



BNY MELLON | PERSHING

# Business Metrics: The Hidden Numbers Telling Your Firm's Story

FPA NE Florida Chapter

**Lisa Crafford**

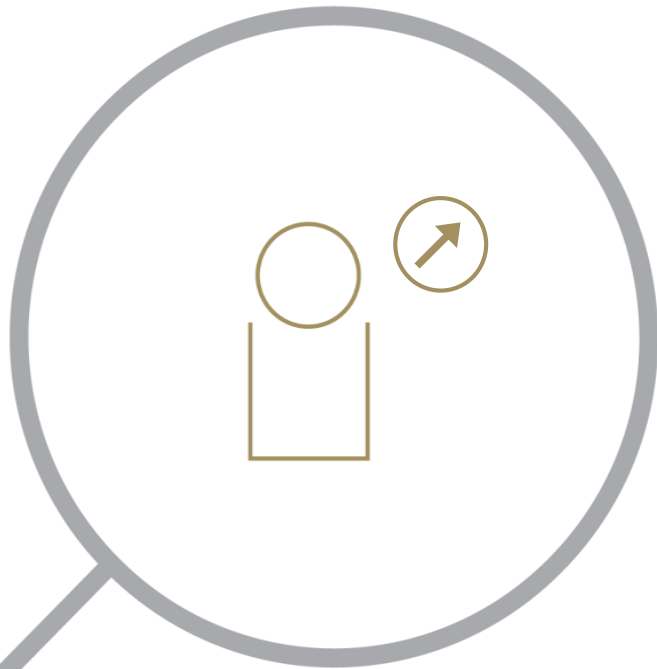
Relationship Manager, Pershing Advisor Solutions

# What Are Metrics?

Metrics are not just numbers—  
they're the data points your firm needs to grow!

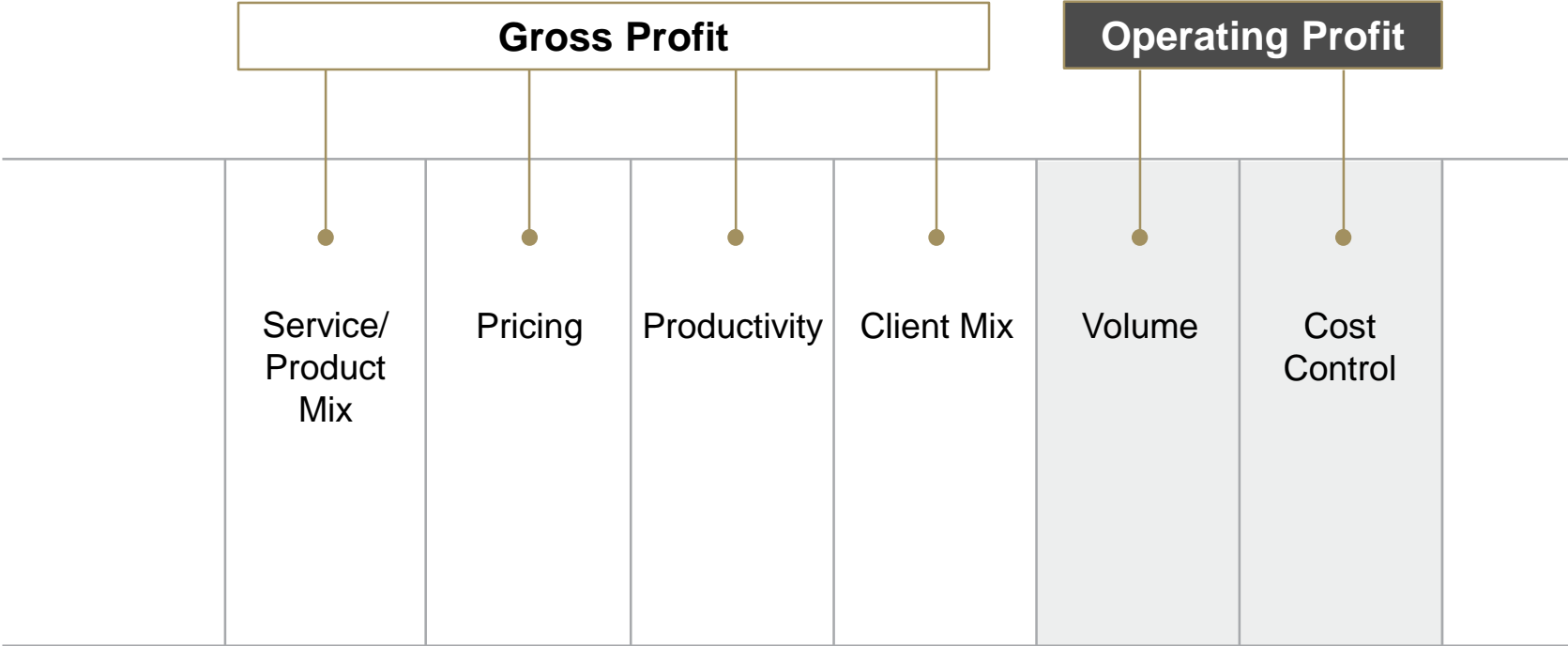
<b>Levers of Profitability</b>	<ul style="list-style-type: none"><li>• Product Mix</li><li>• Pricing</li><li>• Productivity</li></ul>	<ul style="list-style-type: none"><li>• Client Mix</li><li>• Volume (Revenue)</li><li>• Cost Control</li></ul>
<b>Key Performance Indicators</b>	<ul style="list-style-type: none"><li>• Lagging Indicators</li><li>• Leading Indicators</li></ul>	
<b>Ratios</b>	<ul style="list-style-type: none"><li>• Profitability Ratios</li><li>• Productivity Ratios</li><li>• Client Select Ratios</li></ul>	

