you have to scale the firm bigger or you just have to get more affluent clients to write bigger checks or some combination thereof. But you know, the-the path to six figure income and the path to six figure income that that doesn't start with the one at least-at least got a two handle on it. Like you can do that with 50 great clients. Frankly, you can do some advice. I know do it with fewer than 50 clients -

Alan Moore: [00:30:59] Depending on what they're paying per client.

Michael Kitces: [00:31:01] - Depending what they're paying you. But like the the path to higher fees is being more specialized, right? Just any profession out there, anywhere the specialists get paid more than the generalists, and it's showing up the same way in the financial advisor world as well.

Alan Moore: [00:31:18] Yeah, and just the power of a niche. It's so, you know, it's easy to think like, Oh, it's just marketing or, you know, it's just a sham or whatever. Like, does it really matter? But I mean, no matter how we slice the data, we uncover sort of all of these things that are saying, like, No, this is really important. And so, you know, if you if you go down to figure 12 on page 12, that's, I keep saying -

Michael Kitces: [00:31:41] Amazing how all that keeps working out.

Alan Moore: [00:31:43] - What this chart is showing is over time, how sort of the advisors who say I have a niche, then we say, OK, well, what percentage of your clients are inside that niche, right? Because they could be one percent, it could be one hundred percent, but somewhere in between there. And so this is showing that the firms sort of the percentage of their clients are getting or they're getting more niche, if you will. So, you know, back in 2016, those who had a niche, forty seven percent of the clients were inside of that niche, whereas this most recent year, sixty seven percent of clients were inside that niche. So a 20 percent overall increase, almost a 50 percent difference. And so let's say two thirds of the clients are inside the niche. And what we're also seeing is that prospect to client close rates are are just climbing astronomically as well. So you want to speak to that, Michael.

Michael Kitces: [00:32:33] Yeah. You know, we so we see this evolution just as firms get more focused into niches. The percentage of their clients and niches goes up. The focus in their niche goes up. Their marketing tends to get focused more on their niche right now. If if only 10 or 20 percent of your clients are niche, you-you-you usually feel scared like to put the niche in your firm name and on your home page. When 60, 70, 80 percent of your clients in your niche, you usually like, put it out there pretty proudly at that point. And so the more the, the more that firms are focused in the niches, the more they get known in their niche, right? They market it better. They market it more confidently. They just literally get more word of mouth than their niche because they've got more people in their niche. And the more they get focused in their niche, the higher the closed rates go. Because now you really are the perfect advisor for your ideal client who knows exactly how to find you, because every other advisor who's a blank seems to work with you as well, right? Blank is whatever your niche is. So we see this interesting parallel that the more advisors get concentrated in niches, the more they're close rates go up. And so as the percentage of, you know, as advisors, the percentage of clients in the niche has gone from forty seven percent to sixty seven percent. The close rate for advisors has gone from 40 percent to almost 60 percent. It's like they've-they've both gone up almost 20 percent in parallel. The nichey, the advisor, the higher the close rate of the clients that they're working with.

Alan Moore: [00:33:53] Yeah, we're starting to see if we have the data this year for number of prospect meetings that advisors are doing over time. But I don't think we have a chart that shows that I think we just have sort of the one year.

Michael Kitces: [00:34:06] Yeah, we didn't. We didn't separate out in the data. So we have some data on prospect meetings and close rates, but not separated by niche versus not niche.

