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MARKET KNOWLEDGE TOOLS™

WHITE PAPER

Best-Managed Firms: It’s About Time

Time Management and Organizational Effectiveness

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About Schwab Market Knowledge Tools™ (MKT)

This white paper is a part of the Schwab Market Knowledge Tools™ (MKT) series, an ongoing program of industry research reports, white papers and how-to guides from Schwab Institutional designed to keep investment advisors on the forefront of trends and competitive challenges facing the industry. Offered exclusively to Schwab Institutional clients, the MKT program delivers relevant and timely information for future business planning. The MKT reports are part of Schwab Institutional's GrowthPoint™, a new program that builds on Schwab's existing practice management solutions and takes a uniquely tailored, strategic approach to helping advisors build their businesses. GrowthPoint consists of three distinct service offerings: Marketing/Business Development, Business Strategy/Planning and Transition Services.

Executive Summary: Today's Best-Managed Firms Work Smarter, Not Harder

One of the most persistent assumptions in the financial advisory business—indeed, in any business—is that to succeed, you need to put in long hours at the office. In 2006, the typical owner of an advisory firm worked 50 hours per week.[1] Across the industry, firms are growing rapidly, making time an ever-more valuable resource. In the last two years, the median firm size grew by more than 40% (as measured by revenue), increasing the need for better time management. But driven as they may be to succeed, most firms don't want to extend the work week beyond 50 hours. Furthermore, addressing this growth by hiring more people is not always an option; the labor market for experienced advisory professionals is increasingly tight, and simply adding more people is not always the right answer.

The need for effective time management has never been greater. To help growing firms use their people efficiently, we set out to determine what role time plays in the overall success of advisory firms and to cull time management techniques from the top firms.

Each year, Schwab Institutional partners with Moss Adams LLP to identify and learn from a group of Best-Managed Firms. Firms considered for inclusion this year were those who custody with Schwab and who participated in the *2006 Moss Adams Financial Performance Study of Advisory Firms*.[2] The Best-Managed Firms represent the top 15% of these independent, fee-based advisory firms as measured by profitability, productivity, leverage and time management criteria. This white paper draws from interviews Moss Adams conducted with principals of many of these Best-Managed Firms as well as insight gleaned from advisory firm survey responses.

People form the foundation of the financial advisory business. Today's Best-Managed Firms understand this and strive to use their people effectively. Their tactics range from staffing, technology and outsourcing to streamlined communication and workflow solutions. Common across all of these firms, however, are several key strategies that bolster their success. Principals of Best-Managed Firms:

- Spend their time less on operations and portfolio management and more on client service and business development
- Measure capacity accurately and take full advantage of this capacity through streamlined, efficient processes
- Hire more support and managerial staff per professional than principals at other firms
- Offer only what is valued by their clients
- Standardize their service delivery
- Seek ways to automate or outsource routine tasks

[1] This estimate is the median work week for owners of fee-based or fee-only firms that custody with Schwab and participated in the Moss Adams survey.

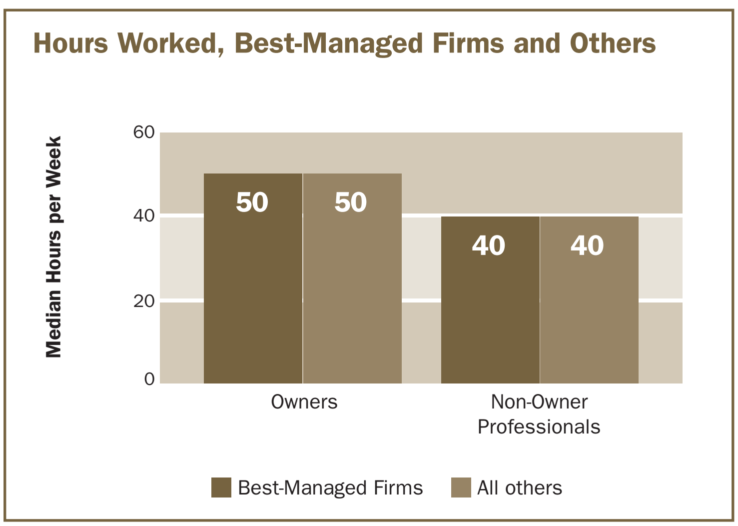
[2] See *Methodology* section for further detail.

In sum, time management is a business management issue. An effective management strategy recognizes that, despite busy schedules, principals must dedicate time to thinking strategically about their businesses. The principals of Best-Managed Firms possess a solid understanding of firm capacity, workflow, and drivers of costs, as well as revenue, enabling them to identify time management issues and implement solutions. They also delegate work effectively through proper hiring, training, role definition, and documentation of tasks. They understand that standardizing service delivery doesn't mean taking a cookie-cutter approach to client service but rather using a standardized process to deliver customized advice, minimizing wasted effort. Finally, they continually evaluate their service offering to deliver only what clients value most.

> The principals of Best-Managed Firms possess a solid understanding of firm capacity, workflow and drivers of cost.

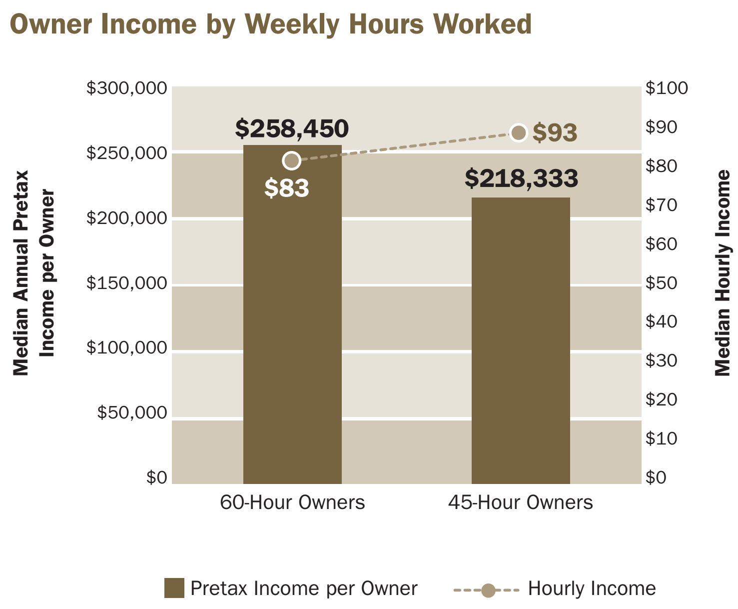
Following the assumption that hard work and long hours bring rewards, some might expect the data to show that principals at Best-Managed Firms pay a personal price for their success. However, in comparing hours worked at Best-Managed Firms with all others we found that successful principals and their staffs are not working harder; they are working smarter. There was no difference between numbers of hours worked by personnel at Best-Managed Firms and hours worked at other firms.

Working Longer Hours Does Not Distinguish Best-Managed Firms



The tendency to work long hours persists across the advisory business, but how can it be true that there is no difference between Best-Managed Firms and all others? To provide more insight into the relationship between hours worked and firm success, we separated those firms whose owners worked the longest weeks and compared them with all others.

Longer Hours Yield More Income at Reduced Hourly Rate



Note: "60-Hour Owners" represents those firms among the top 25% in terms of weekly hours owners work, with 60 as the median hours worked for this group. Similarly, "45-Hour Owners" represents the remaining 75% of firms, with 45 as the median hours worked for this group.

The median characteristics of the two firm groups were nearly identical in almost every respect including firm size, rate of growth, productivity and number of services offered. The comparison showed that firms where owners work longer were notable in two ways:

- Weekly hours per owner was 33% greater
- Pretax income per owner was 18% greater

The result is that longer-working owners generated less income on an hourly basis, a median of $83 dollars per hour compared with $93 per hour for the others. Put another way, compared with other owners, longer-working owners put in an additional 750 hours at a "marginal" hourly rate of just $51. Longer-working owners were rewarded with greater total income from their firms. These additional hours may also represent a lagged payoff in terms of better leverage or positioning for future market opportunities. All things being equal, however, the 18% difference in additional income per owner doesn't convincingly justify the 33% more hours worked.

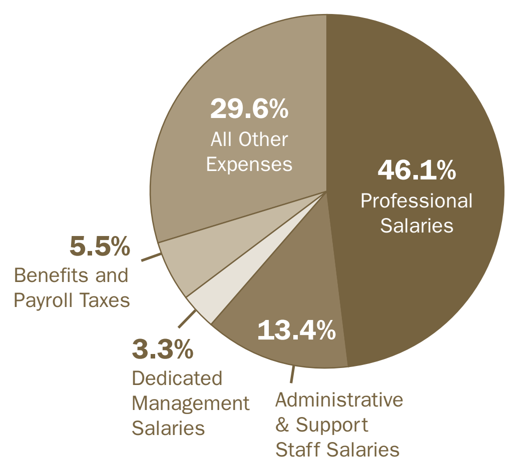
What's going on here? Achieving profitability, productivity and, in particular, efficiency isn't a matter of hours worked. The negligible difference in hours worked that separates Best-Managed Firms from others demonstrates this. Best-Managed Firms succeed because they work *smarter*, managing time efficiently and effectively. They make necessary decisions about staff size, responsibilities, support resources and where to focus time. We explore these strategies in detail in the pages ahead, concluding with guidelines to help firms overcome obstacles.

> The success of Best-Managed Firms is more about working *smarter*...

Partners in Time: How Firm Principals and Staff Allocate Time

The cost of staff time is typically the most significant expenditure for an advisory firm, averaging about 70% of all expenditures. By managing personnel time effectively, firms can increase their efficiency and free up time for strategic activities, while preserving quality of life for their employees.

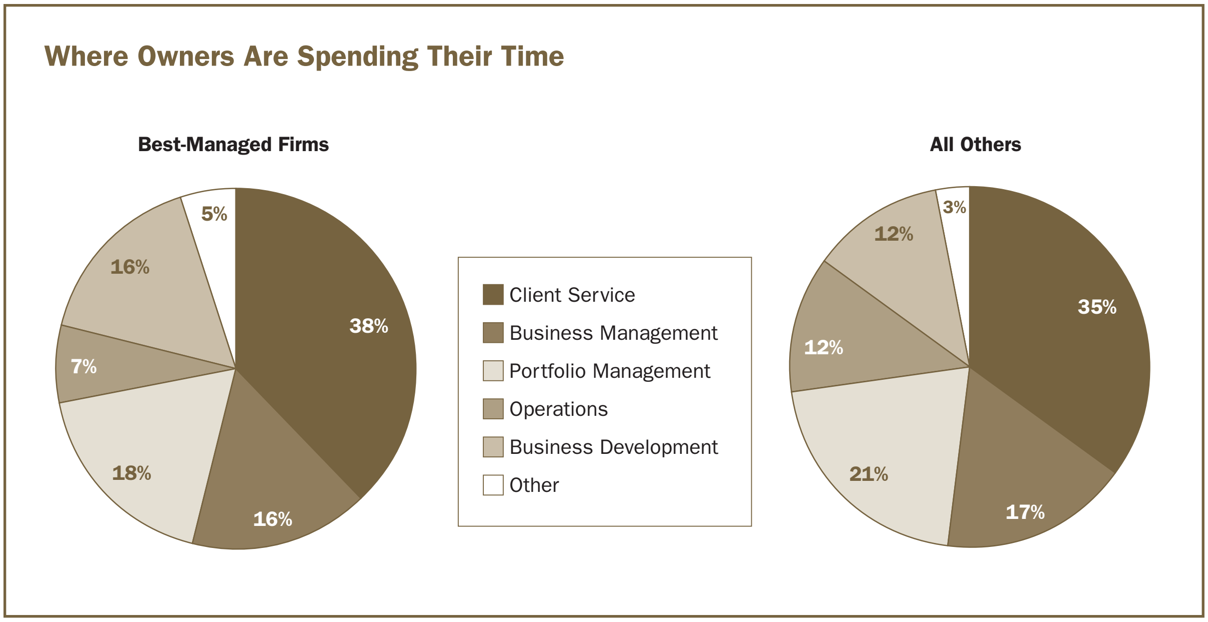
Cost of Staff Time, Best-Managed Firms and Others



Of course, there is no single way to manage time effectively; each Best-Managed Firm has its own unique service offering and workflow process. And even within a firm, tactics can shift from day to day. As a principal from Pillar Financial Advisors puts it, "Nothing is predetermined; it is a daily struggle to find the proper allocation of time." Best-Managed Firms distinguish themselves by allocating time to the activities that help them achieve their overall goals.

