Optimizing Advisor Performance:

How to Determine the Optimal Branch Deposit Territory and Number of Clients

Key Takeaways

- This study provides the data behind the theory that less is more when it comes to advisor book and territory sizes.
- The data provided will help you overcome advisor resistance to territory changes.
- To maximize the advisor's revenue, there are optimal ranges for branch territory size and number of clients being served.
- The optimal targets vary depending on how much of the advisor's revenue is derived from advisory business.
- Program managers can shape the advisor's expectations up front, which will benefit the advisor's practice and the institution itself.
- Advisors with relatively more revenue from advisory business have higher overall production at almost every level of branch deposit coverage.

Introduction

As investment program managers, you are tasked with both serving the financial institution and managing individual advisors. Balancing the institution's need to increase penetration with each advisor's need to increase revenue often comes down to the best allocation of resources: how many advisors the institution has, how many branch locations each advisor covers, and how many clients each advisor serves. Determining the ideal number of clients per advisor has been a particular focus of more program managers recently, but most advisors are resistant to reduce their number of clients.

It is a common assumption among program managers that with fewer clients to serve, advisors will have the capacity to spend more time with each client, cultivating the relationship, servicing more of their needs, and obtaining a larger share of their investable assets. At the same time, the program manager could hire additional advisors to serve the other clients, increasing the penetration of the institution's opportunity and the quality of client service.

This may sound like a win-win, but historically, it hasn't been that simple. Why is that?

Let's look at from the advisor's perspective:
What the program manager says: I think we should reduce the number of clients you're currently serving so that you can focus on building up the investable assets with a select group of clients. I have a feeling this will be a better use of your time and will pay off for you and the institution.

What the advisor hears: I am taking away some of your clients. As a result, you may not meet your revenue goals this year.

Historically, program managers have not possessed the data to support this approach. Program managers have been left to rely on their gut instinct to make their case, which is unlikely to generate the advisor buy-in you need to make your plan work.

A recent study jointly developed by LPL Financial and Kehrer Bielan Research & Consulting finally provides the data you've been looking for to support your assumptions. For the first time, we have research that assesses and highlights the factors you should consider, with hard data to support what works—and why. We will summarize the key findings here, providing guidance on the optimal number of branch territories and clients, based on certain influential factors.

However, we also can't forget the importance of the advisor perspective. Even with the supporting data, it may still be difficult to convince advisors that their revenue will be higher with fewer clients.

In addition to providing you with the data and facts, we'll outline the best way to apply this data in your program and best practices for setting advisor expectations and ensure that they're on board with your approach. Setting the right context up front will allow you to run your program efficiently, while establishing best practices for optimal advisor performance.

LPL Financial

Methodology

When Kehrer Bielan and LPL Financial Institution Services began collaborating on a research project to identify an advisor's optimal branch deposit territory and optimal client book, it was clear that the kind of traditional "comparison" analysis generally seen in the industry failed us. What we needed was a statistical approach that took into account all of the relevant factors. Until now, however, the data available have not been sufficiently robust to support more sophisticated analysis.

This new research is distinguished by two path-breaking features:

- A research methodology grounded in multiple regression analysis
- Reliance on advisor-level data

We used a multiple regression model to predict what an advisor would produce given the advisor's:

- Branch deposits
- Number of client accounts
- Assets under management (AUM)
- Rate of return on assets (ROA)
- Wallet share (percent of client's estimated investable asset)
- Share of revenue derived from advisory business
- Tenure

Multiple regression analysis takes the variation of several factors into account. In effect, it is estimating a line that comes closest to the data points in multiple dimensions. The line can be used to predict an advisor's revenue, given all the other factors in the model. We then compared that estimate with how much the advisor actually produced. The difference between the estimated and actual revenue indicates whether the advisor is outperforming or underperforming other advisors with the same branch territory, number of client accounts, AUM, ROA, wallet share, share of revenue from advisory, and tenure.