Alan Moore: [00:34:14] And so just to sort of see like, you know what, this is also telling me is that, you know, firms are you're meeting with the right people when you have a really clearly defined niche, right? It's easier to spread the word. You're much more referable. It's easier to work with you to know that I'm the right client for you. I'm the wrong client for you. So just overall, top of funnel awareness is is much broader. It's much easier. You know, your-your marketing efforts are so much more well defined. Your money is being spent so much better, I guess, from a marketing standpoint. But then also, when you are actually meeting with those clients or those prospects, it's just much easier to define the value proposition and we're seeing those higher close rates. So again, it all makes sense. It's terrifying to have a niche. I get it, you know, like if you if you walk in, you're like, I have this really well defined target market. I already know what I'm going to do. It feels so obvious. It doesn't feel scary. I understand that if you're sitting here like, but I don't know the niche I want to serve, OK, I know that's scary and that can be hard to work through. But I would encourage you to know that like that is really, really, really important. And so we're going to talk about one more, one more sort of niche focused conversation, and then we will-will shift. So we're going to go to let's say we've got figure my-my page scanned here just a bit. So we're going to table six, page twenty three. I guess I actually page 21. And so this is showing sort of sources of new clients based on your-your phase of business. So if you're an implementing, you're in building, you're in scaling and where your new clients are coming from. And there's a wide range of things here. XYPN's Find An Advisor Profile, NAPFA, Google search, you know, sort of all of these various all these various places. So Michael, you want to you want to talk about sort of how-how you're seeing sort of what this data is telling you about where clients are coming from for these advisors?

Michael Kitces: [00:36:09] Yeah, this was really interesting data to me this year. We had we haven't quite looked at it this way before of just how does the business development strategy of advisors change over time? So some things were were sort of pretty obvious and not surprising. It turns out the larger the firm, the more of its growth comes from referrals from existing clients like, well, yeah, no kidding. I don't really get a lot of referrals from assisting clients when I don't have any clients yet because I'm still in the implementing phase or I've got very few. So no great surprise. The more- the more clients the firm has the-the more referrals that they-that they tend to generate. Conversely, advisors in the very early years when they just don't have much established for themselves and not spending a lot of time just doing the general networking business development thing, right, like just get out there and meet people and shake hands and get introduced. And as firms grow up to the scaling phase, those numbers fall way, way, way, way off. We'd see them come down dramatically. But the, there are a couple of differences in the-in the data we found that was very striking, and I think it's entirely too yes, as we found like. So when advisors are getting started, the ones that have niches get started faster than the ones without niches. But even if you're focusing on a niche like you still have to get known for your niche, like you still have to go out there and do things. People don't necessarily know how to find you or find their way to you yet, so you've got to establish yourself. Whether you're going through a niche or not, you've still got to establish yourself. And so a lot of the marketing activities still look similar. Lots of networking, lots of trying to work with centers of influence, you know, just the things you try to do to get the word out about us. The scaling members, though, what we see is when we look there and we see the growth of what happens with firms that increasingly are niche based and established in their niches, we see some really significant shifts. One of the most striking parts is growth from Google searches goes up dramatically. Less than 10 percent of growth for implementing advisors comes from online Google searches. Almost twenty five percent of new clients for scaling advisors comes from Google searches. Because now they're known for a thing, so, you know, if you're a, you know, an ophthalmologist selling your practice for a private equity firm and you start typing that into Google, like you find Adam Spieler, the guy who literally works with ophthalmologist who sells their firms to private equity. So you start getting known and actually findable online. One of the other big striking things that we saw in in the data this year is that almost 20 percent of growth for scaling advisors is coming from online ads. So Google ads, Facebook ads, LinkedIn ads, you know, other more specialized sites where they're-they're doing online advertising. But again, once you become known for a specialty, it gets much more straightforward to go to exactly where those people are hyper target them and put your known message in front of them. And when you're established and known, people tend to like, see the name, Oh yeah, I've heard of that guy or gal. Like, I know they're pretty good. Oh, I've got a problem in my life. I think I actually need to reach out. And there's your ad. And so, like online ads was basically zero percent of growth for implementing advisors, but almost 20 percent of growth for scaling advisors. And I don't think that's just a function of like the ads are working for scaling and failing for implementing. But you know, as you get established, you both have a greater presence to be able to market. And frankly, you have a little bit more free cash flow because of the growth that you can reinvest into your marketing. And so I think we're-we're seeing that cycle begin to feed such that for scaling members, almost half of their growth is online Google searches and online ads finding them in their niche.