Time Allocation by Function

While there is no time-allocation formula that will work for every advisory firm, Best-Managed Firms tend to prioritize common business activities similarly, especially as compared with other firms.



Notably, owners of Best-Managed Firms spend significantly less time on operations and portfolio management than do owners of other firms—a full four hours a week, or 24 percent, less. Instead, they spend more time on client service and business development. On average, the owners of Best-Managed Firms spend 180 additional hours annually on these client-facing activities. That comes out to 7.9 hours per week that owners of Best-Managed Firms devote to business development, 27 percent more than owners of other firms.

Owners of Best-Managed Firms spend 24 percent less time per week on operations and portfolio management than owners of other firms.

Time Allocation by Service Positioning

How time is allocated across functions varies not just between Best-Managed Firms and all other firms but also by service model. For instance, both wealth managers and financial planners spend a majority of their time on client-facing activities such as client service and business development, while investment managers tend to focus on portfolio management. Whatever the service model, the key is to allocate time to the activities that build the most value for both clients and the firm.

Key Statistics by Service Model*

	Financial Planning	Investment Manager	Wealth Manager
Owners, Median Hours per Week	45	50	50
Non-Owners, Median Hours per Week	40	40	40
Average Owner Time Allocation			
Client Service	40%	27%	36%
Business Management	17%	14%	18%
Portfolio Management	18%	34%	17%
Operations	12%	12%	11%
Business Development	10%	9%	14%
Other	2%	3%	4%
Total Time Allocated	100%	100%	100%
Average Number of Services Offered to at Least 80% of Clients	**9**	**2**	**10**
Median Active Clients	**87**	**111**	**147**
Median Assets Under Management	**$50,455,055**	**$96,500,000**	**$143,640,000**
Median Total Annual Revenue	**$422,000**	**$659,000**	**$995,000**
Median Pretax Income per Owner	**$151,350**	**$186,650**	**$254,365**

*Data represent Best-Managed Firms and all others combined.

Time Management Myths

Best-Managed firms succeed not only because they allocate staff time according to clearly defined business priorities, but also because they avoid falling prey to common time management myths. The following list outlines the five most common myths and suggests strategies for overcoming them.

Myth #1: Every problem can be solved by simply working longer hours.

Reality: Increased hours don't necessarily result in increased productivity. In fact, as employees reach their capacity limits, they may see decreasing returns on each additional hour worked. While the threshold varies by individual, at some point additional work hours increase the chances of employee burnout or defection.

Problem for: All firms, especially those in the habit of evaluating employees based on hours worked instead of performance results.

Solution: Cultivate a culture that respects work-life balance. Determine what's most important: input or output. Improve staff communications to detect when employees might be approaching a breaking point. Use performance metrics to identify opportunities for improved efficiency and look to technology, outsourcing or organizational redesign to streamline employee workloads.

Myth #2: Every problem can be solved by simply adding more people.

Reality: Indiscriminately adding people can be costly if the new staff don't advance the firm's overall strategy. Problems compound further without adequate training or management oversight to guide these new people.

Problem for: Fast-growing firms and midsized firms with the resources to hire staff but lacking management sophistication.

Solution: Before opening a new position, firms should gain a better understanding of existing capacity by position. Determine whether staff time can be used more efficiently through improved delegation, organizational design or work assignments.

Myth #3: Every problem can be solved by the firm principals.

Reality: While principals might be tempted to believe that "If they want something done well, they have to do it themselves," in reality, they must put their time to its best use. Client service, business development and business management suffer when principals allow themselves to become consumed by operations and firm minutiae. Principals may also burn out, while junior staff sit idle, an arrangement that stunts employee development and damages morale.

Problem for: All firm types. However, wealth managers with elaborate service offerings, investment managers and solo firms are especially susceptible.

Solution: Reduce operational demands by standardizing service delivery and developing consistent processes for customized solutions. Institute training, map workflow and document procedures to build trust and ease principals' anxieties over delegating tasks.

Myth #4: Revenue is the best way to measure capacity.

Reality: A firm's revenue forecast does not necessarily correlate to a specific hourly capacity needed to support it. In fact, the hourly capacity of staff can fail to meet forecasted revenue demand.

Problem for: All firms; but tends to afflict top-line, growth-oriented firms the most.

Solution: Understand the time required to deliver services and use hours as a foundation for capacity estimates.

Myth #5: Every problem can be solved by growth.

Reality: Growth alone is not a sustainable, long-term strategy. Profit will not keep pace with revenue if there is no emphasis on efficiency.

Problem for: High-growth firms.

Solution: Emphasize quality of new clients over quantity. Disciplined client selection will assure service-model fit and more efficient servicing, as well as reduce pressure to grow at any cost.

These time management myths may seem all too familiar to firm principals who are struggling with time management issues. The pages that follow explore in greater depth the solutions briefly introduced above.

Solutions from Best-Managed Firms: How to Get Time on Your Side

Work-life Balance

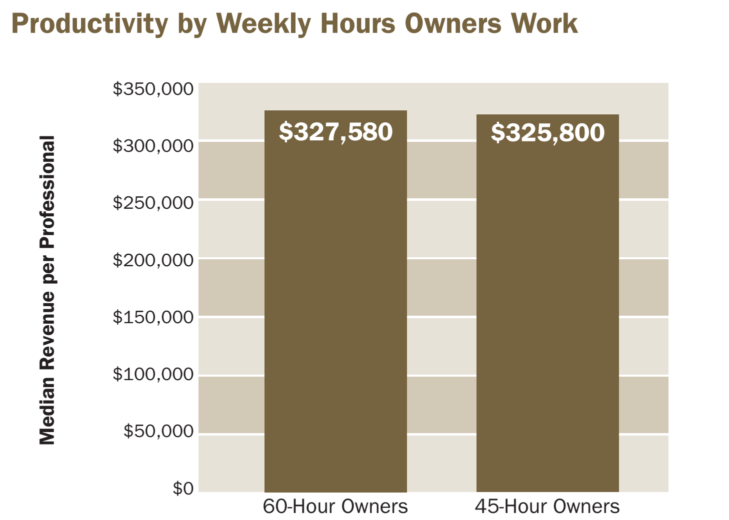
Best-Managed Firms recognize the need to maintain work-life balance. While the exact terms of this balance can vary from person to person and firm to firm, it's the foundation of most sound time management decisions. Not only is work-life balance healthy from a personal standpoint, it's also good for business and for clients.

At Rowling, Dold & Associates LLP, employees work an average of 36 hours per week, and partners average even less. A Rowling Dold principal explains, "My philosophy from early on has been about good quality of life, and we integrate that goal into everything we do. We make rational decisions about adding clients, employees and responsibilities. We don't add anything unless it increases our bottom line. In the long run, it is good for clients—I am not so booked up and harried that I can't make time for them. Working fewer hours also gives me creativity time for thinking out better solutions to deliver better client service." Adds a principal from Wealth Management Advisors: "At most, this is a 40-hour-per-week job. We keep work within boundaries. At five o'clock, we shut down the computers and turn off the lights. You just can't do our type of work well for more than eight hours per day."

> "My philosophy from early on has been about good quality of life, and we integrate that goal into everything we do."
>
> —Rowling, Dold & Associates

Not only does "keeping work within boundaries" ensure that employees can approach each day with a fresh mind, it prevents them from working below their optimal productivity. Longer work weeks lead to extremely limited gains in productivity at best. In fact, median revenue per professional differs very little between firm owners who work 60 hours a week and those who work 45 hours per week.

Weak Link between Productivity and Hours Worked



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> "We walk the talk of what we try to tell our clients. Life is short; live a good life."
> —Friedman & Associates

For several Best-Managed Firm principals, maintaining work-life balance is simply logical, consistent with the counsel they give their clients. A Dixon Financial Services principal placed greater priority on his personal life after realizing his own work habits ran counter to his efforts to help clients achieve balance in their lives. A Capelli Financial Services principal maintains a similar stance: "We want our clients to lead lives that they love, and the same thing is true for everyone here. We lay out the way we want to work and have work fit in with our lives." A principal from Friedman & Associates adds, "We walk the talk of what we try to tell our clients. Life is short; live a good life."

Analyzing Time as a Factor in Success

Advisors don't come to balance a successful firm with a rich personal life by accident. The principals of Best-Managed Firms achieve balance by analyzing their businesses to identify time management problems, prioritize needs and develop solutions for optimizing organizational efficiency. In essence, these principals are taking time to make time.

A Friedman principal says, "It's extremely important to take concentrated time outside of your business to strategically think about your business and your day. Most advisors who have trouble with time management claim that they are too busy to do the very things necessary to solve the problem." Principals at Gemmer Asset Management turned to the teachings of Stephen Covey for the structure and discipline they needed to manage their time effectively (see sidebar).

Gemmer Asset Management Credits Covey's 7 Habits

Gemmer Asset Management LLC, a $440 million plus advisory firm, has found a successful niche providing investment management and related back-office solutions to other advisors wishing to outsource these functions.
All of the principals at Gemmer have gone through "The 7 Habits of Highly Effective People®" program designed by Stephen Covey. Principals are quick to point out that Covey's teachings have helped their firm maintain work-life balance, stay focused on long-term strategy and avoid getting too caught up in day-to-day distractions. The "Put First Things First" habit informs the firm's approach to time management. At the core of this is Covey's four-quadrant Time Matrix.

The Time Matrix™

	Urgent	Not Urgent
Important	**QUADRANT I** • Crises • Deadlines • Angry customers • Sick child • Flat tire	**QUADRANT II** • Planning and preparation • Education • Training and development • Relationship building • Renewing yourself
Not Important	**QUADRANT III** • Interruptions • Gossiping • Unnecessary emails, meetings and phone calls • Other people's priorities	**QUADRANT IV** • Excessive computer games and email • Aimless Internet surfing • Mindless TV • Meaningless conversations

Source: Covey, Stephen R., The 7 Habits of Highly Effective People. New York: Free Press, 1990.

