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## Durability is the New Scale

How many RIA owners can take a licking and keep on ticking? Hear from Dick Darian, partner with Wise Rhino, and CAPTRUST's Rick Shoff on what every RIA owner needs to know about sustaining their business through operational hitches and glitches, capacity limitations, succession, market pullbacks, litigation, and weather-related shutdowns—just to name a few.

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First things first: CAPTRUST Managing Director Rick Shoff has been throwing around the phrase “durability is the new scale” for some time now. I think he should trademark his favorite phrase once this article hits the streets. Because Shoff is onto something. Read on.

### Defining Durability

I decided to find out what makes for a durable RIA these days. According to Dick Darian, partner with Wise Rhino, a firm focused on assisting retirement advisory firms with growth through partnership strategies, it all starts with something really simple: paying attention.

“Attention to the environment is important,” he says. “You can’t just assume that what you’re doing is going to work.”

“Most firms kind of keep their heads focused on what’s brought them there, and they really don’t look up to say, ‘What’s changing?’...They think, ‘Well, this has always worked for me.’” And that, says Darian, can quickly become the beginning of the end.

If RIA owners don’t take a look around and ensure they are keeping up with competitors, they risk losing employees, current clients, and prospects to their rivals who are keeping up with advancements in service and technology.

Durability for an RIA means having the ability to sustain the business through issues like operational hitches and glitches, capacity limitations, multiple founders retiring, succession, market pullbacks,

litigation, and weather-related shutdowns—just to name a few.

## Top Ops

Operational excellence brings with it many benefits. Institutionalizing a business through technology and operations allows RIAs to maximize scalability, manage risk, and build repeatable processes so that advisors can invest their time where it matters most—with clients.

And a big part of being a durable RIA is centered on operational infrastructure. It's the business model itself and the firm's ability to continue to function despite a flood in the building, a power outage, or the loss of a key employee, for example.

"Practitioners need to pay attention to not just what they're doing for execution—and not just what their competitors are doing—but see the big picture and say, 'What are the things that we have to change in order to thrive going forward?'" says Darian.

It's mission critical that back office operations like trading, performance reporting, portfolio accounting, compliance, client service, and IT management continue to function despite things like talent attrition, a breakdown in the chain of command, or a natural disaster.

Darian stresses that owners of operationally durable RIAs must have the ability to properly integrate technology with people.

Having centralized resources and dedicated professionals has worked for CAPTRUST, explains Shoff. "In our business, we have built a service model around freeing up the advisor. By definition, that means that we have invested to build centralized resources they can lean on to be more effective," he says. CAPTRUST reinvests 50 percent of its profits back into the business annually to build this infrastructure and innovate.

A customer relationship management (CRM) system is one tool that helps RIAs reinforce durability. They use CRM to manage client relationships, measure marketing initiatives, develop prospect pipelines, monitor client workflows, and gather actionable data.

CAPTRUST is not the only RIA increasingly taking advantage of efficiencies in CRM systems to help serve clients more consistently. Thirty-six percent of firms have three or more data sources integrated with CRM systems, and 37 percent use standardized workflows within CRM systems for more than 50 percent of everyday tasks.[\[1\]](#)

Having all of these records in one location—ideally on a cloud-based server—is especially important when building a durable RIA. But centralizing for scale can also create a single point of failure.

CAPTRUST has migrated nearly all of its mission-critical systems to the cloud. "The best thing about storing data in the cloud is that it's secure and affordable, and the data can be easily accessed from anywhere in the world," says Shoff.

Shoff also recommends that every RIA owner have a business continuity plan in case of an emergency. A business continuity or disaster recovery plan, along with solid operational processes, will help keep the trains on track and running on time should RIA owners run into unexpected succession or other personnel issues.

Cloud storage should be a part of that plan. "If it's in the cloud, advisors can get to the information they need even in the event the company is displaced from its offices and the team is working from an

alternative location or from their homes,” explains Shoff.

### **#PeopleStrong**

Many financial advisors running small RIAs wear many hats, acting as their own marketing and compliance specialists, human resources officers, technology experts, and more. However, according to Darian, RIA owners who neglect to hire specialists to help manage the business will eventually run out of capacity and inevitably hit a wall.

Having key people responsible for multiple functional and technical areas of the firm can place the business at risk. “If you’ve got partners who are doubling as technology officers, marketing heads, or chiefs of operations, you simply can’t grow and effectively service clients,” says Shoff. They get spread too thin, can’t specialize, and become bottlenecks.

When RIA owners run up against a capacity issue like this, they should look to hire people to help manage those parts of the business. In doing so, they both reduce the risks of losing one key player responsible for several aspects of running the firm and get specialists who can dig deeply into these areas of expertise.