# Why Should You Care?



- Help you understand where you are today and help drive you to where you want to go
- The data points give you the information you need to make decisions
- Measure the ROI of your expenses and make sure that you stay on track with your strategic plan

# Levers of Profitability



# Key Performance Indicators (KPIs)

## Lagging Indicator

- Show where you are relative to your goals and progress toward them
- An indicator that measures your results on key company goals
- Easy to measure, hard to influence or improve
- Examples:
  - # of meetings with clients
  - Revenue growth
  - Profitability ratios
    - > Direct expense/client
    - > Profit/client

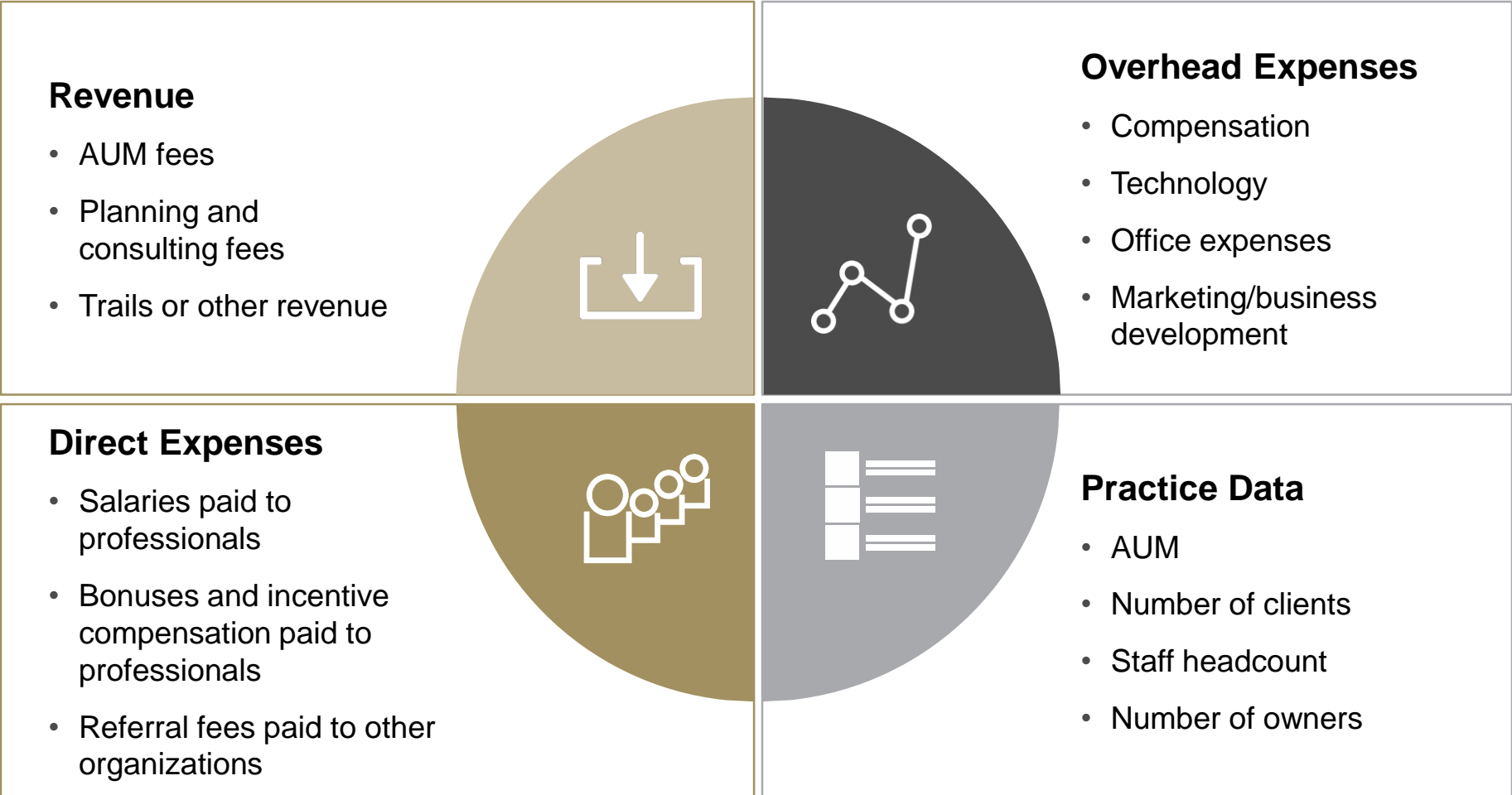
## Leading Indicator

- Provide insight on future events
- A measurable factor that changes before results are achieved
- Hard to measure, easy to influence
- Examples:
  - Time taken to respond to client request
  - Customer Satisfaction/Engagement score (NPS)
  - # of new accounts opened without NIGO
  - Productivity ratios
    - > Clients/FTE
    - > Client/professional

# Five Step Process



# What Are the Inputs?



# Common-size Financials

<b>REVENUE</b>	