Alan Moore: [00:40:05] Yeah, and you start to layer in XYPN Find An Advisor, NAPFA, also all online. Also, you know, XYPN, you know, very niche focused, obviously, with our search engine. The vast majority of clients are coming from online. I mean, you also see an increase of referrals from existing clients because scaling members have more clients to refer to you as well as, you know, you're just-you're just you've had a longer relationship with those clients. So therefore you can start to get some of those client referrals that takes time.

Michael Kitces: [00:40:34] And-and one of the other things that struck me about the data, even in especially with respect to XYPN's Find An Advisor Profile. You know, the implementing members, barely two percent of growth came from XYPN's Find An Advisor Profile, scaling members, almost nine percent of their growth, like nearly five x the growth rate came from, came from XYPN's Find An Advisor Profile and of course, 5x the growth rate and like scaling firms are larger, so it's a bigger denominator, which is like the number of clients is actually significantly higher that they're getting. And Alan like, I know this was something that just we had been looking at some separate data internally and talking about with respect to XYPN's Find An Advisor Profile, which is the-the member profiles getting the most searches and activity and find an advisor are the nichest members. Yeah, it's not. It's not the generalists and right and to me, that's sort of pretty straightforward. Just, you know, there's, I don't even know how many advisors and members in total now on the-on the Find An Advisor page, in total, I mean, just hundreds and hundreds of members -

Alan Moore: [00:41:44] Like over a thousand, I believe now

Michael Kitces: [00:41:46] - If you don't have a thing that comes up in the search like some-some niche something that you're going after, I mean, just literally like how would a-how would a prospect find you? I mean, even if they went to XYPN's Find An Advisor?

Alan Moore: [00:42:00] Why you over everyone else?

Michael Kitces: [00:42:01] Right? I mean, just at some point there's a list of a thousand names and they have to enter something to find you, to-to find you, have you come up as a result, amongst all the others? And so the members that have a niche at some point, someone puts in doctors, dentists, government employees, millennials, FIRE community, whatever is all the different niches that we've got listed on the site. And if you don't check any of those boxes, there's-there's no box for someone to check to find you. I mean, the only way that-that you typically end up coming up and I mean, the truth is how most advisors have been found on finding advisor portals since forever is location search, zip code.

Alan Moore: [00:42:42] Location, that's what COVID did for us.

Michael Kitces: [00:42:45] Yeah.

Alan Moore: [00:42:45] Accelerated that trend, yeah.

Michael Kitces: [00:42:48] And so, you know, just recognize, like in practice, if you-if you are a generalist, the truth is that the number one way that you are that clients are filtering to find you is your zip code. You know, just for clients who basically say, I have no idea what I want and I can't figure out how to differentiate any all advisors anyways, I'm just going to pick the one that's geographically convenient to my house or office, because if you live in a an area that's either dense enough with opportunity or sparse enough where there's no other advisor within-within 10, 20, 30 miles of you, which I know is in the early days, I actually have a lot of NAPFA advisors grew like, really, you know, they would have a location based search and they were the only NAPFA advisor in a 30 mile radius, so they got basically anybody within 30 miles of their office. But you know, unless you were really trying to build a firm where your zip code is, your primary differentiator like prospects need some way to filter to pick you out from all the other advisors who are out there. And what we're seeing is the nicher the adviser in particular, the more established the niche advisor, the more findable they are online. And so we see it in online ads, we see it in online Google searches and basically we see it even in XYPN's Find An Advisor Profile that almost 5x the growth rate for scaling members who have become more established in their niches than implementing members who haven't gotten it out there yet.