Gemmer never lets Quadrant I activities (important and urgent) overshadow the need to focus on Quadrant II activities (important but not urgent). By maintaining good intra-firm communications, Gemmer helps employees prioritize for themselves what falls within QII. Once a year, the firm holds a major planning session to develop QII initiatives for the coming year, as well as the next five years, resulting in both short- and long-term plans. Over a number of days, the firm's principals identify key goals and projects. Each quarter, the annual goals are revisited, and the firm agrees on the most important QII items to focus on in the coming quarter. Finally, there are weekly QII follow-ups. In this way, Gemmer avoids what Covey describes as working "harder and harder to climb the ladder of success only to find it's leaning against the wrong wall."

Gemmer principals find particular value in Covey's recommendation to manage against a compass rather than a clock. In Covey's words, "The clock represents our commitments, appointments, schedules, goals, activities—what we do with, and how we manage our time. The compass represents our vision, values, principles, mission, conscience, direction—what we feel is important and how we lead our lives."[3] Put another way, where you are headed is more important than how fast you're going. In managing against the compass, Gemmer maintains its focus and consistently strives to reach new levels of service, revenue and investment performance.

[3] Covey, Stephen R., A. Roger Merrill and Rebecca R. Merrill. *First Things First: To Live, to Love, to Learn, to Leave a Legacy.* New York: Simon and Schuster, 1994.

Best-Managed Firms use several tactics to better their understanding of how their businesses manage time. These include:

- Accurately gauging and monitoring capacity
- Mapping and analyzing workflows to understand current processes
- Streamlining processes
- Conducting client cost/benefit analyses
- Measuring advisor productivity and profitability
- Tracking time, revenues and expenses to assist with all of the above

Gauge and Monitor Capacity

The most obvious first step in analyzing how time factors into a firm's success is to gauge and monitor capacity. Firms often focus their business planning on projections of revenue. Yet they often forget to relate revenue back to the hourly capacity needed to generate revenue.

Firms can easily estimate their revenue-generating capacity with the concept of theoretical capacity. Theoretical capacity examines how many hours are available in a given year and how they are allocated across various client-service, operations and business management tasks. Since there are only so many hours in a day, it is important to calculate the theoretical capacity of each firm member, and professionals in particular, to determine how much time is available for serving clients and generating revenue.

Since there are only so many hours in a day, it is important to calculate the theoretical capacity of each firm member.

Imagine an advisory firm with a work year of 2,340 hours (45 hours per week). Two hundred hours are allocated to paid time off, and 80 hours are allocated to holidays. This leaves 2,060 hours to be allocated across the remaining five functions of the firm. In this example, these hours are allocated according to the average profile of Best-Managed Firm owners. This analysis can be done across each position in your firm. Once the number of hours available is identified, you'll be able to establish revenue targets for your firm using the hours allocated to client service. For additional information on establishing these targets and pricing your services, refer to the Schwab MKT report *Pricing Strategies for Maximum Success*.[4]

Theoretical Capacity Determines Revenue Potential

Sample Calculations		
Hours available (52 weeks x 45 hours per week)		2,340
Less: Paid Time Off		(200)
Less: Holidays		(80)
Available Time		2,060
	Allocation*	
Client Service	38%	775
Business Management	17%	342
Portfolio Management	15%	313
Operations	7%	135
Business Development	17%	346
Other (i.e., Continuing Education and Conferences)	7%	148
Total Available Time	100%	2,060

*Assumed percentages based on average Best-Managed Firm profile.

Although excess capacity can be costly, firms need sufficient capacity to manage peak workflows, such as during quarterly report production. A principal at All Star Financial explains, "We stay ahead of capacity. You should have the right people in place before the demand arrives." A similar comment comes from a principal of Bingham Osborn & Scarborough: "We anticipate our staffing needs in advance and try to stay ahead of the curve. It is difficult, though. It can take up to two years to bring someone up to speed."

"We stay ahead of capacity. You should have the right people in place before the demand arrives."

—All Star Financial

[4] Schwab Institutional and Moss Adams LLP. *Market Knowledge Tools™ White Paper: Pricing Strategies for Maximum Success, 2005.*

Common Strains on Advisory Firm Capacity

- Processes or requests that do not match the client-service model or offering
- Lack of sufficient capabilities
- People doing the wrong task or in the wrong role
- Lack of standardized processes
- Duplicated efforts
- Lack of staff training and knowledge

See the Time-allocation Exercise in Appendix A for help understanding individual and firm-wide capacity. The exercise also can help owners reallocate time capacity to improve organizational effectiveness.

Understand Current Processes

According to a principal at Sand Hill Advisors, “You need to examine what each group and each function does. Start with the client experience and examine every step and process from the time they are a prospect to the time they are fully integrated. To grow your business profitably, you need to have the right person doing the right work at the right time.” Adds a Dixon Financial Services principal: “If you can’t document what you are doing, is it really worth doing?”

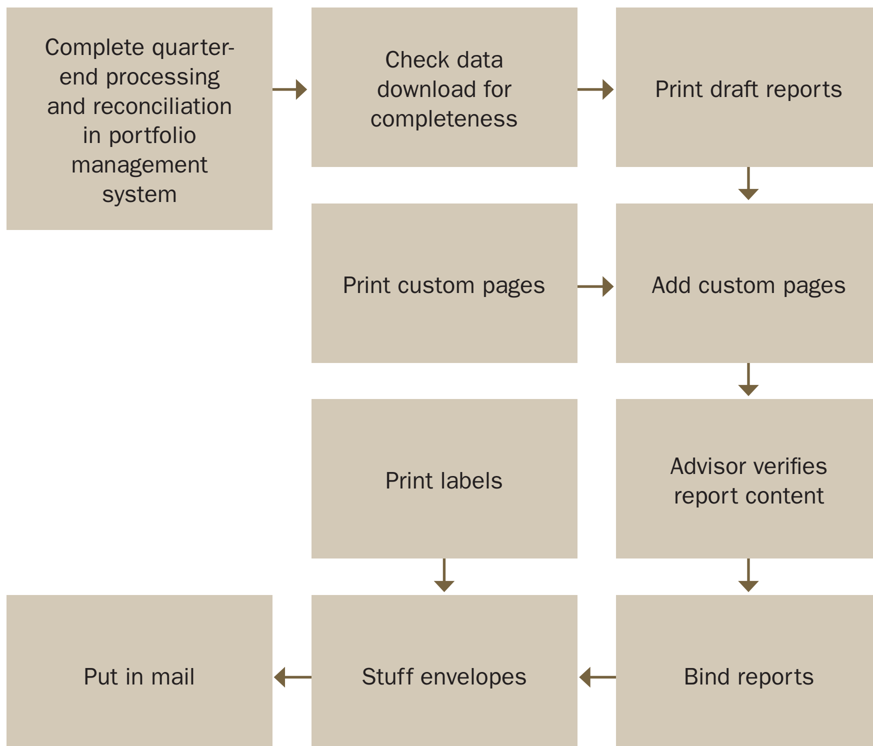
Process Mapping: Key Steps

1. ***Choose a process most deserving of improvement.*** What’s most time-consuming, error-prone or critical for success?
2. ***Assemble a team to examine the process.*** Empower them to make changes.
3. ***Detail the current process.*** Diagram steps, inputs, outputs and important decision points.
4. ***Gather information about the process.*** Who is doing what and why? Are clients satisfied with the process? What specific metrics measure success for this process?
5. ***Analyze.*** What really happens, as opposed to what should happen? Where is value being created and where are the inefficiencies? Are there redundant or unnecessary steps in the process? For which steps are the problems most significant?
6. ***Brainstorm solutions.*** What improvements will take the process to its desired future state? Set priorities to make the process run more effectively and efficiently.
7. ***Implement.*** Specify action steps and assign responsibilities. Document the new, approved procedures and, to ensure that they are consistently put into effect, follow through with employees.

A firm must be willing to dedicate time to examining its current processes. A simple process diagram or flowchart showing each step and decision can help break processes down into the activities that comprise them, revealing opportunities for improvement.

> "If you can't document what you are doing, is it really worth doing?"
>
> —Dixon Financial Services

Sample Flowchart of Quarterly Report Production



Streamline Processes

Process improvement results from careful deliberation and implementation. Firms looking for a quick fix from process improvement will be disappointed. It is important to think through the logistics of a firm's processes and consider the impact each has on the overall client service experience. Firms should also consider whether a process can be eliminated or delegated without degrading service.

Points at which work is handed off between individuals should be the primary focus of initial analysis for increasing process efficiency.

Firms looking to make their processes more efficient should examine points at which work is handed off between team members. Analysis of these points may reveal opportunities to reorder steps in a process or identify causes for delays. For example, production schedules for quarterly reports can be adjusted if a firm discovers that advisor review takes longer than anticipated.

One Best-Managed Firm that took a formal approach to process improvement is Plancorp (see sidebar). The firm improved its sales efficiency and consistency by successfully documenting its sales process and identifying areas for improvement.

Process Improvement at Plancorp, Inc.

Plancorp, a full-service wealth manager, increased assets under management by 30 percent to $1.2 billion in 12 months. This success stems in part from the Plancorp service team's efficient, collaborative work on each client relationship. After working with a strategic coach to control his personal time and streamline time for others, a Plancorp principal has decided to focus on firm-wide process improvements.

Plancorp recently hired an industrial psychologist to create a map of its sales process. As the firm grew and more people became involved in sales, the company wanted to ensure that the process maintained the same high quality regardless of who was doing the selling.

The firm developed a flow diagram to map the sales process followed by one principal. The three owners of the firm then collaborated to refine the process before presenting it to their senior staff for feedback, and they ultimately arrived at a process everyone was comfortable with.

The result was a 3' x 6' diagram that traced the progress of prospects from the beginning of the sales process all the way through to various exit points. Next, Plancorp implemented its new sales process and worked with its IT staff to automate it. Following its success in defining and improving the sales process, Plancorp recently completed mapping financial planning processes and back-office procedures.

Measure Relationship Costs and Benefits

A principal at Sigma Investment Counselors received the following piece of advice early in his career: "Every year, fire your two worst clients. Fire those that aren't satisfied and take up a majority of your time." To determine which clients are "worst" and which ones aren't, advisors at Best-Managed Firms analyze the bottom line of each relationship and determine costs and benefits.

"Every year, fire your two worst clients. Fire those that aren't satisfied and take up a majority of your time."
—Sigma Investment Counselors

While most firms can track revenue per client, they may not be able to analyze the bottom line on a per-client basis without tracking time spent per client. If your firm does not track time on a per-client basis, you can use a simple average-cost approach to allocate expenses.[5] However, this approach will not account for those relationships that take up numerous staff hours or those clients who require little attention.

[5] This method is covered in the *Market Knowledge Tools™ White Paper: Pricing Strategies for Maximum Success.* Schwab Institutional and Moss Adams LLP, 2005.

