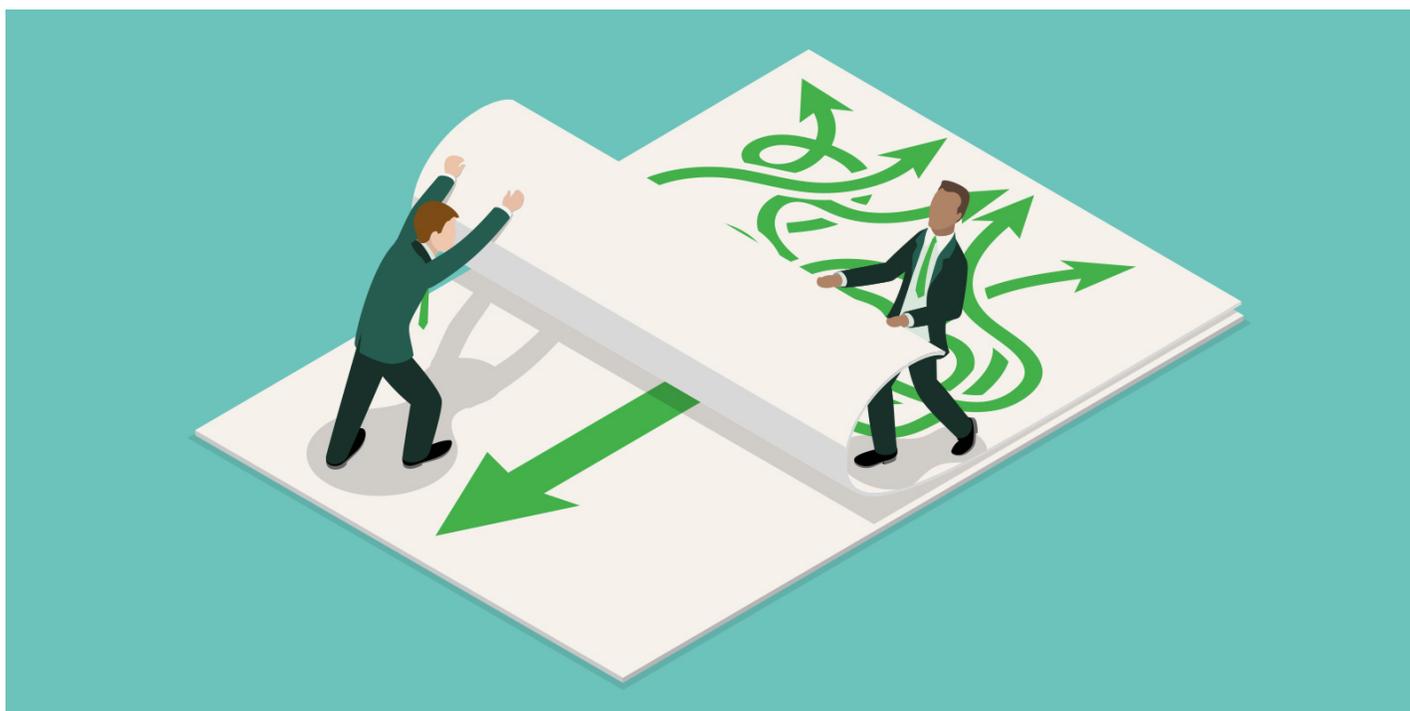


Running an efficient business in today's turbulent times

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Beth Braverman, 06/12/2020



Financial advisors have been concerned about margin compression for years, and the recent drop in assets under management due to the economic impact of the coronavirus may be exacerbating the issue for many.

More than 70% of CFOs surveyed in April said they were concerned about the financial impact of COVID-19 on their business.<sup>1</sup> As the economy is likely to enter a recession, now is the time to take stock and make sure that you're running your company as efficiently as possible.

Given the uncertainty around how long the crisis will last—and what type of impact it will have on the economy—advisors need to consider the cost-effectiveness of all their business decisions, both now and in the future.