“RIAs with a dedicated group of people in these positions are a lot less likely to lose all of those employees at one time,” explains Shoff. “Having a dedicated chief operating officer means the RIA owner is not doing that job on top of his or her own, which definitely makes a firm more durable.”

“RIA owners need to be thinking about the next best hire. A dedicated chief financial officer, a chief technology officer, human resources specialists, a marketing team—you need to hire the right people, people who are at their highest and best use when assigned to these positions,” says Shoff.

RIA owners seem to be heeding Shoff’s advice, with studies showing they are actively seeking talent, with 71 percent bringing on staff last year, and 42 percent of firms recruiting from other RIAs.[\[2\]](#)

Lastly, RIA owners need to remember to make sure client responsibilities and revenue are distributed across the firm. “Relying on one rainmaker or several large clients for a big portion of revenue can put RIA owners in an unstable position,” says Shoff.

Client concentration risk can be hard to avoid as a business owner. But it’s important to make sure your business cannot evaporate overnight due to one bad phone call.

“RIAs with a significant percentage of profits coming from too few clients, well, they have a big problem,” he says. “If you’re in this business long enough, you will lose your biggest client, probably more than once.”

According to Shoff, a critical goal for every business should be to have no client make up more than 5 percent of revenue. That’s a real and complex challenge for many founder-led practices.

“Having our revenue spread across hundreds of high-performing advisors is very unusual,” says Shoff. “It definitely makes us more durable.”

### **Be Diverse**

Diverse revenue streams, business lines, and service offerings make CAPTRUST more insulated from major market moves than other firms, explains Shoff. While asset-based fees from wealth management firms benefit when the market rises, they can also create issues during the inevitable

market pullbacks or periods of uncertainty.

Shoff says CAPTRUST is on track to have 50 percent of annual revenues coming from traditional wealth management and 50 percent coming from institutional consulting within the next few years.

“Having a substantial part of the firm’s revenue coming from fixed-fee institutional services is something that insulates CAPTRUST from market volatility,” says Shoff. “If the market becomes rocky, we know we still have revenue streams coming in from the institutional side. This is definitely a huge factor in our ability to keep client-facing people in their seats, even in a volatile market.”

“Having retirement plan, wealth, and endowment and foundation clients also makes us stronger,” says Shoff. “If something happened on the legal or regulatory front, we have assurance that our whole business cannot be socked all at once,” he says.

Litigation is a risk these days, and legal fees can easily run into the six- or seven-figure range. “That’s a bad day for an RIA owner—and it’s an existential threat for smaller firms,” says Shoff.

“It’s also important for RIA owners to be mindful of their capital structure,” says Shoff. Having a conservative balance sheet and broad-based ownership can allow their firms to handle even multiple shareholders retiring without a liquidity crunch or the need to seek outside capital.

According to Shoff, having diverse revenue streams and broad employee ownership is a big piece of building a firm that can withstand the ebbs and flows of the business and market cycle.

### **Build a Brand to Withstand**

A strong and sustainable brand can also add to an RIA’s durability and help carry a firm through tumultuous times. There is no doubt that a positive reputation is one of the backbones of RIA durability.

“What works for us is consistency,” says Shoff. He describes an environment in which someone will hear the same message from the person at the front desk as they would from an advisor, an investment specialist, or whomever they connect with at CAPTRUST.

“It’s our competitive advantage. It’s our culture and ultimately our brand,” says Shoff.

“A lot of people outside the company say, ‘I can’t put my finger on it, but there is something about this place.’ It’s that integrity and consistency of service from CAPTRUST that they are picking up on. It’s rooted in our core values, and that just allows the brand to be really strong,” says Shoff.

Adding to this sentiment, Shoff explains that as a value and as a standard, “one unified practice,” or OneUp, means something special around CAPTRUST.

“OneUP is not just something [CAPTRUST founder and Chief Executive Officer] Fielding Miller says. It’s something we all live and do every day. It has come to represent an important corporate value, one that guides our daily interactions and behaviors,” he says.

The slogan suggests that the whole of CAPTRUST is made better by the selfless offering of what each employee has to give—whether that is skills, experience, knowledge, time, perspective, or credit. As a unifying mantra, OneUp creates continuity beyond a single person or group within the firm. It creates, in a word: durability.

Darian and Shoff agree that RIA owners need to spend as much time working on their businesses as working in them to build their durability. Firms that invest in the resources and processes to support their operations, people, finances, and brands are the most likely to find sustainable success in the RIA world.

So, there you have it. While it's easy to reaffirm that attaining scale is a huge benefit for RIA owners, experts are saying it's the benefits of durability that come along with the features of scale that truly sustain a firm.

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[1] "2019 RIA Benchmarking Study," Charles Schwab, 2019

[2] Waddell, Melanie, "All About RIAs in 2018," Thinkadvisor.com, 2018

## Author(s)



### Alysa Cronin

<https://captrust.com/people/alysa-cronin/>

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