> "Track a work week to learn where you spend your time. Your biggest obstacle is ignorance."
>
> —American Economic Planning Group, Inc.

Tracking time allows a firm to look at costs associated with each hour spent per client. As a principal at American Economic Planning Group, Inc., recommends, "Track a work week to learn where you spend your time. Your biggest obstacle is ignorance."

Some firms opt to track time on an ongoing basis, while others prefer to track periodically, as they see issues creeping up or as part of their strategic planning process. Kochis Fitz tracks time continuously and can perform analyses at any time on each relationship: "We systematically look at each client on a 12-month and a three-year basis and perform a trend and absolute analysis. For unprofitable clients, we look at a few causes, such as the fee schedule or how work is being billed. The problem could also be the result of improper leverage."

JMG Financial Group is one of a few firms that track time using daily time sheets. Each client is assigned an engagement number in its CRM software, and hours are billed weekly to each relationship. Adds a principal, "We determine the realization on each client. We review client printouts annually and discuss time spent versus revenue generated. If realization is too low, it is assessed by management, and we meet with the appropriate advisor to discuss the relationship."

In contrast, some firms find no value in tracking time. The Monitor Group focuses on another measurement: "Profit per staff member is the broadest measure of firm efficiency. It is affected by inputs such as pricing and client selection and outputs such as client-added value." Other firms just have a feel for when things are functioning properly. According to a principal at All Star Financial, "We don't formally track time, but we know where time is being spent and know from our experience how much time to spend with each client."

> "We don't formally track time, but we know where time is being spent and know from our experience how much time to spend with each client."
>
> —All Star Financial

Another approach to analyzing client relationships is to set up a two-by-two matrix and assign each client to a quadrant. Principals at both David Vaughan Investments and Sand Hill employ a matrix approach for examining their clients and identifying how to serve them more efficiently. Although the staff at Sand Hill Advisors does not formally track time, they have implemented a cost-benefit analysis for each client relationship.

Using a Matrix to Evaluate Client Relationships

A two-by-two matrix provides a simple, useful tool for assessing costs and benefits. A client's cost rating is based on:

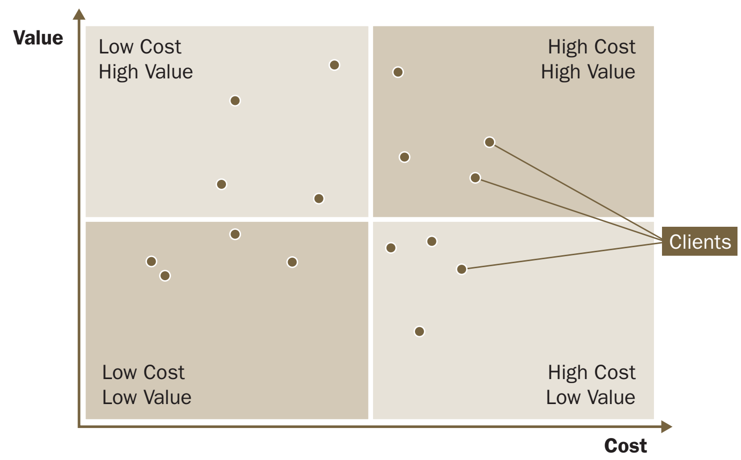
- Effort to serve
- Cost to serve
- Resources consumed

The criteria for benefit or value derived from the relationship are more numerous. They include:

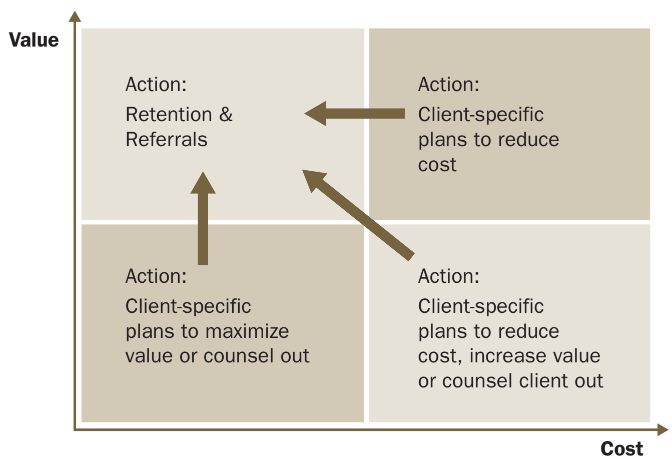
- Revenue
- Strategic fit
- Referral quality
- Future asset potential
- Longevity
- Other strategic value

The ultimate goal of the exercise is to figure out how to drive costs down and make each client more profitable. One key is delegating more work to lower-cost professionals. Note that moving a client to the preferred northwest quadrant doesn't necessarily mean limiting service; it may just mean serving the client more efficiently or adjusting pricing to better reflect the value they receive.

Sand Hill Advisors' Matrix for Evaluating Client Relationships



Sand Hill Advisors' Action Steps Determined by Client Quadrant



Time to Communicate: Is Work Going the Way It Should?

One key to the success of Best-Managed Firms is their ability to communicate well internally. Effective internal communication includes listening to employees to develop a better understanding of firm operations and priorities. It also includes communicating both firm priorities and individual responsibilities firm-wide to minimize wasted time and effort. For instance, a firm should educate employees on its vision, their specific role in achieving this vision and where the boundaries lie for activities that should or should not be pursued.

Communication up, down and across levels of authority allows firm personnel to cooperate and share experiences, impressions, skills and knowledge. Both formal and informal communication work—as long as they take place regularly and include face-to-face time with team members. Many Best-Managed Firms actively solicit team members' recommendations and ideas. Most Best-Managed Firms conduct regular staff meetings. Principals at JMG hold these meetings in such high regard that a portion of incentive compensation is based on employee attendance.

According to a principal at The Monitor Group, "The biggest signal is when people say they can't get something done." Too often, employees are drowning in work, and their superiors don't recognize it. To avoid this problem, firms should create a mechanism for identifying workload imbalances, as well as measures for evaluating whether the problem is the volume of the work or the efficiency of the staff.

> "The biggest signal is when people say they can't get something done."
> —The Monitor Group

Wealth Management Advisors attributes much of its success to its internal communication: "At the end of every quarter when reports are out, we all have lunch and talk about how the quarter went. Everyone has a chance to sound off about any issues and has a chance to weigh in with their thoughts and opinions." Parsec Financial Management also has regular group lunches focused on strategic discussions about the industry and the firm.

> "We meet annually to discuss our time capacity. We look at how much time we expect to spend on each relationship, build in capacity for new client relationships, and measure capacity from there."
> —All Star Financial

All Star Financial is another firm that emphasizes communication. Its annual planning meeting involves the entire team in a discussion of capacity and needs: "We look at how much time we expect to spend on each relationship, build in capacity for new client relationships, and measure capacity from there. We then meet weekly to discuss issues about clients, timing and whether a relationship will need extra help."

The Right People at the Right Time

Best practices for strong staffing and delegation

- Know what functions you need to fill and when.
- Hire and train the right people.
- Put them in the appropriate positions.
- Clearly define and communicate roles and responsibilities.
- Designate backups for each function to assure continuity and minimize disruption.
- Provide sufficient support staff to best leverage professionals' time.
- Have the confidence and trust to delegate.

Because they excel at communication, Best-Managed Firms can determine whether the firm is getting the right people involved in the right activities at the right time. As a Kochis Fitz principal describes, "Hire the right people to begin with and train them. Make the investment in staff to do all the work that the principal doesn't really need to be doing. Focus on what you know and do best." Adds a Moneta Group principal: "Find the right people, grow them and delegate. We do a lot of training and education to make this work."

For more information on hiring, training and defining responsibilities, see the Schwab MKT reports, *Recruiting and Retaining Top Talent*[6] and *Building an Effective Organizational Structure.*[7]

Placing People Where They Excel

Fort Pitt Capital Group claims time management is a pillar of its success. The firm controls its time in part by creating specialized positions and putting people in roles they do best. Says a firm principal: "So many advisors are overwhelmed by trying to do both money management and client management. You must find people you can trust on both the sales side and the investment side. We divide the labor and let people do what they are good at. We value each function equally."

Leverage

Best-Managed Firms recognize that professionals' time is best spent working with clients and prospects. Whenever possible, they protect professionals from the distractions of non-client-facing activities. JMG relies on dedicated management to get this done. In the words of a principal there, "If you want to truly be a firm that works together, you should have dedicated management so that advisors can focus on client service." The table on the next page provides a compelling illustration of the emphasis Best-Managed Firms place on getting maximum leverage from their professionals.

"If you want to truly be a firm that works together, you should have dedicated management so that advisors can focus on client service."

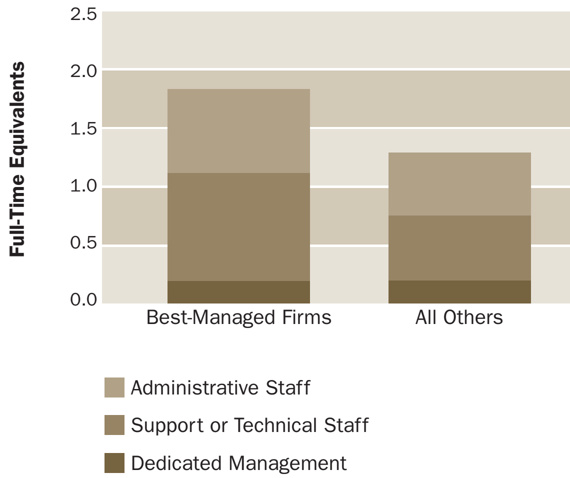
—JMG Financial Group

[6] Schwab Institutional and Moss Adams LLP. *Market Knowledge Tools™ White Paper: Recruiting and Retaining Top Talent*, 2005.

[7] Schwab Institutional and Moss Adams LLP. *Market Knowledge Tools™ White Paper: Building an Effective Organizational Structure*, 2006.

Best-Managed Firms Leverage Their Professionals

Nonprofessional per Professional Position, 2005



On average, the Best-Managed Firms supported each professional with 1.8 additional full-time-equivalent (FTE) positions in 2005. This compares with just 1.3 nonprofessionals per professional in other firms. Based on hiring projections, this gap was expected to widen at the close of 2006, with Best-Managed Firms increasing the support ratio to 2.2 and other firms expecting no change.

Kochis Fitz takes the concept of leverage so seriously that the firm produces a leverage report every six months. The report indicates whether professionals are delegating work appropriately, measuring, for example, total hours spent on a client relationship versus hours delegated on the relationship. "We review this if it's out of whack. This is a good indicator of whether there is a need for more junior staff," explains a firm principal.

Delegation

Delegation is vital to ensure that all staff are making effective use of their time. But despite its importance, delegation can be difficult for many Best-Managed Firms. A principal at Moneta Group explains: "A big challenge for us as principals is that we come in committed to doing the best job possible. As a result we are reluctant to delegate down. To avoid this means trusting people, training them and then delegating—it means having a 'to do' and 'not to do' list." At Ballentine, Finn & Co., the choice is clear. "We have to delegate," states a principal there. "If we don't, we won't grow."