Asset Management Fees	
Planning and Consulting Fees	
Securities Commissions - Current	
Securities Trails	
Other Fees	
	<b>TOTAL REVENUE</b>
<b>DIRECT EXPENSE</b>	
Professional Salaries or Commissions Paid - Owners	
Professional Salaries or Commissions Paid - Non-Owners	
Professional Bonuses/Incentive Comp - Owners	
Professional Bonuses/Incentive Comp - Non-Owners	
Referral Fees to Other Professionals/Organizations	
	<b>TOTAL DIRECT EXPENSE</b>
	<b>GROSS PROFIT</b>
<b>OVERHEAD EXPENSES</b>	
Compensation - Administrative and Support Staff	
Payroll Taxes	
Cost of Benefits	
Training, Continuing Education, Professional Dues/Licensing	
Occupancy Cost (Rent, Utilities, etc.)	
Technology Cost (Software, Hardware, and Office Equipment)	
Professional Services (Accounting, Compliance, Consulting, Legal)	
Marketing and Business Development	
Office Expenses	
Travel	
Insurance, Business-related	
Depreciation/Amortization	
Other Expenses (Taxes, Licenses etc.)	
	<b>TOTAL OVERHEAD</b>
	<b>OPERATING INCOME</b>
Pre-Tax Income per Owner	
Earnings before Owners' Compensation	



# Dig into the Ratios

## **PROFITABILITY RATIOS**

Gross Profit Margin  
Operating Profit Margin  
Earnings Before Owners' Compensation %