Alan Moore: [00:44:08] Yeah. This is further reiterated for those of you with-with the benchmarking study. You can go down to table seven and it actually splits out niche versus non niche. We've been talking about sort of different phases of growth, but table seven really breaks out XYPN's Find An Advisor Profile, Google searches, you know, overall just in speeches, Seminars, community events and the general general networking and business development. And yeah, anything online goes way up with a niche. And when you don't have a niche, you're sort of left with generalized business development, which can work. It can be effective, but it is a lot easier to to market and to do sales when you know who you're talking to. Ok, so we've got two more, two more figures that we want to go through. So we're going to switch the conversation a little bit over to more talking about productivity and just how advisors are spending their time, how they're hiring in particular and sort of overall staffing their business. So we're going to flip back up actually to table three, page 17 on PDF numbered page 15. I know it's confusing. So 15 to 17 ish, go find it. Table three under underneath staff productivity. So what this is showing is, you know, a very common business metric that we use to sort of gauge levels of productivity is revenue per employee. And, you know, so Michael, in a very large firm big, big, big firm that, you know, my mom would have seen an ad for on the internet or I'm sorry on TV, like what's your typical revenue per employee? Like, what are they targeting, but really big RIAs?

Michael Kitces: [00:45:43] So really big advisory firms. If you look at the broad industry benchmarking studies, you see advisory firms at scale are usually hiring a new team member. About every two hundred and fifty thousand dollars of revenue kind of varies by the study, anywhere from about two twenty five to two seventy five. But that's a-that's a good-a good rough, middle ish number. So just think like by two hundred and fifty thousand of revenue, I've hired my first assistant by half a million dollars of revenue, I've got two people by some hundred and fifty thousand revenue, I've got three people and it grows and scales up from there.

Alan Moore: [00:46:17] And so I ask about that sort of for industry context of, you know, every, you know, for these bigger firms that are targeting sort of two hundred and fifty to three hundred thousand in revenue per employee. And how that compares to our members who are-who are obviously much smaller, they don't necessarily have 100 employees, but how their revenue per employee themself included is ultimately showing up. So what table three shows is for the building and the scaling members. So again, building being, you know, twenty to seventy five clients scaling being seventy five plus their revenue per advisor themselves included and then revenue per total staff. So this includes all of your admin operations, and this does include employed as well as outsourced because we want to be if you're-if you're have someone twenty hours a week, but they're outsourced, like that's a half-that's a half person.

Michael Kitces: [00:47:03] That's a half person. So we-we count them, we literally count them as a-as a half, just so we get the the numerator and denominators, right.

Alan Moore: [00:47:10] And what we're seeing is that our advisors are really matching industry standards when it comes to, you know, or getting close to industry standard when it comes to sort of revenue per advisor and then revenue per staff. So, you know, for the building advisors or building members. We're seeing they're averaging about two hundred and forty thousand dollars of revenue per advisor. Scaling members are about three hundred and ten thousand, which makes sense. They're-they're growing and they are scaling they-they have higher productivity per-per adviser. But what we are also seeing is that the per staff is going down. So one hundred and seventy thousand ish for building firm's revenue per staff in the scaling firm is about a hundred and forty four thousand, which tells me that, you know, earlier on, you're more advisor weighted, right? It's-it's a much higher advisor to staff ratio, but as you begin to grow, you see it. You see revenue per advisor going up, but you're starting to hire more staff, more administrative staff, operations compliance, whatever that is, and you start to see the revenue overall per staff coming down. Is that what you're seeing here?