> "We have to delegate. If we don't, we won't grow."
> —Ballentine, Finn &Co.

Despite their reluctance, principals at Best-Managed Firms push themselves to delegate effectively through careful hiring, training, detailing of responsibilities and clear documentation of procedures. The chart on the next page lists common operational functions and how often a professional is responsible for performing them, assuming the function isn't automated or outsourced. For each, Best-Managed Firms are more likely than others to delegate tasks away from professional staff, especially for functions such as account processing and rebalancing, compliance and portfolio reporting.

Best-Managed Firms More Likely to Delegate

Percentage of Firms Where a Professional Is Primarily Responsible for the Following Tasks:		
Function	**Best-Managed Firms**	**All Others**
Financial Planning	76%	79%
Asset Allocation	73%	80%
Alternative-investment Planning Models	59%	61%
Investment Policy and Proposal Generation	58%	71%
Client-relationship Management	57%	74%
Compliance	38%	51%
Account Aggregation	27%	51%
Account Processing and Rebalancing	19%	32%
Portfolio Reporting	18%	28%
License and Registration Management	14%	33%
Trade-confirmation Processing	8%	15%
Data Storage and Document Management	5%	24%
Accts Payable/Accts Receivable Management	5%	16%

"Always ask yourself whether this is something that I need to do, or can somebody else do it," says a principal at Parsec. The recommendation from a Capelli principal is similar: "The best advice is to hand off what other people can do. Keep reminding yourself that you aren't the only one that can do it. I constantly monitor, 'Can someone else do this?'"

For further insight into what delegation and leverage opportunities might exist for their firms, see the Time-allocation Exercise in Appendix A.

Service Standardization and Efficiency

"If you can institutionalize your offering, you'll be set in terms of client management. It allows you to run your business as an institution," states a Mercer Advisors principal. Standardization doesn't necessarily preclude delivering solutions customized to the needs of a client; it avoids the efficiency-drain of customizing a different service delivery process for each client.

"If you can institutionalize your offering, you'll be set in terms of client management."

—Mercer Advisors

Best-Managed firms achieve service efficiencies in two primary ways. The most basic strategy is to focus on one niche specialty or client type, usually defined by a combination of income levels, advice needs, and demographics—for example, retirees with between $2 million and $5 million in investable assets who want to maintain or draw down from broadly diversified portfolios in the most tax-efficient manner possible.

Regardless of which segment they focus on, these firms accept clients carefully to make sure prospects will fit with the firm's service positioning. Because they've developed a relatively homogenous client base, the potential to standardize is high, and service exceptions are kept to a minimum. According to a principal at Dixon Financial Services: "Getting a good fit with clients is a key area for us, and it is something we work on documenting. We look for reasonable asset levels, attitude (this is non-negotiable), and advocacy (clients who will speak favorably about us). In the first meeting, we look for a fit."

Other Best-Managed Firms may work with multiple, well-defined client segments. They are careful about client selection, too, but can cast a wider net for prospects because they maintain multiple service-delivery offerings for different client segments. Sullivan, Bruyette, Speros & Blayney segments its clients extensively and relies on its service team structure to efficiently service each segment. They've documented the various client segments and matched each segment to one of seven service teams, based on the kind of relationship and specialty each segment requires. Teams, for example, may focus on estate planning, taxes or $20 million plus accounts.

"Getting a good fit with clients is a key area for us. ... In the first meeting, we look for a fit."

—Dixon Financial Services

The Monitor Group (see sidebar) is another Best-Managed Firm that has figured out a standardization strategy to serve multiple client segments without sacrificing efficiency. In-house, the firm offers four well-defined service sets to investors with $500,000 in assets and greater. The firm has also set up a subsidiary to serve prospects with fewer assets, which it was unwilling to turn away for legacy or strategic reasons.

The Monitor Group: A Tale of Segmentation

The Monitor Group is a fee-only wealth manager serving approximately 190 family and client groups with more than $440 million in assets under management throughout the United States. While the firm stands strongly behind its minimum investable asset requirement of $1 million, it recognizes the importance of serving smaller clients rather than abandoning them altogether. As a result, The Monitor Group has not only segmented its clients within the firm, it has segmented them into two corporations in order to most efficiently deliver service.

In January 2005, The Monitor Group opened a second independently registered corporation to serve legacy clients and referrals from existing clients who did not meet the investment minimum. Often, these accounts belonged to family members or friends of existing clients, and while they have not accumulated as much wealth as Monitor's target client, the firm wanted to provide them with a comparable but lower-cost service offering with the hope of eventually transferring these clients to the primary corporation.

Clients of the second corporation pay a lower fee and have access to unbundled planning services with the same investments and design as those offered by the primary corporation. Although the service offering is streamlined, its quality is comparable to that of the primary corporation's offer. The second firm started with 30 clients and $6.5 million in assets under management ($200,000 average per client) and has grown to 60 clients with more than $18 million in assets under management ($300,000 average per client). However, all of this growth has been organic, as The Monitor Group does not advertise or perform any marketing for the second corporation.

The segmentation does not stop at the corporation level. The Monitor Group has established four segments within the primary corporation to help define its service offerings. The service offering for each segment gets more comprehensive as assets increase. These segments, along with detailed documentation of the processes required to serve each of them, have allowed The Monitor Group to consistently outperform its peers in terms of profitability for nearly a decade.

Standard Service Offerings by Account Size (Assets Under Management)

	Primary Corporation			
	$500,000–$1,000,000	**$1,000,000–$2,000,000**	**$2,000,000–$5,000,000**	**More than $5,000,000**
Meetings per Year	1	2	2	Contacted 20–30 times
Annual Hours per Relationship	10	15	20	50
Tax Work	Not offered	Provided for a fee	Included	Included
Financial Plan	Offered to selected clients	Included, reviewed every 3 years	Included, reviewed every 2 years	Included, reviewed every 2 years
Estate Plan	Offered to selected clients	Included	Included, plus legacy planning	Included, plus advanced legacy planning
Additional Services	N/A	N/A	N/A	One house call per year if located out of town

Whether they focus on one client segment or several, Best-Managed Firms are careful to select clients they can efficiently (and profitably) serve. The quality of each client's fit with the service capabilities of the firm is more important than the quantity of clients the firm can acquire. As one principal at Moneta Group put it: "We work with people that we like—people that are looking for what we provide."

Further, Best-Managed Firms map out a routine service process and set of deliverables for each segment they serve. This could include defining the number of interactions, designating client contacts for specific needs, identifying investment vehicles, and specifying the type and detail of reporting statements most suitable for each client segment. To determine the suitability of these services, the firm must assess its ability to meet client needs, deliver on the expected value proposition and provide service efficiently.

Offer Only What Is Valued

Best-Managed Firms strive to exceed client expectations but are careful to stay within their range of core competencies and offer only what clients value most. In the words of a principal at Mercer Advisors, "We have a focused approach, and we stick to that. This allows us to leverage our resources and create a lot of touchpoints for each client." The opinion of a Monitor Group principal is similar: "We think it is better to be experts at a few things than merely good at a lot of stuff using outsourced vendors."

"We have a focused approach, and we stick to that. This allows us to leverage our resources and create a lot of touchpoints for each client."

—Mercer Advisors

To better understand what clients value, many Best-Managed Firms conduct client surveys and use the feedback to refine their service offering. Based on the feedback, more than one firm discovered they were requiring too many in-person meetings and that reporting statements were far more elaborate and frequent than needed. In the case of Friedman & Associates, firm principals learned that paper reports weren't highly valued by their clients. This prompted a switch to providing reports via a Web portal, reducing costs as well as providing additional insight (thanks to Web-tracking technology) into how clients were using the reports.

In addition to client surveys, Capelli administers Kolbe personality tests on its clients. The surveys and testing allow Capelli to tailor service delivery and better focus on what clients value most. In the past, Capelli struggled to get clients to commit to once-a-year financial planning updates. But after realizing that more client touches don't necessarily mean a higher level of client service, they decided to offer planning on an ongoing, event-driven basis, rather than according to the calendar. The Kolbe tests helped Capelli better understand how to provide clients with information. For example, while "fact-finder" clients are provided with detailed reports, clients meeting the "entrepreneur" profile are provided briefer, bullet-point reports.

Automate and Outsource

In addition to offering only what clients value, Best-Managed Firms are more likely than others to automate or outsource non-core or routine tasks, freeing staff time for higher-value activities. With the exception of the related topics of compliance and management of licenses and registrations, Best-Managed Firms trend significantly away from manually performing typical operations tasks. Instead, they either outsource these functions or automate them with internally or externally developed technology tools.

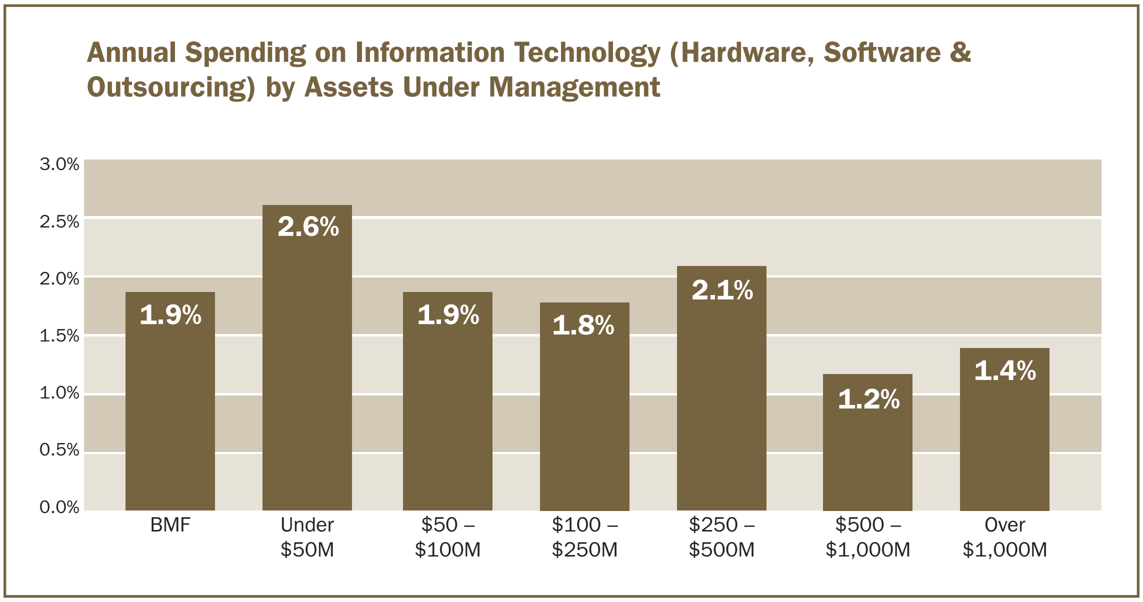
Best-Managed Firms and Their Ability to Automate Processes

Percentage of Firms That Perform the Following Tasks Manually		
Function	**Best-Managed Firms**	**All Others**
License and Registration Management	80%	73%
Compliance	67%	61%
Alternative-investment Planning Models	48%	50%
Investment Policy and Proposal Generation	46%	57%
Asset Allocation	32%	42%
Account Aggregation	23%	22%
Client-relationship Management	20%	30%
Data Storage and Document Management	20%	20%
Financial Planning	19%	31%
Trade-confirmation Processing	17%	21%
Accts Payable/Accts Receivable Management	17%	37%
Account Processing and Rebalancing	13%	31%

Automation

While the financial advisory industry devotes a lot of attention to technology, the average technology budget for most firms tends to hover around 2 percent of revenue on an annual basis. Some advisory firms rely on off-the-shelf software, working with vendors to provide occasional customization. Other, typically larger, firms take on the daunting task of building technology applications to their specifications. In doing so, the firm must redirect a portion of its revenue to subsidize development costs.