During analysis, we grouped advisors based on the size of their branch deposits and client base. Where we see advisors with similarly sized branch territories (or client base, respectively) outperforming the model, that tells us that they are in the optimal size range.

LPL provided data on 1,213 financial advisors in 118 banks and credit unions that have participated in the firm's Program Growth Model Consulting Process.

What Is the Optimal Size of a Branch Territory?

To determine the optimal size of a branch territory and number of clients, we used a multiple regression model, which allowed us to take the variations of several factors into account in order to predict what an advisor's revenue would be. We then compared actual production with the estimate across ranges of branch deposits and client numbers to determine whether advisors in those ranges were outperforming or underperforming the estimates.

Taking into account several key factors that influence advisor performance, advisors with between $125 and $245 million in branch deposits have exceeded expectations in terms of revenue growth. In particular, advisors with between $200 and $245 million in branch deposits produced an average of $32,806 more per year than they would be expected to. The advisors who produced much less than expected have more than $365 million in deposits, and the extent of their underperformance is even more dramatic when deposits exceed $600 million.

In this study, the top quartile of branch deposits per advisor is $365 million; one-fourth of advisors are producing below their expectations because their branch territories are too large [FIGURE 1].

Impact of Advisory

Digging further into this question of optimum branch size, we asked: What determines whether an advisor underperforms or outperforms other advisors with similar branch deposit territories? Our analysis indicates that the share of advisory assets is a key driver here.

The more advisory assets an advisor manages, the higher the ROA, and the more viable the advisor's practice becomes with smaller branch deposits to cover. In turn, with smaller deposit territories, the advisor becomes less reliant on the branches to grow their business, and has more time to focus on servicing the assets of existing clients and pursuing those exisiting clients to find new, high potential clients. This will further increase advisory business and reduce reliance on referrals from branches - creating what could be called a virtuous cycle.

The institution also benefits from this cycle. As the advisor builds up the advisory business and reduces branch deposits, those territories can be reassigned to new advisors, increasing the institution's investment services revenue and penetration of its opportunity.

These findings on the benefits of advisory business are encouraging for advisors and the institution. To provide actionable takeaways, we also analyzed the different levels of advisory business. The percentage of revenue derived from advisory delivers a targeted range for the optimal size of a branch territory.

Advisors who derive more than half of their production from advisory business optimize their overall production covering between $150 and $200 million in branch deposits. They average $623,074 in annual average gross, three-fourths better than advisors whose practices focus on advisory business but cover more than $200 million in branch deposits. However, reducing branch assignments below $150 million in deposits results in a substantial decline in average productivity; this indicates that even advisors who derive more than half of their revenue from advisory business need at least some level of support from branch referrals [FIGURE 2].

Advisors who derive between 33% and 50% of their production from advisory can optimize overall production covering between $150 and $365 million in branch deposits. But their annual average gross revenue does not vary significantly by the size of their branch territories [FIGURE 3].

FIGURE 1:
Advisor Performance by Size of Branch Territory

Advisors who derive less revenue from advisory are more dependent on a larger client base.