## **PRODUCTIVITY RATIOS**

Active Clients per Active Owner  
Active Clients per Professional  
Active Clients per Staff (total headcount)  
Revenue per Active Owner  
Revenue per Professional  
Revenue per Staff (total headcount)  
Revenue Yield on Average Annual AUM  
AUM per Active Owner  
AUM per Professional  
AUM per Staff (total headcount)  
Non-Professionals per Professional  
Percent of Staff that are Professionals  
Percent of Staff that are Active Owners

## **CLIENT-SELECTION RATIOS**

Revenue per Active Client  
AUM per Active Client  
Direct Expense per Client  
Overhead per Client  
Operating Profit per Active Client

# More on Ratios

## Gross Profit Margin

- Measures company efficiency and compares how overhead relates to revenue
- Low (or declining) GM may mean it's time to raise prices or cut labor costs. High GM may indicate opportunity to invest in the business (tech, people)

## Operating Profit Margin

- Shows the health of the business in terms of profitability and operational efficiency
- If OM is high, it may be time to increase investments in the business, if OM is low, look to reduce expenses or increase efficiencies

## AUM Per Professional

- Measures productivity of professionals and is a guide to capacity planning
- A smaller number of more complex (larger) clients may be a more accurate measure of capacity, depending on the client experience

## Percent of Staff that Are Owners

- Shows the longevity of the practice and effectiveness of succession planning
- If there is one owner, this is a trigger to identify and execute a succession plan

## Revenue Per Professional

- Measures productivity and can help diagnose poor pricing or capacity issues
- To improve revenue/professional look at the client experience and capacity models

## Active Clients Per Professional

- Measures productivity, efficiency and staffing capacity
- Finding the right balance of clients per professional will increase client and employee satisfaction

## Revenue Per Client

- Measures size per client and helps understand profitability
- Once the client level profitability is understood, use this ratio as a guide for accepting new clients

## Non-Professional Per Professional

- Measures the ratio of staff to advisors
- Benchmarking studies have shown increased capacity of advisors with adequate support personnel

# Look for Trends in the Data



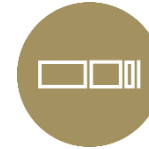
## Increasing Expenses

- Are there line items on your financial statements that are increasing at a faster rate?
- Why are some growth rates outpacing others? Is this a sustained rate or exception?
- Who is controlling expenses? How do you manage the budget?
- Are you tracking ROI on these increased expenses?



## Inconsistent Expenses

- Are there major fluctuations year to year on expense types?
- What is the underlying cause of these fluctuations?
- How can you better manage cash flow to reduce these inconsistencies?
- What impact do these inconsistencies have on your budget as a whole?



## Inconsistent Revenues

- Are your revenues loaded at a certain time of the year or quarter?
- How does that impact your growth?
- Are certain services you provide driving the inconsistencies? (such as insurance business)

# Benchmark!

Description	2017 Actual	Annual Revenue \$3-5M	Business Model (Wealth Management)	Practice Structure (Ensemble Firm)
<b>AUM Fees</b>	\$3,437,861	\$3,576,857	\$3,570,638	\$6,551,738
<b>Planning and Consulting Fees</b>	\$412,095	\$102,933	\$141,420	\$167,400
Total Revenue	\$4,476,380	\$3,817,298	\$4,122,024	\$7,316,479
Total Direct Expense	\$1,999,644	\$1,466,333	\$1,525,118	\$2,681,785
Total Overhead Expense	\$1,714,568	\$1,466,929	\$1,521,890	\$2,748,880
Operating Income	\$762,168	\$904,037	\$1,075,016	\$1,885,814

\*Sample data set

# Benchmarking Best Practices



## Management Tool, Not Scorecard

- Benchmarks are not pass/fail
- To be used to assist and support management decisions



## Use the Numbers to Move Forward

- Don't dwell in the past—think about current decisions and future implications



## Communicate

- Sharing the data with your team is important
- Go beyond just the management team (on some #s)—empower your team to make decisions based on fact