“We've gone through tremendous volatility,” says John Bowen, founder and CEO of CEG Worldwide. “There's been all kinds of uncertainty, complexity, and ambiguity. Many advisors are battenning down the hatches, and you should do that in a storm. But we are also in an opportunity zone. I don't want

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you may have to make more difficult decisions in order to further reduce your expenses.

One area to look at is your own compensation. Leaders of RIA firms that performed the best in the last financial crisis took significant pay cuts, decreasing their share of total firm revenue from 31% to 19%, while owner pay at peer firms remained at about a quarter of revenue.<sup>2</sup>

“As leaders, sometimes you’ve got to be the one that makes the sacrifice at the end of the day for the good of the business,” says Vanessa Oligino, Managing Director, Business Performance Solutions at TD Ameritrade Institutional.

For firms in severe distress, there are a variety of federal and state relief programs aimed at helping small businesses and self-employed workers weather this economic storm. It’s worth considering, however, that making use of government-sponsored programs may qualify as a material event and require disclosure on your ADV forms. Beyond the first round of Paycheck Protection Program, which was quickly exhausted, there may be other less formal arrangements or funding sources that can help with overhead or other expenses. Many lenders and landlords are offering deferrals or reductions to tenants right now, for example.

### In the medium term ... adjust operations

Today’s circumstances have likely only hastened the need for businesses to rely on digital services. In order to conduct business in the current climate, you’ll need the ability to remotely onboard clients, meet with them virtually, and have work processes and tools in place that allow your staff to communicate with each other to get work done as efficiently as possible.

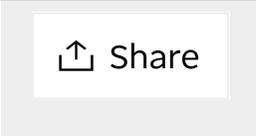
Take a close look at the digital tools you already have to make sure you’re using them as effectively as possible—and that you’re not paying for services or platforms that you’re not using. Be on the lookout for any additional products that might be available that you aren’t already taking advantage of. Now is also a good time to re-evaluate opportunities to outsource parts of your business, freeing you up for client consultations and business development.

Your employee expenses are likely among the highest fixed costs that you have. But while it’s important to make sure your payrolls aren’t bloated, protecting those employees will allow you to keep delivering the best possible service to clients—and position you to take advantage of opportunities in the future.

“Firms that have been hit hard are asking the right-sizing question,” says Jeff Levi, a principal at Casey Quirk, a Deloitte consulting business. “But that’s quickly followed by the question, ‘If I right-size, how do I position myself to be more scalable in the future?’”

For firms that have the budget to do so, expanding right now—during what has quickly become an employer’s job market—could be a smart investment. RIA firms that performed the best during the

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Now is not necessarily the time to make wholesale changes to your compensation model, but it may be worth considering future changes. Advisors with at least some clients who pay for services based on flat fees or subscriptions may have slightly more protection from market gyrations.

Some advisors, whose businesses thrive in a fully remote environment, might also consider whether they need to continue the expense of an in-person office (or an in-person office of the same size) after the pandemic subsides. "Definitely don't sign any long-term leases at this point," Bowen says.

The global pandemic has brought with it uncertainty around the ways advisors have always done business, but it has also brought opportunities. Proactive advisors can take advantage of these, using this time to improve and refine their business model so they're best poised to grow and thrive when the immediate crisis has passed.

*Later this month, we'll continue this series with best practices for client communication and prospecting as we emerge from this turbulent time. In the meantime, learn more about [talking to current clients about the implications of COVID-19](#).*

*Sources:*

<sup>1</sup> "How COVID-19 is affecting the asset and wealth management industry," April 22, 2020, PwC (Found [here](#).)

<sup>2</sup> "Uncertain Times Are Lined with Opportunities for RIAs to Shine, TD Ameritrade Institutional Analysis Reveals," TD Ameritrade Holding Corporation, May 4, 2020. (Found [here](#).)

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