Michael Kitces: [00:48:15] Yeah, it's so-so a few things, you know again, that that number that I mentioned of firms overall, on average, tend to hire about once every two hundred and fifty thousand of revenue. That does vary quite a bit depending on the size of the firm in and of itself. There's a very clear trend out there in the industry. The-the larger the firm, the more of those hires tend to space out. The smaller firms the firm, the more they tend to be bunched together. It's just kind of literally like there is a economies of scale that starts coming as firms get-get bigger, where once you've got a few team members in place, you can do a lot more with them before you hit the next complexity wall, where you've got to hire another round of staff infrastructure to get to the next level. So the average overall is about two hundred and fifty thousand in revenue per employee. But firms in the earlier stages tend to need to hire much sooner. And so that's what we're-that's what's effectively what we're seeing here is when you're in those earlier stages, you're hiring, you're hiring staff. First of all, just our numbers overall are more in this one hundred and forty to one hundred and seventy thousand of revenue per adviser range not or sorry revenue per employee range. But what you get from that is as your team expands and you've got more support staff in place, you add more people to help get efficient. But you don't need as many advisors now or you don't have to hire your next adviser as quickly. And so you end up with more team with more team for the revenue that you're supporting, but higher revenue per adviser because you're getting more efficient. So I guess to put that in a slightly more, more practical terms, like once you've got a couple of support staff in place, two advisors might be able to handle one hundred and twenty five to one hundred and fifty clients before you have a support staff in place, one adviser probably usually struggles to handle more than 50 or 60 clients before they feel like they're drowning. So as you start getting support staff in place, you don't need to hire as many advisors right there as like kind of literally the-the leverage that you get by building a team before you need to hire more advisors. And so we see this effect playing out in the data where the more that the firm starts to scale up, they end out with more non advisor staff, but they end up getting more revenue per advisor because their advisors are leverage. They're leveraging themselves or they're leveraging their associate advisor with the support staff built around them.

Alan Moore: [00:50:40] You know, and what we found last year, I don't believe we have a chart on that this year was sort of net revenue by stage of business. And what we saw was that as you get bigger, revenue goes up in those scaling phases. But-but net revenue per client comes down because in the end, exactly what you're talking about is that it does. You have to start investing in infrastructure and we as a business, you go through these phases where you have to heavily invest in infrastructure and it just tanks your net revenue and then you're able to sort of build on that infrastructure for a while. Your net revenue goes up, then it comes down, then goes up, goes down and goes up. It is just the path that-that you ultimately take. And so I think we're seeing that here as well. It's just, you know, the, you know, ultimately revenue per staff coming down does mean probably net revenue per client. All of those metrics are all tied together, just sort of different ways to slice the same data is coming down as well. So not that -

Michael Kitces: [00:51:35] I think the simplest just so the simplest way to think about this in-in like slightly more practical terms is so here's basically your path for growth. By the time you're hitting one hundred and fifty to two hundred thousand of revenue, you need to hire a staff member to help. By then depends a little bit on what your average revenue per client is, but if you're charging, we'll just call generically a few thousand dollars per client. You are somewhere in the 50, 60 client range. There's a lot of people, there's a lot of people service, there's a lot of meetings to schedule. There's a lot of meetings to prep. They've got planning questions. It starts feeling very drowning. In fact, some-some advisors are already feeling like they're drowning by 40 or 50 clients, but you almost certainly get there by the time you're in the-in the 50 to 60 plus range. So somewhere around that one hundred and fifty thousand of revenue are a little bit higher than that. You're going to start feeling like you're dying, you need to hire a staff member. So once you hire a staff member, you get a little bit more. You get a little bit more breathing room. You can now start growing higher. You might get up to three hundred thousand dollars of revenue. So now suddenly we're at like 60 or 70 plus clients. But then we hit another wall because now you and the associate are handling stuff. You've handed off a lot of meeting, prep and account forms and stuff like that, but there's a lot of plans to do. There's a lot of financial planning stuff to do, so you need some help there. So you hire a paraplanner. So once got a paraplanner, now there's one of you and two support team. So now you can get out even larger. You might get to four or five hundred thousand in revenue by the time you get to four or five hundred thousand dollars of revenue, though now you might be approaching 80 to one hundred plus clients. And just the sheer number of client meetings you need to have is too much. So then you've got to hire an advisor. So now you hire an associate advisor or an additional advisor person, or maybe your paraplanner promotes up to an associate advisor and you hire someone to backfill them. And now suddenly, it's a four person team. You, an associate advisor, a paraplanner supporting you on the planning stuff, an operations person supporting you on the admin stuff. Now you can get up to six or seven hundred thousand of revenue, which is essentially what we see for firms that are scaling. So if you've got two advisors with six hundred thousand of revenue, you're at about three hundred thousand of revenue per advisor. And if you got four total team members to six hundred thousand of revenue, you're at one hundred and fifty thousand per staff, which is exactly what we-what we see in the data. Now, once you get there, you got more capacity like that core team can grow quite a bit often. You can get a lot further now before you have to hire your next staff member. And so once that initial infrastructure gets in place, that's often the size that scales firms all the way from six or seven hundred thousand of revenue. Up-up to as much as a million plus depends a little on your revenue per client. But now you might get to one hundred and twenty five to one hundred and fifty clients. Maybe you have one more admin person who supports and now you end out at five team members, two advisors. You're getting up to a million of revenue, you're at five hundred thousand of revenue per advisor, two hundred thousand dollars of revenue per staff, and you start getting a little bit more of that. What we truly call a scalability in the firm, which is same staff more revenue don't need to hire more people yet.