# Calculate the Financial Impact

1. Don't always focus on %
2. Run scenarios
3. Use a budget



1. Look at real \$ impact
2. Test all future financial decisions against your data
3. Plan for the year ahead and check back throughout the year to stay on track

# Scenario 1: The Gross Profit/Operating Profit Is Decreasing (Below Benchmarks)

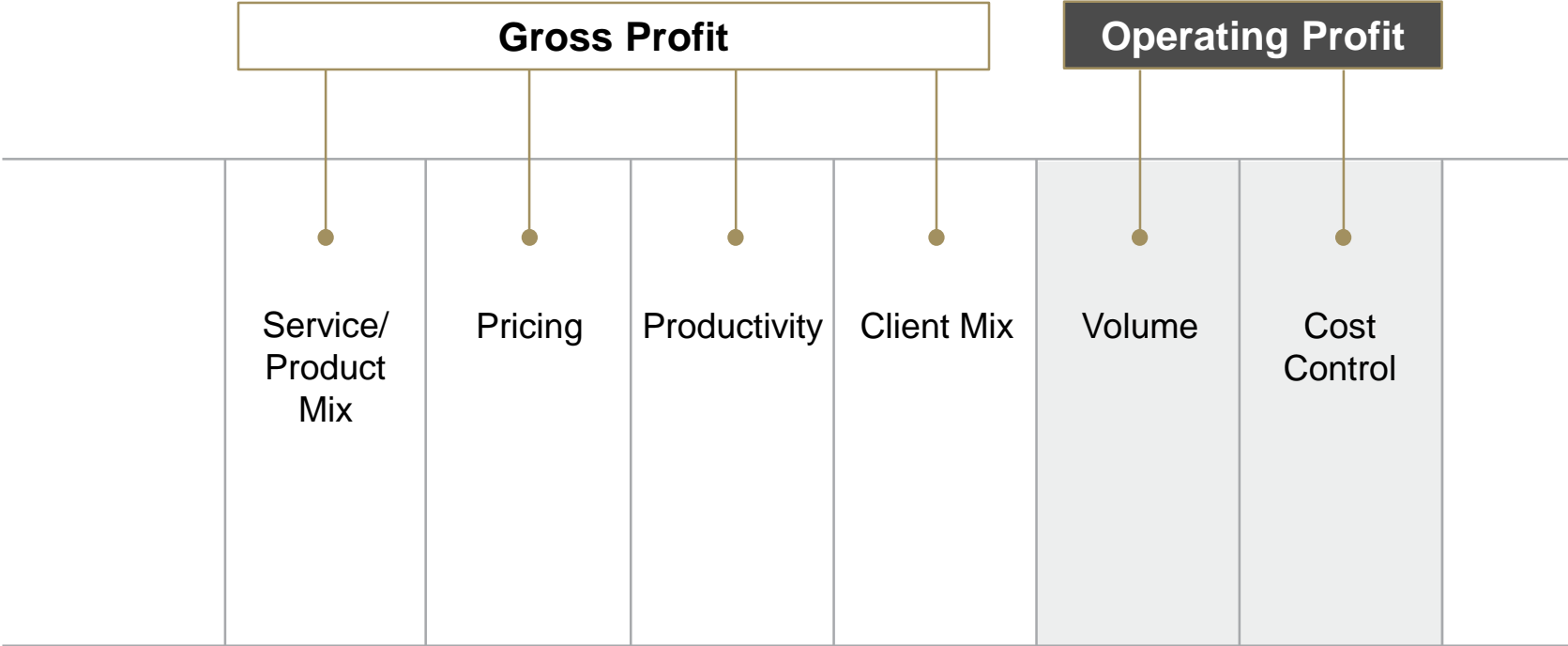
	2015	2016	2017	2018
Revenue	\$1,538,948	\$1,619,946	\$1,799,940	\$2,044,231
Direct Expense	\$615,579	\$680,377	\$791,974	\$940,346
Gross Profit	\$923,369	\$939,569	\$1,007,966	\$1,103,885