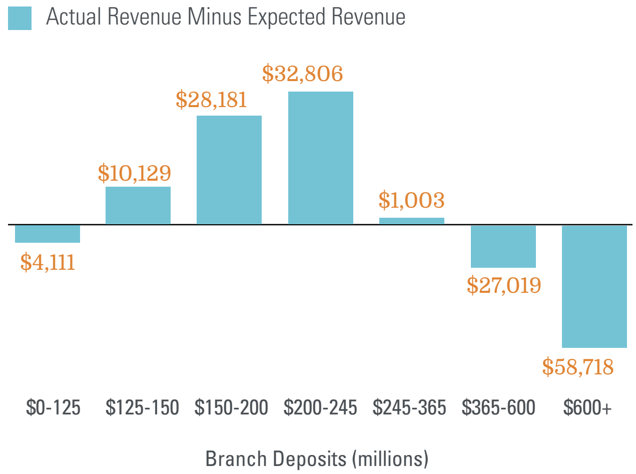


FIGURE 2:
Advisors with more than 50% of Revenue Derived from Advisory Business

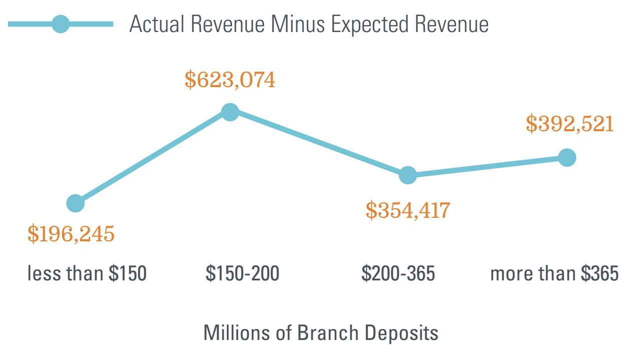
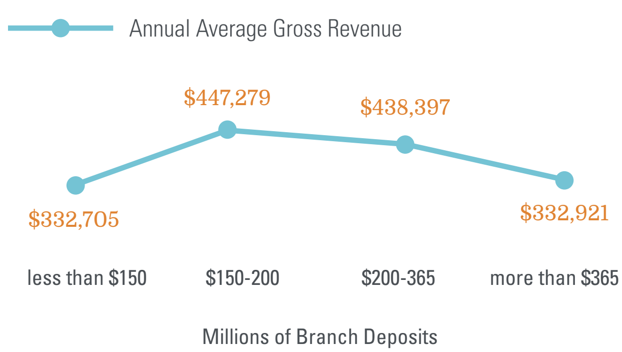


FIGURE 3:
Advisors with 33% to 50% of Revenue Derived from Advisory Business



Advisors whose advisory business accounts for less than one-third of their production need the support of branch referrals and presence in the branch to support their practice. Those with between 15% and 33% of their revenue derived from advisory products have higher overall production covering branches with deposits of more than $365 million; however, there is only a modest decline in annual average gross revenue as branch deposits are reallocated away from an advisor. Advisors covering branch deposits between $150 and $200 million would have annual average gross that is just 7% less if they covered branches with $200 to $365 million in deposits [FIGURE 4].

There is a steeper decline in production for advisors who produce less than 15% of their revenue from advisory business if they lose branch deposit territories. These more transaction-based advisors have 15% lower production with $200 to $265 million in branch deposits than if they covered more branches [FIGURE 5].

The accumulation of advisory assets frees advisors from relying as much on branch support. As the advisor builds more advisory business, the program manager can bring in additional advisors to cover the branches that now need advisor coverage, demonstrating the benefits of transitioning appropriate clients to advisory.

The data indicates that the size of the branch territory has more of an impact when the amount of advisory business is either very low (below 15%) or more than half of the advisor's revenue. Lastly, advisors with relatively more revenue from advisory business have higher overall production at almost every level of branch deposit coverage, demonstrating the benefits of transitioning appropriate clients to advisory [FIGURE 6].