Alan Moore: [00:54:44] Awesome. Ok, so we have one more graph I want to go through before we wrap up. So we're going to go down to figure thirty three down on page 30. Oh, I'm sorry. Page twenty eight, actually. And what this is showing is actually what I was alluding to earlier. But the data is a little different than than we saw last year, and that is sort of the profitability profile of firms that are in the scaling phase, but they are either solo, boutique, or enterprise. So this is looking at those who have seventy five clients or more. So they have they've really hit that point. I would say success. They're building the business the way that they want. They have decided to stay solo because at this stage, if you have a hard yet, that's intentional, right? You made the decision. You do not want to and it doesn't mean you're not outsourcing. Alright. Solo practices are outsourcing a ton of stuff, but they are. But they've chosen not hire. Obviously your boutique and then your enterprise. And what we saw last year was there was, you know, really revenue per client in an enterprise was much higher, but operating profit was much lower. This year, it is still the case, but it's a much closer sort of a closer profile. And so we're still seeing actually our our boutique firms are driving more revenue per client right now. But you know, your solo practice is making the least gross revenue the least sort of fee per client of those three groups. And yet their operating operating profit is actually higher than the scaling firm. And then the boutique is sort of throwing this data off in a funny way this year, which is cool to see. And that is, boutique firms actually have highest revenue and highest profit per client, which is again is a little different what we saw last year. But speaking specifically to solo, because, you know, I think eighty, maybe 80 percent of our members are are solo, probably about half probably forty five to 50 percent intend to stay solo. So the question is, can I really earn a good living or being solo? Or do I need to grow in order to be successful? Do I need to grow in order to make good money? Do I have to hire? And so what I'm seeing here is the answer is no, you can make. You can make a really great living being solo. So Michael, can you talk about? About sort of what you're seeing here in the data there.