Little Variance in Technology Spending



CRM Technology

Best-Managed Firms credit client-relationship management (CRM) tools with creating time-saving efficiencies. Whether created internally or purchased through a vendor, the best of these powerful software tools combine contact management with workflow automation to put the client at the heart of the firm's processes. By managing each client relationship systematically, Best-Managed Firms also increase the quality of their service offering and, in turn, increase profitability on a per-client basis. By maintaining individual client profiles, advisors can assess each relationship, including actions needed and potential for ongoing business.

> By managing each client relationship systematically, Best-Managed Firms also increase the quality of their service offering, and in turn, increase profitability on a per-client basis.

A leading Best-Managed Firm in leveraging CRM software is Friedman & Associates. Friedman's principal so firmly believed in the CRM technology he developed for his advisory firm that he founded a software firm to market his solution to other advisors (see sidebar).

Rowling Dold attributes many of its time efficiencies to PortfolioCenter Relationship Manager®. A principal there describes the advantages of the software: "We put everything into our CRM tool. We scan and store everything as well as upload and download account information to it. For example, if I learn a client needs a required minimum distribution out of their IRA, I can assign this to the client-service manager through our software. I can then look at the status of this to see when things are being completed and whether there are issues. If I'm on vacation, others have the details they need. Everything is there, and that helps manage our workflow."

Friedman & Associates Principal Runs Two Firms on 4-Day Week

Friedman & Associates is a full-service wealth management firm handling more than $200 million in assets for 125 clients. The firm's sole principal spends just three days a week managing the firm and doing much of the direct client work. One day a week his time is spent on CRM Software, a business that provides CRM and workflow automation software designed specifically for advisors. He takes Fridays off. The firm has doubled in size in recent years without taking on additional staff.

Friedman's extraordinary ability to manage time results from the firm's concerted effort to continually increase efficiency. Nearly everything the firm does is organized, structured and systematic. As its principal describes, "Nothing slips through the cracks. We are just organized and stay on top of things. Every time we run into a problem we look at what is the way for it to never happen again and how can we make it better."

Friedman relies on technology combined with disciplined documentation and constant staff training to make this possible. The firm is constantly evaluating and implementing new technology solutions. Central among its tools is Junxure-I, produced by CRM Software. Friedman uses the software package to document every single service-related action with relevant notes and time spent on the activity.

Staff can query this information to learn quickly and precisely the status of client relationships and what is required next for each. The detailed documentation also supports an extensive annual analysis of the time and revenue associated with each of Friedman's clients as well as the time spent on individual activities.

The annual review guides client acceptance. Friedman doesn't let unprofitable relationships go more than two years without seeking to raise fees. Resistance is typically low in these situations as Friedman can provide the client with a specifically documented activity report that states all the services provided the client and the cost of each. The report provides convincing evidence of Friedman's value to its clients.

Friedman's activity tracking also helps it ensure employee time is being put to best use. For example, when the firm discovered that an experienced administrative assistant was spending an inordinate amount of time scanning documents, it hired lower-cost support to handle this activity.

Friedman's use of technology and organizational discipline makes it more than just a profitable firm. In the words of its principal, "This translates into great quality of life."

Account Aggregation, Processing and Rebalancing

Account handling can become a "black hole," consuming excessive amounts of an advisory firm's time. Best-Managed Firms, however, often note that their firms have successfully implemented solutions for account management, and survey findings confirm this. While 37 percent of other firms manually process and rebalance accounts, just 17 percent of Best-Managed firms do. This was one of the largest differences for any operational function surveyed. Significantly fewer Best-Managed Firms do manual account aggregation as well.

Outsourcing

Another time-saving option available to advisory firms is to outsource functions. But outsourcing makes sense only when the offerings align with a firm's needs while remaining cost effective. As a principal at Mercer Advisors notes, "Theoretically, we would outsource everything that isn't unique to our service offering, but it just isn't practical or cost effective. There aren't any sufficient offerings." A principal at All Star Financial has a similar opinion about outsourcing. "We try to do as much in-house as we can (mailing, reporting, merging of data, etc.). However, we want to maintain a high level of service and quality. Outsourcing may be cheaper eventually, but it currently presents more problems than it remedies."

> "We currently outsource our daily download, which has been a very cost effective, scalable solution for us. It is a high-turnover position and was costing us too much internally."

While most Best-Managed Firms prefer to keep functions in-house to maintain control over quality, many have found external solutions that fit their practice well. Sand Hill Advisors has found a solution for a common daily routine: "We currently outsource our daily download, which has been a very cost effective, scalable solution for us. It is a high-turnover position and was costing us too much internally." Fort Pitt Capital Group successfully outsourced public relations, marketing and advertising.

Among all functions, the most sought-after outsourcing solution is compliance. Many firms interviewed have yet to find a cost-effective compliance offering. A principal from Pillar Financial Advisors said, "We'd like to outsource compliance, but that is about it. We just can't find a good option." Kochis Fitz is also looking for an outsource solution but doesn't find it feasible due to the firm's size. For firms interested in compliance outsourcing solutions, the SEC maintains an extensive list of providers on its Web site.[8]

[8] "Electronic Filing for Investment Advisors on IARD: Service Bureaus on IARD." Nov. 9 2006. U.S. Securities and Exchange Commission. <http://www.sec.gov/divisions/investment/iard/iardsrvc.shtml>.

Conclusion: There's No Time Like the Present to Focus on Efficient Use of Human Capital

Throughout this report, we've reviewed a variety of strategies and tactics Best-Managed Firms use to gain control of their time and become more effective organizations. Good staff communication, delegation, standardization, service rationalization, automation and outsourcing can all be appropriate means for managing time.

Depending on the culture, service model and size of a firm, some measures may be more appropriate than others. But for every firm, the first step is for owners to set aside time to work on the business. This means truly understanding the capacity of the firm, how work gets done, the productivity and efficiency of staff, and where costs and revenues come from. Based on this information, firms can identify opportunities to save time and devise solutions to capitalize on these savings.

The financial advisory business is human-capital intensive. There are only 24 hours in a day—the same for each advisory firm and its competitors. Success awaits those firms that place a high premium on time and use those hours wisely.

Methodology

For the past five years, the annual Best-Managed Firms MKT from Schwab Institutional has defined a standard of excellence and provided guidelines for achieving that standard. This year, the Best-Managed Firms were selected from the 1,053 participants in the *2006 Moss Adams Financial Performance Study of Advisory Firms*.

Of those participants, the advisory firms that maintained a custodial relationship with Schwab and generated at least 75 percent of their revenues from fees were considered for the Best-Managed Firms list. Of the 1,053 total survey participants, 527 were fee-based RIAs. Further filtering on firms with a Schwab relationship resulted in a final sample size of 315 eligible firms. From that group, the top 15 percent were selected as Best-Managed Firms based on a composite score generated from the following factors:

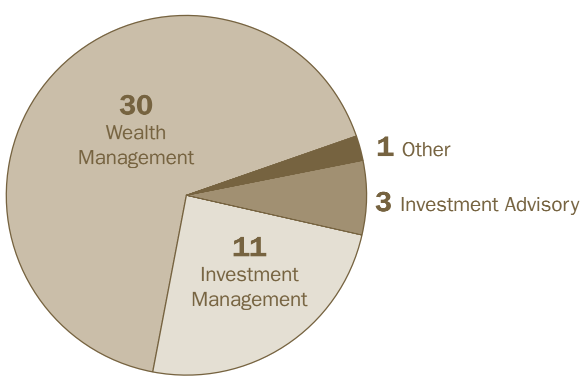
- Profitability, as measured by pretax income per owner
- Productivity, as measured by revenue per professional
- Leverage, as measured by employing two or more professionals

As the list of Best-Managed Firms was finalized, bonus points were awarded based on what firms reported about the ability of their owners and staff to manage time. Firms received bonus points for a shorter work week, closely matching current allocation of time with preferred allocation, and for profitability per hour worked.

To prepare this white paper, Moss Adams conducted interviews with principals of many of the Best-Managed Firms and drew insight from its extensive collection of advisor survey data. Interviewed advisors ranged in size from $1 million to greater than $33 million in 2005 annual revenue. All figures presented in this report, unless otherwise noted, are sourced from the 2006 Moss Adams Financial Performance Study of Advisory Firms database. In many cases, results for Best-Managed Firms are compared with “other firms.” These other firms consist of the other 85 percent of the 315 firms in the sample that were not selected as Best-Managed Firms.

This report draws from a wide breadth of independent advisory firms across the United States. A cross section of service orientations are represented in this research, including financial planning firms, investment advisors, investment managers and wealth managers. The chart below details the actual service mix within the Best-Managed Firms. (See Appendix B for composite financial and operating data comparing the Best-Managed Firms with other Schwab-affiliated firms in the industry.)

Best-Managed Firms by Service Model



Appendix A: Time-allocation Exercise

Measuring and Improving Firm Time Allocation

How does a firm know whether it is allocating sufficient time to the right activities? Even if the firm-wide allocation is correct, are individual employees allocating their time appropriately across activities? This exercise was developed to help owners better understand how their firms spend time and determine how they can allocate it more effectively.

Step 1: Data Collection

Not all firms have adequate processes or infrastructure to measure time by individual and activity. While some firms have the ability to collect detailed data, other firms may have no formal means of doing this at all. For the latter, there are several simple ways to get started.

The most basic and least disruptive is to take a one-time survey of employees, asking them to detail time spent on activities throughout the course of the year. It's important for the estimates to be collected in annual terms to properly account for less routine and cyclical activities.

Another method may be to have employees track time for selected periods. Depending on what a firm wants to find out, employees could track time over a select period of days, weeks or months. Picking several random days to track throughout a year would better represent a typical year's worth of activities but may be more challenging to implement.

The important thing is to start somewhere—limited information is better than nothing at all. Regardless of how the data is collected, the time-tracking initiative should be presented in a non-threatening way. To encourage participants to be truthful and accurate, owners should emphasize that the data is intended for use as a management tool and not for evaluation of individual performance.

Step 2: Data Organization

The following Sample Firm-wide Time-allocation Matrix provides an example of how firms can assemble and organize their data. Each position in the firm has its own column, detailing the hours spent by activity. Position totals are then calculated for time spent on senior-professional-level activities, junior-professional-level activities and support or administrative activities.