FIGURE 4:
Advisors with 15% to 33% of Revenue Derived from Advisory Business

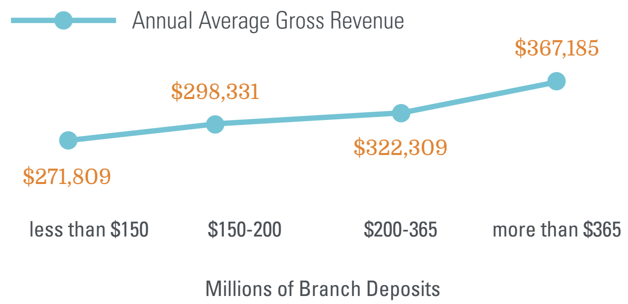


FIGURE 5:
Advisors with Less than 15% of Revenue Derived from Advisory Business

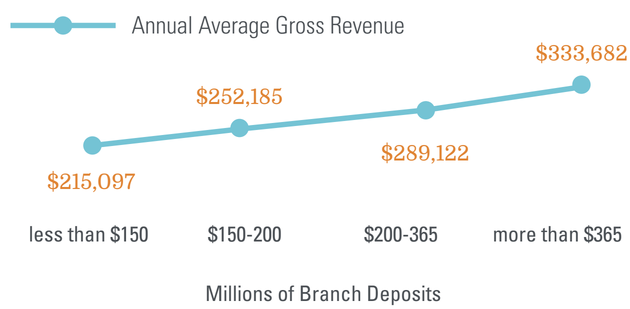


FIGURE 6:
Optimum Branch Deposits per Advisor at Different Levels of Advisory Business