Michael Kitces: [00:56:53] Yeah, so. So I think there's a few things that that crop up around this dynamic. And first, I feel like we have to ask her this whole thing just, when Alan when you put out there there that that comment around like, make a quote, great living. Great, great living is kind of relative like some of that. Some of that's relative to just cost of living. A great-great living in the Midwest looks a little bit different than great living in downtown San Francisco. So do you feel like we've got an asterisk that overall and just look, people have very different income goals like I've-I've seen advisors who make three hundred thousand a year and feel like they're a failure because they're in a big firm where everybody else makes five hundred thousand. And-and I've seen advisors out there who make one hundred and fifty thousand and we're like, Yeah, in my old career, I made sixty. Now I make one hundred and fifty and I work 30 hours a week doing awesome stuff and my clients love me and I get spend a ton of time with my kids and I make 2x the median household in the U.S. like this is frickin awesome. So there is a little bit of difference here, but just what does it take to get to one hundred and fifty of take home pay versus three hundred plus of take home pay. It does just change this a little bit, and I'll come back to that in a moment. But the-but the essence of what we see is that you advisory firms that are-that are solos, particularly if you don't hire, you often start topping out at something like 60 or 70 clients. Just it gets harder to do more than that, if only because the admin in the meeting prep stuff begins to add up. If you're not-if you're not hiring or starting to scale yourself up, but when you're averaging twenty five hundred, three thousand of revenue per client. And some of our members are much higher than this. But if you're-if you're averaging twenty five hundred, three thousand dollars of revenue per client, you are. Our data here was twenty six hundred and you're doing this with 60 plus clients like boom, you're-you're sitting right there at about one hundred and fifty thousand of revenue. And just well, aside from your perhaps wonderful XYPN membership fee that covers most of your technology compliance support and all the other stuff like just there's not much else left, like if you're not hiring up for the next level, there's not much else left. And if you want to figure out like, how do I get to two hundred and fifty thousand instead of hundred and fifty thousand dollars of income, you know, the default answer for the adviser is, well, I'm going to add more clients. But we just talked about is you want to add more clients like you want to go significantly higher. It's time to start hiring, which means of the next 50 plus thousand that you make. You don't keep any of that at all. It always going to be at your next staff member like you got to make eighty or a hundred thousand just just to get the last 20 or 30 grand after the person their training, their employee benefits, their payroll taxes, all the other stuff you got to do when you hire a person. And just that's the nature of what happens when you start truly scaling a business, which is, I think a lot of us tend to forget as advisors, like when you do the first stage, it's great. Every client you get, a hundred percent of the revenue that comes in drops straight to your bottom line. Once you go on, you're beyond yourself. Every time you get add more clients, you're going to have to add more staff. Maybe not, obviously not one to one, but every 20, 30, 40, 50 clients. You've got to add another person. And so then a big chunk of the revenue that you added goes back into hiring the next person. And suddenly you're only making 20, 30, 40 cents on the dollar for every dollar that you grow instead of making one hundred cents on the dollar for every dollar that you grow. So a lot of members choose, not choose not to do that. They keep this solopreneur practice. But the key takeaway for it is what that means is if you're staying a solopreneur and you want to grow, it's all about how do you get higher revenue clients because you can't get more, more means hiring and hiring means you don't necessarily take home more. It's all about how do you get higher revenue clients. I mean, not that you have to if you're happy with where you are and you're happy with how the math adds up more power to you to hang out in your business model. But just there's-there's a mindset shift that has to happen. I mean, the simplest version to think of it is just if you're a solopreneur and you want to grow as a solopreneur, one on one off, you get a new client on, you got to take a new client off. So ideally, you get a client who's above average your move. Whoever is your least client below average, there's always one. At least -

Alan Moore: [01:00:59] We can frame that as you can allow a client to graduate beyond your services and connect them with an advisor who specializes in working with clients like them. We don't have to talk about this is an instance of firing a client because they're not a good client. It's like this is revenue per client. And yeah, your lower paying clients, you can you can be able to connect them with an advisor who's really focused on them. So just-just as a way of framing that.

Michael Kitces: [01:01:21] So once you grow beyond that, though, it gets more expensive. And to me, just one of the most straightforward metrics that we get straight out of the data here is as you go from solo to boutique to enterprise, your overhead expense goes up and up and up it just the bigger, the bigger you want to grow, the more staff infrastructure you need, and it adds up to more. And so that's why what we see at the end of the day is the firms that are scaling make less profit per client than the ones who are not. Even though they're charging more, they're charging higher fees and taking home less money. Because it like it just it costs money to scale, you make-you make fewer and fewer dollars. The bigger, the fewer, fewer dollars per client, the bigger the firm gets, which means you have to work harder and harder to get a whole lot of new clients just to make a little bit more and money. And just that's-that's the nature of what really happens when you're scaling a business. Now the good news is you can scale it much, much, much, much bigger if you want to. But it's a very different job and pathway. Then I'm going to get my 50 great clients. And then over time, I'm to get 50 slightly greater clients by moving upmarket if your goal is to grow your income.

Alan Moore: [01:02:30] Yeah. Worth noting that, you know, we're talking a lot about income here. We are not talking about the value of the business, which is going to be significantly higher if you are four times, five times, six times higher. We're even a slide I recently saw from some data is how the multiples sort of the valuation of the companies. The overall multiple profile is going up with the bigger firms. I'm not sure if that's applicable inside the sort of, under five million in revenue businesses under one million, that sort of thing it was looking at like really, really big firms over time, but you know that growing will potentially provide you more enterprise value and asset to sell one day or if you were to pass away an asset that your heirs are able to do a transaction on. However, we're-we're really focused on income here, which is what's what's ultimately impacting your day to day so.