All the activities performed by the firm are represented in rows, with a total column at the far right providing firm-wide hours devoted to each activity. For convenience, these activities are further summed into broad functional groupings (i.e., Client Service, Portfolio Management, Operations). Looking across rows reveals how activities are getting done by the positions involved. The last row of the matrix sums total hours worked by each position. A blank Firm-wide Time-allocation Matrix worksheet is provided for you to complete with your firm's own data.

Sample Firm-wide Time-allocation Matrix, Weekly Hours by Position and Activity, Sample Data

	Positions						
Activities	**Owner/ Lead Advisor**	**Service Advisor**	**Support Advisor**	**Client Service Admini-strator**	**Office Manager**	**Admini-strative Assistant**	**TOTAL**
Client Service							
Senior Level							
Manage relationships w/o supervision	4	2					6
Deliver advice to clients in primary role	4	4					8
Oversee planning and advice others deliver	4	1					5
Provide tax or estate planning advice	3	1					4
Provide insurance advice	2	1					3
Junior Level							
Manage relationships with supervision		8					8
Deliver advice to clients in supporting role		5	2				7
Compile and prepare financial plans		4	9				13
Support							
Sit in on client meetings; no advice delivery			5	5			10
Technical detail support on planning			6	2			8
Tax return prep., limited client contact			2	3			5
Customer support	1	1	3	8	1	4	18
Business Management	9	1			1		11
Portfolio Management							
Senior Level							
Actively manage client portfolios	7	5					12
Junior Level							
Investment research and analysis		1	5	5			11
Business Development	9	3					12
Operations							
Trading (buys/sells securities)			1	4			5
Set up and maintain client accounts			1	7		3	11

Activities	Positions						TOTAL
	Owner/ Lead Advisor	Service Advisor	Support Advisor	Client Service Admini-strator	Office Manager	Admini-strative Assistant	
Administrative							
General office operations					15	5	20
IT/network administration					5		5
Internal accounting					4		4
Secretarial/clerical					2	10	12
Receptionist					2	11	13
Other							
Training/CPE	2	3	2	1	2	1	11
Holidays and paid time off	5	5	4	4	4	4	26
All other	1	2	2	1	4	2	12
TOTAL Senior	42	18	0	0	1	0	61
TOTAL Junior	0	18	16	5	0	0	39
TOTAL Support/Administrative	1	1	18	29	29	33	111
TOTAL All Activities	51	47	42	40	40	40	260

Firm-wide Time-allocation Matrix, Weekly Hours by Position and Activity, Blank Worksheet

Activities	Positions						TOTAL
	Owner/ Lead Advisor	Service Advisor	Support Advisor	Client Service Admini-strator	Office Manager	Admini-strative Assistant	
Client Service							
Senior Level							
Manage relationships w/o supervision							
Deliver advice to clients in primary role							
Oversee planning and advice others deliver							
Provide tax or estate planning advice							
Provide insurance advice							
Junior Level							
Manage relationships with supervision							
Deliver advice to clients in supporting role							
Compile and prepare financial plans							
Support							
Sit in on client meetings; no advice delivery							
Technical detail support on planning							
Tax return prep., limited client contact							
Customer support							
Business Management							
Portfolio Management							
Senior Level							
Actively manage client portfolios							
Junior Level							
Investment research and analysis							
Business Development							
Operations							
Trading (buys/sells securities)							
Set up and maintain client accounts							
Administrative							
General office operations							
IT/network administration							
Internal accounting							
Secretarial/clerical							
Receptionist							
Other							
Training/CPE							
Holidays and paid time off							
All other							
TOTAL Senior							
TOTAL Junior							
TOTAL Support/Administrative							
TOTAL All Activities							

Step 3: Interpreting Results and Taking Action

A firm-wide matrix can provide insight from multiple perspectives about how a firm is using its time and where opportunities might exist to improve these allocations. In addition to a firm-wide perspective, the matrix gives insight into total time spent per activity, hours worked by position, and the activity mix within a position.

Firm-wide Time-allocation

Compare with Desired Service Positioning

Owners should first evaluate firm-wide totals with an eye toward where they think they need to be, based on their service positioning. Do surprises or concerns immediately come to light? Time devoted to client service activities should be reviewed especially closely. How do these activity hours translate on an average per-client basis? Does the firm's service mix or client mix need adjustment?

Compare with Industry Benchmarks and Historical Trends

Next, owners can add perspective by comparing the firm's totals with the benchmarks for its business model presented in the main part of this report. In addition, if the firm has historical data, have the allocations changed over time? If so, are these changes the result of a deliberate strategy change or a movement away from the firm's desired positioning?

Review Time Spent on Non-Core Activities

Finally, owners should review firm-wide allocations to identify inordinate amounts of time spent on unskilled or non-core activities. Are there opportunities to outsource or automate these functions?

Time by Activity

Review Distribution of Activity Time across Positions

If certain activities are spread evenly across a number of positions and cumulatively represent a large block of time, there may be an opportunity to add a specialist position.

Compare Time Senior and Junior Staff Spend on Same Activities

If senior employees are spending the same amount of time on an activity as junior employees, this could represent an opportunity for better delegation or be a sign of inadequate support staff for the senior employees.

Hours Worked by Position

If employees are logging extraordinary hours, they may be at risk of burn-out. To determine the appropriate actions, owners must consider whether long hours are a result of low productivity or high workload.

Identify Productivity Issues

Revenue, assets under management, and client-per-professional ratios should all be examined to determine whether longer-working professionals are working inefficiently. If efficiency is an issue, the professional may simply need more support staff.

Manage Workload

If workload appears to drive long work hours, firms should first look for areas where work can be re-allocated to under-capacity positions. For overworked support staff, in addition to reassigning tasks, management should consider which, and how many, other positions the employee is supporting. Realigning support responsibilities may lead to improvement.

Certain clients might also cause a professional to put in longer hours. If this is the case, opportunities may exist to raise fees on these clients, reassign them to other professionals, or drop the clients from the firm entirely. As a last resort, the firm should consider adding a position to relieve overburdened staff.

Activity Mix by Position

Lastly, the time-allocation chart should be reviewed to assess the activity mix for each position.

Review Appropriateness of Activity Mix

In particular, are positions concentrating on the activities appropriate for their experience and skill level? For example, lead advisors should be spending very little time setting up client accounts or scheduling appointments. If positions and desired activities are mismatched, several actions should be considered.

Senior-level positions should be encouraged to delegate work down, and any obstacles to delegation (such as inadequately trained support staff or poorly defined procedures) should be addressed. The number of support staff positions may be insufficient. Opportunities to outsource or automate tasks that are inappropriate for the position may exist. Finally, positions may simply need to be reclassified.

Appendix B: Benchmarking Data

Average Common-sized Income Statement—Fiscal Year 2005

Schwab BMF vs. All Other Schwab-Affiliated

REVENUE	Under $50M		$50 – $100M		$100 – $250M		$250 – $500M		$500M – $1B		Over $1B		Schwab BMF	
Asset Management Fees	$191,904	74.9%	$458,894	86.8%	$928,445	89.7%	$1,637,234	90.9%	$2,713,331	90.2%	$12,507,976	96.2%	$5,038,275	87.8%
Planning and Consulting Fees														
Project/Hourly Fees	21,120	8.2%	21,207	4.0%	24,383	2.4%	27,480	1.5%	50,365	1.7%	220,000	1.7%	253,699	4.4%
Retainers	23,196	9.1%	20,938	4.0%	43,945	4.2%	84,238	4.7%	160,006	5.3%	76,990	0.6%	169,639	3.0%
Securities Commissions - Current	1,536	0.6%	577	0.1%	2,524	0.2%	17,000	0.9%	3,027	0.1%	0	0.0%	18,526	0.3%
Securities Trails	1,306	0.5%	3,735	0.7%	3,797	0.4%	17,651	1.0%	16,853	0.6%	0	0.0%	13,475	0.2%
Insurance Commissions - New or First Year	2,764	1.1%	2,064	0.4%	5,257	0.5%	7,609	0.4%	0	0.0%	71,429	0.5%	88,393	1.5%
Insurance Renewals	1,052	0.4%	3,423	0.6%	3,189	0.3%	3,368	0.2%	13,584	0.5%	0	0.0%	15,785	0.3%
Other Fees	13,400	5.2%	17,860	3.4%	23,358	2.3%	7,535	0.4%	49,604	1.6%	123,429	0.9%	141,823	2.5%
Total Revenue	$256,277	100.0%	$528,698	100.0%	$1,034,897	100.0%	$1,802,115	100.0%	$3,006,770	100.0%	$12,999,822	100.0%	$5,739,615	100.0%
DIRECT EXPENSE														
Professional Salaries or Commissions Paid														
Owners	64,655	25.2%	124,889	23.6%	241,585	23.3%	434,657	24.1%	660,647	22.0%	1,062,795	8.2%	1,185,109	20.6%
Non-Owners	9,020	3.5%	51,464	9.7%	116,186	11.2%	218,011	12.1%	376,986	12.5%	2,217,416	17.1%	800,504	13.9%
Professional Bonuses/Incentive Comp														
Owners	6,934	2.7%	14,904	2.8%	32,801	3.2%	68,004	3.8%	137,473	4.6%	27,808	0.2%	334,017	5.8%
Non-Owners	1,046	0.4%	3,916	0.7%	10,544	1.0%	33,451	1.9%	33,626	1.1%	139,839	1.1%	157,691	2.7%
Referral fees to Other Professionals/Organizations	975	0.4%	5,177	1.0%	11,607	1.1%	9,535	0.5%	13,520	0.4%	209,247	1.6%	91,719	1.6%
Total Direct Expense	$82,630	32.2%	$200,350	37.9%	$412,722	39.9%	$763,657	42.4%	$1,222,252	40.7%	$3,657,105	28.1%	$2,569,041	44.8%
GROSS PROFIT	$173,647	67.8%	$328,348	62.1%	$622,176	60.1%	$1,038,458	57.6%	$1,784,518	59.3%	$9,342,718	71.9%	$3,170,575	55.2%
OVERHEAD EXPENSE														
Auto Expenses	3,627	1.4%	3,426	0.6%	3,993	0.4%	7,388	0.4%	12,871	0.4%	4,342	0.0%	12,670	0.2%
Business Development and Marketing	5,301	2.1%	9,845	1.9%	23,736	2.3%	35,588	2.0%	61,550	2.1%	159,774	1.2%	141,516	2.5%
Depreciation/Amortization	11,133	4.3%	6,861	1.3%	7,336	0.7%	21,419	1.2%	25,894	0.9%	83,354	0.6%	81,665	1.4%
Equipment Leases, Purchases and Maintenance	2,040	0.8%	3,120	0.6%	6,452	0.6%	8,429	0.5%	26,223	0.9%	11,520	0.1%	30,622	0.5%
Health and Other Employee Insurance Benefits	7,243	2.8%	11,652	2.2%	21,083	2.0%	42,421	2.4%	59,331	2.0%	172,198	1.3%	125,338	2.2%
Information Technology (Hardware, Software & Outsourcing)	6,581	2.6%	9,857	1.9%	18,996	1.8%	37,684	2.1%	36,668	1.2%	181,747	1.4%	109,067	1.9%