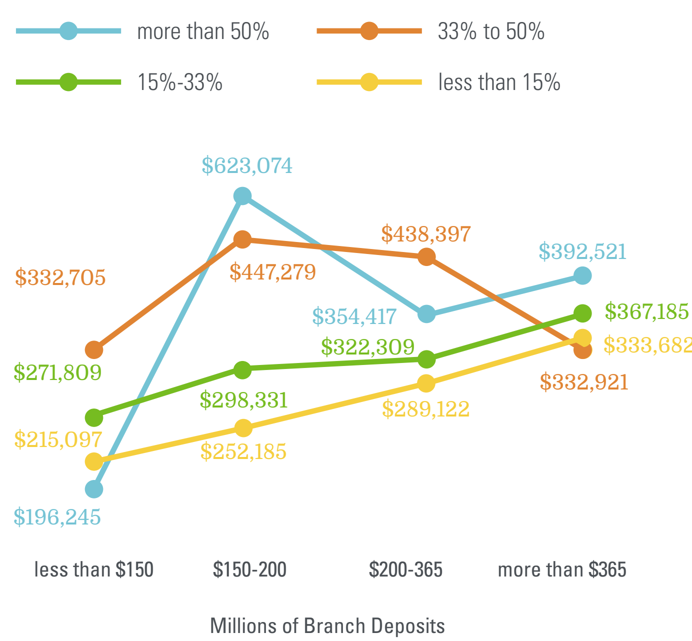


FIGURE 7:
Advisor Performance by Number of Investment Clients

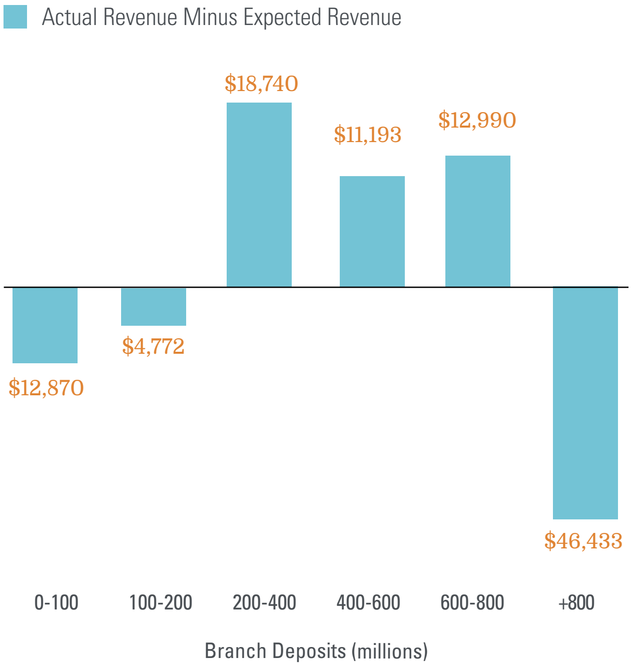


FIGURE 8:
Advisors with more than 60% of Revenue Derived from Advisory Business

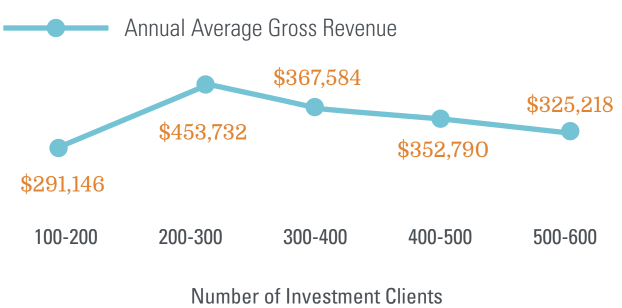
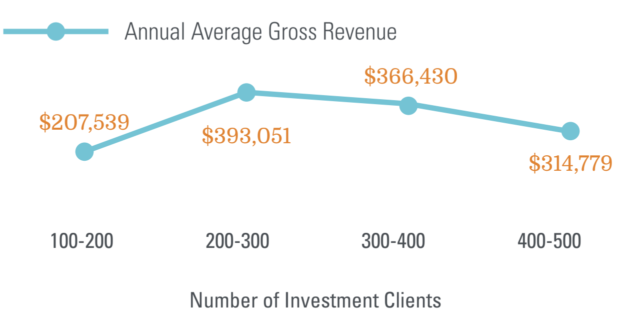


FIGURE 9:
Advisors with 40% to 60% of Revenue Derived from Advisory Business



What Is the Optimal Number of Clients?

Using the methodology outlined on page 2, we found that advisors with between 200 and 800 clients actually outperformed what would be expected of them given their circumstances.

We found that advisors with 200 to 300 clients outperformed the most, producing an average of $39,478 more than the model predicts. Advisors with 400 to 800 clients also performed slightly higher than expected, while those with below 200 produced slightly less. However, the most dramatic underperformance comes from advisors with more than 800 clients—they produce $46,433 less than expected [FIGURE 7]. One-fourth of the advisors in the study had more than 763 clients; therefore, one-fourth of advisors are severely underperforming, on average, because they are serving too many clients.

Impact of Advisory

Just as we did with branch deposit territories, we drilled down into these averages to see how these optimal client ranges are impacted by different levels of advisory business.

For advisors whose annual production is more than 60% advisory, revenue is optimized with 200 to 300 clients. They have $453,732 in annual average gross, 56% more than advisors with fewer clients, 23% more than advisors with 300 to 400 clients, and 52% above the average advisor in the study. Production slips as advisors with an advisory-focused practice serve more than 400 clients, but not dramatically so [FIGURE 8].

Advisors with 40% to 60% of their production derived from advisory assets also can optimize their production with 200 to 300 clients, although that production level is 13% below the peak for advisors with even more advisory business. For advisors with practices that are 40% to 60% advisory, serving fewer than 200 clients results in 47% lower production, but production does not fall as sharply with more than 400 clients [Figure 9].

Advisors with 30% to 40% advisory business have peak production with 300 to 400 clients. With fewer clients, their production is half of the $360,875 that's generated by advisors with 300 to 400. Advisors with more than 400 clients produce less revenue, but again, the falloff from having more clients is not dramatic [Figure 10].

The average advisor in the study has 19% of annual revenue from advisory assets. For advisors somewhat above this level—with 20% to 30% advisory business—optimum production is achieved with 500 to 600 clients. Production is sharply lower with both fewer and more clients to service [Figure 11].

Among the advisors in this study, 65% have less than 20% of their business derived from advisory business. These advisors need to focus on building their advisory assets to generate more than 20% of their revenue before they can start shedding clients. Therefore, most advisors in this study are not ready. to reduce their client base without some form of support to make the transition [Figure 12].