Michael Kitces: [01:03:17] And again, just important because if you-if you make less revenue per client for long enough, like the asset you sell in the end isn't like you don't finish with more money, it just makes back all the money you didn't make by earning a lower income for all the intervening years that you were, that you were growing and scaling. You know, we've-we've long remarked on this in some of the Kitces research data that we collect as well. The, you know, the top income solo advisors have more take home income than partners and billion dollar advisory firms. And we've seen that data show up year after year, and the path from being a solo to a billion dollars makes significantly less income for what could be five, 10, 15, 20 years. Sometimes that it takes advisors just to grow slowly and steadily to get to a billion dollars. And so it's like the good news is you own the billion dollar firm. The bad news is you made several hundred thousand a year less for 20 years in order to get there, which means you've walked away from what could be two or $3 million of income. So I hope we have a significant enterprise at the end because you need that just to make up the income you didn't get along the way. And so not to be totally negative for building and scaling a business, obviously, right? Like Alan, you and I like, we actually do a lot of this of building and scaling. There is a point where you can grow just faster than the average firm. Genuinely get ahead of that curve and you can create some real enterprise value above and beyond the income trade off. But the subset of advisors who really, actually truly want to do that, like really invest your time and become the manager and the CEO and probably not really see clients much anymore because you've got a lot to do to run and scale and grow the business. There is a small subset of advisors out there I think are truly wired for enterprises. But I think a lot of us just, you know, the industry is so obsessed with putting people on the pedestal who have the biggest, fastest growing firms that we often don't get to what's happening. But beneath the surface, which is they're taking home often way less money and working a lot more hours and spending a lot more time and are a lot more stressed to maybe net more money than they would have by just staying small and lean with a focus on higher income clients that can make them more money along the way. So you can build whatever you want at the end of the day, but like, get clear on why you're doing it, because the data does show pretty clearly here that you know, the faster you're trying to scale that enterprise, the just the more overhead expense you've got and the less profit per client you get. Even when you're charging more, you have to charge more just to-just to try to get back close to where you would have been if you weren't growing in the first place.

Alan Moore: [01:05:56] Absolutely. The beauty of this business is you really can build the business that you want, ultimately support your great life. And the truth is that's why XYPN exists. It's not just about, you know, being sure you get a firm started, it's about being sure you're being really intentional about what kind of firm do you want to build and why for this stage of your life and that your life's stage changes kids get, kids are born, kids get older, you get married, you get divorced, you move like you want to be remote for a while, you want to be in person. Things change over time, but being really intentional about what's the business you want to build and recognize that we have advisors who are very successful in all areas, whether they choose to stay small, grow big, hire people, not hire people, continue to grow up, market with higher paying clients, not growing up marketing, continuing to stick with clients that they started with. So the point is not that there is a right or wrong or good or bad. It's all about being really, really intentional about the business that you ultimately want to build. So. Michael, thank you for taking the time to-to join us. And I guess, you know, who knows, maybe it'll be next year before we see each other on here again. But thanks everybody for tuning in and for this discussion with myself and Michael, just talking about our 2021 benchmarking study results. So thank you all. And Michael, we'll see you next time.

Michael Kitces: [01:07:13] I'll see you. Thank you, Alan

Maddy Roche: [01:07:16] Tax planning and preparation is an enormous value-add for your clients, but taxes can (very) quickly become overwhelming as an advisor. XY Tax Solutions is the tax team in your corner that works with advisors to offer expert tax services to their clients, with three different client engagement options to choose from to meet your unique needs. Partner with XY Tax Solutions to integrate tax preparation and planning into your firm, and don't sweat tax time this year. Visit xyplanningnetwork.com/xytaxsolutions to learn more.

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