Average Common-sized Income Statement—Fiscal Year 2005

Schwab BMF vs. All Other Schwab-Affiliated

REVENUE	Under $50M		$50 – $100M		$100 – $250M		$250 – $500M		$500M – $1B		Over $1B		Schwab BMF	
Insurance, Business-Related (P&C, E&O, etc.)	3,891	1.5%	5,438	1.0%	10,094	1.0%	18,298	1.0%	37,645	1.3%	72,484	0.6%	44,400	0.8%
Office Expenses	5,499	2.1%	10,061	1.9%	13,973	1.4%	23,386	1.3%	313,279	10.4%	68,011	0.5%	99,395	1.7%
Office Rent, Repairs and Maintenance	18,593	7.3%	26,025	4.9%	48,554	4.7%	77,823	4.3%	141,079	4.7%	262,584	2.0%	232,379	4.1%
Outsourcing Services Excluding IT	2,791	1.1%	10,649	2.0%	7,744	0.7%	28,668	1.6%	10,202	0.3%	36,616	0.3%	32,077	0.6%
Payroll Taxes	6,057	2.4%	15,322	2.9%	26,904	2.6%	60,034	3.3%	63,876	2.1%	210,838	1.6%	137,524	2.4%
Professional Services	4,429	1.7%	7,376	1.4%	16,574	1.6%	32,934	1.8%	83,337	2.8%	211,212	1.6%	59,043	1.0%
Retirement Benefits	6,547	2.6%	8,740	1.7%	29,934	2.9%	50,643	2.8%	29,575	1.0%	103,695	0.8%	94,170	1.6%
Salaries, Administrative & Support (Technical) Staff	34,047	13.3%	52,539	9.9%	108,796	10.5%	149,663	8.3%	220,270	7.3%	2,379,267	18.3%	542,815	9.5%
Salaries, Dedicated Management Staff														
Owners	5,787	2.3%	12,968	2.5%	7,411	0.7%	22,842	1.3%	95,953	3.2%	32,929	0.3%	120,914	2.1%
Non-Owners	3,799	1.5%	6,061	1.1%	6,077	0.6%	16,560	0.9%	36,935	1.2%	171,101	1.3%	55,282	1.0%
Taxes and Licenses Excluding Payroll Taxes	1,713	0.7%	2,551	0.5%	8,184	0.8%	6,514	0.4%	10,596	0.4%	63,508	0.5%	22,792	0.4%
Training, Education, Professional Dues & Licensing	3,630	1.4%	5,605	1.1%	9,736	0.9%	17,559	1.0%	14,364	0.5%	20,999	0.2%	49,768	0.9%
Travel & Entertainment	3,463	1.4%	6,746	1.3%	10,192	1.0%	16,013	0.9%	28,347	0.9%	92,413	0.7%	50,156	0.9%
Utilities/Phone/Fax/Online Service	4,467	1.7%	5,698	1.1%	9,072	0.9%	16,421	0.9%	28,092	0.9%	46,347	0.4%	46,836	0.8%
All Other Expenses	4,725	1.8%	11,308	2.1%	34,749	3.4%	36,684	2.0%	48,445	1.6%	905,378	7.0%	89,683	1.6%
Total Overhead Expenses	$145,361	56.7%	$231,848	43.9%	$429,589	41.5%	$726,969	40.3%	$1,384,529	46.1%	$5,290,316	40.7%	$2,178,110	37.9%
OPERATING INCOME	$28,286	11.0%	$96,500	18.3%	$192,587	18.6%	$311,489	17.3%	$399,989	13.3%	$4,052,401	31.2%	$992,465	17.3%
OTHER INCOME/(EXPENSES)														
Other Income	445	0.2%	2,768	0.5%	2,225	0.2%	3,838	0.2%	41,516	1.4%	74,023	0.6%	19,934	0.3%
Other Expense (-)	-501	-0.2%	-1,591	-0.3%	-13,596	-1.3%	-12,282	-0.7%	-105,795	-3.5%	-25,635	-0.2%	-27,190	-0.5%
Total Other Income / (Expense)	-$57	-0.0%	$1,177	0.2%	-$11,370	-1.1%	-$8,444	-0.5%	-$64,279	-2.1%	$48,388	0.4%	-$7,257	-0.1%
PROFIT BEFORE TAX	$28,230	11.0%	$97,677	18.5%	$181,216	17.5%	$303,045	16.8%	$335,710	11.2%	$4,100,789	31.5%	$985,208	17.2%
PROFIT SHARING														
Owners	18,844	7.4%	45,280	8.6%	67,072	6.5%	109,581	6.1%	74,061	2.5%	1,142,857	8.8%	241,359	4.2%
Non-Owners	1,652	0.6%	2,342	0.4%	5,601	0.5%	9,431	0.5%	16,294	0.5%	0	0.0%	43,505	0.8%
Total Profit Sharing	$20,496	8.0%	$47,622	9.0%	$72,673	7.0%	$119,012	6.6%	$90,355	3.0%	$1,142,857	8.8%	$284,864	5.0%
Pretax Income per Owner *	98,178	38.3%	204,270	38.6%	282,480	27.3%	392,482	21.8%	364,965	12.1%	391,684	3.0%	861,876	15.0%
Count	75		66		73		34		15		7		45	

* Only includes closely-held businesses that provided substantially complete owner information.

Median Performance Ratios—Fiscal Year 2005							
Schwab BMF vs. All Other Schwab-Affiliated							
	Under $50M	$50 – $100M	$100 – $250M	$250 – $500M	$500M – $1B	Over $1B	Schwab BMF
Assets Under Management	$25,000,000	$70,843,091	$143,980,000	$342,500,000	$630,000,000	$1,200,000,000	$600,000,000
Total Revenue	$210,000	$493,773	$977,401	$1,890,843	$3,119,894	$6,750,000	$3,367,749
Active Clients	55	98	151	242	344	661	438
Gross Profit Margin	70.2%	59.9%	60.9%	58.3%	54.2%	58.2%	59.2%
Operating Profit Margin	15.4%	12.7%	15.5%	12.3%	11.9%	14.4%	16.8%
Pre-Tax Income per Owner *	$91,748	$205,932	$265,000	$295,850	$389,338	$479,053	$752,847
Staff Headcount:							
Professionals	1.0	2.0	3.0	5.0	8.0	13.0	6.0
Dedicated Management	0.0	0.0	0.0	1.0	1.0	3.0	1.0
Support of Technical Staff	0.0	1.0	1.0	2.0	3.0	10.0	4.0
Administrative Staff	0.5	1.0	1.0	1.5	2.5	7.0	3.0
Total Headcount (sum of above)	1.5	4.0	5.0	9.5	14.5	33.0	14.0
Total Headcount (median)	2.0	3.3	5.3	9.3	18.5	34.0	17.0
Active Clients per Professional	48	55	52	47	38	33	64
Active Clients per Staff (Total Headcount)	25	30	27	24	24	16	28
Revenue per Professional	$181,000	$288,296	$343,889	$339,876	$343,568	$424,276	$627,029
Revenue per Staff (Total Headcount)	$100,250	$149,875	$180,246	$175,928	$188,781	$200,166	$256,300
AUM per Professional	$17,809,480	$42,498,427	$53,899,600	$68,118,398	$85,272,727	$88,284,923	$88,062,180
AUM per Staff (Total Headcount)	$11,671,754	$20,320,000	$26,666,667	$35,989,744	$35,666,667	$47,157,150	$40,193,832
Revenue per Active Client	$3,886	$5,105	$6,323	$6,735	$8,085	$12,694	$9,072
AUM per Active Client	$439,692	$704,256	$1,001,863	$1,266,517	$2,291,667	$3,373,860	$1,425,816
Operating Profit per Active Client	$704	$1,024	$1,077	$1,294	$1,732	$1,653	$1,564

* Only includes closely-held businesses that provided substantially complete owner information.

Appendix C: Time Management Resource List

Vendors

Junxure®, financial services CRM and office management software
www.junxurei.com
(866) 276-8655

PortfolioCenter®, a Schwab Performance Technologies product
www.schwabpt.com
(800) 528-9595

Advice and Analysis

Average-cost Approach to Calculating Client Expenses

Schwab Institutional and Moss Adams LLP. *Market Knowledge Tools™ White Paper: Pricing Strategies for Maximum Success,* 2005.

Compliance Outsource Solutions

"Electronic Filing for Investment Advisors on IARD: Service Bureaus on IARD." Nov. 9 2006. U.S. Securities and Exchange Commission. <http://www.sec.gov/divisions/investment/iard/iardsrvc.shtml>.

Hiring, Training and Defining Responsibilities

Schwab Institutional and Moss Adams LLP. *Market Knowledge Tools™ White Paper: Recruiting and Retaining Top Talent,* 2005.

Schwab Institutional and Moss Adams LLP. *Market Knowledge Tools™ White Paper: Building an Effective Organizational Structure*, 2006.

The Time Matrix™

Covey, Stephen R., A. Roger Merrill and Rebecca R. Merrill. *First Things First: To Live, to Love, to Learn, to Leave a Legacy*. New York: Simon and Schuster, 1994.

Appendix D: The Best-Managed Firms

Schwab Institutional would like to thank all Best-Managed Firms for their participation and the firms below in particular for the additional insight they shared in interviews for this project.

Best-Managed Firms (alphabetical by firm)	
All Star Financial	Minneapolis, Minnesota
American Economic Planning Group, Inc.	Watchung, New Jersey
Ballentine, Finn & Co., Inc.	Wolfeboro, New Hampshire
Bingham Osborn & Scarborough LLC	San Francisco, California
Capelli Financial Services, Inc.	Bloomfield Hills, Michigan
David Vaughan Investments, Inc.	Peoria, Illinois
Dixon Financial Services, Inc.	Lafayette, California
Financial Security Group, LLC	Seattle, Washington
Fort Pitt Capital Group	Pittsburgh, Pennsylvania
Freestone Capital Management	Seattle, Washington
Friedman & Associates	Novato, California
Gemmer Asset Management LLC	Walnut Creek, California
JMG Financial Group, Ltd.	Oak Brook, Illinois
Kochis Fitz	San Francisco, California
LarsonAllen Financial, LLC	Minneapolis, Minnesota
Mercer Advisors	Santa Barbara, California
Moneta Group Investment Advisors, LLC	St. Louis, Missouri
The Monitor Group, Inc.	McLean, Virginia
Parsec Financial Management	Asheville, North Carolina
Pillar Financial Advisors	Waltham, Massachusetts
Pinnacle Advisory Group Inc.	Columbia, Maryland
Plancorp, Inc.	Chesterfield, Missouri
Planning Alternatives, Ltd.	Bloomfield Hills, Michigan
Rowling, Dold & Associates LLP	San Diego, California
Sand Hill Advisors, Inc	Palo Alto, California
Sigma Investment Counselors	Southfield, Michigan
Sullivan, Bruyette, Speros & Blayney, Inc.	McLean, Virginia
SVA Planners, Inc.	Madison, Wisconsin
Wealth Management Advisors, Inc.	Leawood, Kansas

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