# Scenario 1: The Gross Profit/Operating Profit Is Decreasing (Below Benchmarks)

	2015	2016	2017	2018
Revenue	\$1,538,948	\$1,619,946	\$1,799,940	\$2,044,231
Direct Expense	\$615,579	\$680,377	\$791,974	\$940,346
Gross Profit	\$923,369	\$939,569	\$1,007,966	\$1,103,885



# Levers of Profitability



## Scenario 2: Direct Expenses Are Consistently Below 40%

	% of Revenue Goal
Revenue	100%
Direct Expense	40%
Gross Profit	60%
Overhead Expenses	35%
Operating Profit	25%

## Scenario 3: Revenue Is Inconsistent Over Five Year Period

	2015	2016	2017	2018
Asset Management Fees	\$2,665,753	\$3,387,303	\$3,684,142	\$4,237,853
Planning and Consulting Fees	\$895,767	\$921,671	\$731,411	\$790,610
Securities Commissions - Current	\$5,076,074	\$7,401,772	\$6,546,848	\$2,547,839
Securities Trails	\$1,294,665	\$1,298,783	\$1,563,703	\$1,509,477
Other Fees	\$58,229	\$59,459	\$53,838	\$62,198
<b>Total Revenue</b>	<b>\$9,990,488</b>	<b>\$13,068,988</b>	<b>\$12,579,942</b>	<b>\$9,147,977</b>

## Scenario 4: Overhead Compensation Expenses Are Consistent, But Firm Is Growing

	2013	2014	2015	2016
<b>REVENUE</b>				
Asset Management Fees	\$5,694,391	\$6,588,614	\$7,136,992	\$8,042,123
Total Revenue	\$5,694,391	\$6,588,614	\$7,136,992	\$8,043,765
<b>DIRECT EXPENSE</b>				
Total Direct Expense	\$1,945,027	\$2,076,614	\$1,944,714	\$2,091,838
GROSS PROFIT	\$3,749,364	\$4,512,000	\$5,192,278	\$5,951,927
<b>OVERHEAD EXPENSES</b>				
Compensation—Administrative and Support Staff	\$1,233,666	\$1,357,033	\$1,492,736	\$1,642,009
Payroll Taxes	\$172,713	\$189,985	\$179,128	\$180,621
Cost of Benefits	\$246,733	\$284,977	\$298,547	\$279,142

## Scenario 5: Revenue Per Client Is Decreasing

	2013	2014	2015	2016
<b>CLIENT-SELECTION RATIOS</b>				
Revenue per Active Client	\$7,532	\$7,658	\$7,626	\$6,945

# How to Get Started?

- Start simple—export from QB to Excel
- Build into your operating model—report KPIs at least monthly
- Build into your culture—empower employees to participate in the decision making

# Question and Answer

# Resources

- *Practice Made More Perfect*, Tibergien & Pomeroy
- *Four Disciplines of Execution*; Covey, McChesney, Huling
- Participate in the *InvestmentNews* Benchmarking Study



# Disclosures

©2018 Pershing Advisor Solutions LLC. Pershing Advisor Solutions LLC, member FINRA, SIPC, is a wholly owned subsidiary of The Bank of New York Mellon Corporation (BNY Mellon). Clearing, brokerage custody or other related services may be provided by Pershing LLC, member FINRA, NYSE, SIPC. Pershing Advisor Solutions relies on its affiliate Pershing LLC to provide execution services.

Bank custody and private banking solutions are provided by BNY Mellon, National Association (BNY Mellon, N.A.), member FDIC, a wholly owned subsidiary of The Bank of New York Mellon Corporation. Except with respect to uninvested cash held in a bank deposit account chosen by client as part of a sweep election, assets custodied at BNY Mellon, N.A. are segregated from the general assets of BNY Mellon, N.A.

Trademark(s) belong to their respective owners.

For professional use only. Not for distribution to the public.

The information contained herein, including any attachments, is proprietary to, and constitutes confidential information of Pershing Advisor Solutions LLC. It may not be reproduced, retransmitted or redistributed in any manner without the express written consent of Pershing Advisor Solutions LLC.



**BNY MELLON**