FIGURE 10:
Advisors with 30% to 40% of Revenue Derived from Advisory Business

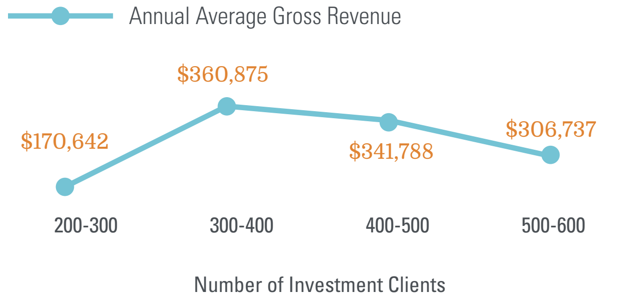


FIGURE 11:
Advisors with 20% to 30% of Revenue Derived from Advisory Business

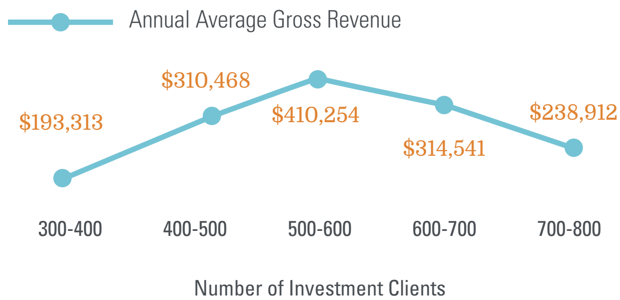
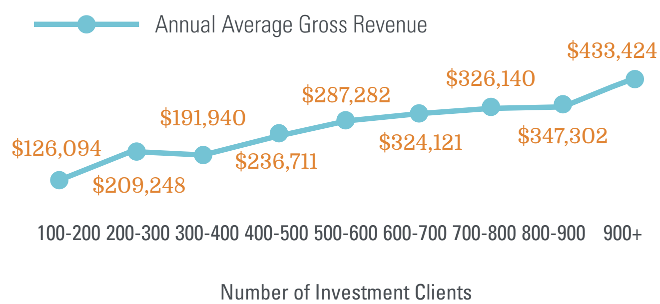


FIGURE 12:
Advisors with Less than 20% of Revenue Derived from Advisory Business



Summary of Key Findings

Based on the analysis and data presented here, we can conclude that the industry standard for the size of branch deposit territory is higher than necessary to optimize an advisor's practice. The average advisor in this study covers branches with $367M in deposits, but those with between $125M and $245M outperform their peers [Figure 13]. Therefore, many are underperforming their potential and it's because their branch territories are too large.

Additionally, as their advisory revenue grows, advisors can be more successful with smaller branch territories. It's the accumulation of these assets - advisory assets in particular - that will make advisors less reliant on branch support. Firms can help by systematically reducing the branch deposits assigned to advisors as their advisory business grows, adding new advisors to service and identify clients in the reassigned branches.

In terms of number of clients, advisors with 200 to 300 clients outperform by a wide margin, while those with more than 800 stand out as underperformers. Looking at the industry averages as presented in this study, almost one-fourth of advisors are underperforming by a wide margin because they are serving too many clients.

The optimal range of 200 to 300 clients is even more evident when layering in the impact of advisory. Advisors with more than 40% of their revenue derived from advisory maximize their potential revenue with 200 to 300 clients. Neither of those numbers—40% or 200 to 300 clients—represent the average, however. Most advisors serve more clients and have fewer assets in advisory.

When advisors' business is 20% to 30% advisory (still above the average of 19%), they're optimized at 500 to 600 clients [Figure 14]. With less than 20% in advisory, advisors are much more dependent on their client base. Reallocating clients away from these groups would generally lower their production and revenue generation. These advisors need to be encouraged to build up their advisory business before clients are pulled away.

Advisors should only recommend an advisory account if it is suitable for the client. Advisory accounts may not be appropriate for every client. Examples of appropriate brokerage accounts include:

- If a client prefers to follow a buy-and-hold strategy for a long period of time without ongoing advice, a brokerage relationship may be more appropriate.
- If the client prefers to make the investment decisions and is only looking for a financial advisor to provide occasional recommendations and execute orders, a brokerage relationship may be more appropriate.

Advisors should understand that advisory relationships involve a higher standard of care than brokerage and typically require an ongoing duty to provide advice and monitoring.

FIGURE 13:
Optimum Branch Deposits By Share of Revenue from Advisory Business

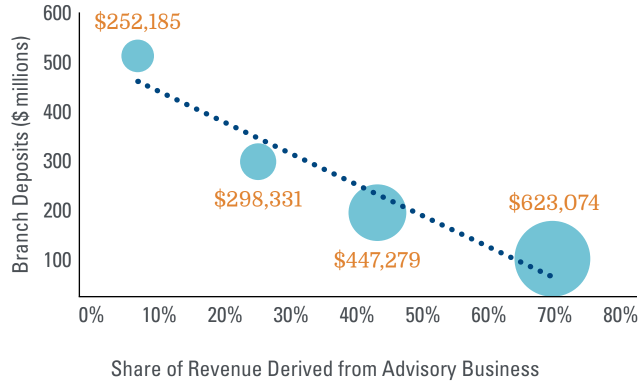
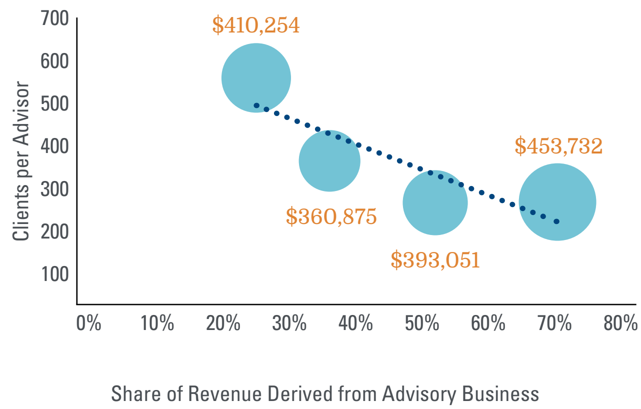


FIGURE 14:
Optimum Number of Clients By Share of Revenue from Advisory Business



Putting It into Practice

This new research for the first time assesses and highlights the factors you should consider when looking for ways to optimize your program. Even with the findings and recommendations outlined here, we realize it can be difficult to implement new processes into your program. Part of adjusting what are considered to be the standards for your investment program is having the data to support you. But the other, equally important part is focusing on changing the behavior and mindset of the advisors in your program. You want to enroll them in these recommendations in a way that reinforces your dedication to their success, as well as the success of the institution.

For some advisors, reducing the number branches or clients they serve could provide a boost in revenue. For others, consider offering incentives to encourage growing their advisory business with appropriate clients. You could also suggest discarding some of their relatively unproductive branches and appropriate clients as a first step to becoming more productive. These findings lay a foundation to help advisors reallocate their resources and focus on a more targeted number of branches and clients served, while supporting the transition to more of an advisory-based practice.

Below are some concrete steps you can take to implement the changes that can optimize advisor performance:

- When having discussions with your advisors, emphasize that it's a starting point, rather than a final destination, and that the process is dynamic. The factors that are unique to your program will dictate, for example, how quickly advisors are able to cultivate relationships, service more of their clients' needs, and obtain a larger share of their investable assets.
- Build buy-in for these conversations early. Outline the advisor growth trajectory from hire to maturity—including milestones like reducing book and territory size—to accelerate growth.
- Consider creating a roadmap with specific check-ins and milestones.
- Enroll senior leadership in these growth accelerators and get buy-in for the investment in additional resources and staff by demonstrating that the business success will support the incremental investment.
- Evaluate and assess support functions within your program. As your advisors move through their growth trajectory, they will need expanded support. In addition, you will need a pipeline of new or associate advisors to take on clients who more mature advisors are transitioning away from as they move forward in their growth trajectory.
- Have a well-established recruiting pipeline.
- Develop talent from within.

For the first time, there is data to back up the long-held belief that reducing territory size and client base and increasing the share of advisory business can lead to stronger relationships and better results for your advisors and your institution. Having this data, implementing a thoughtful plan, stronger client relationships and advocating for program-wide adoption of this new approach will help you adjust your branch sizes and client numbers to optimize your advisors' performance and create opportunities for growth.