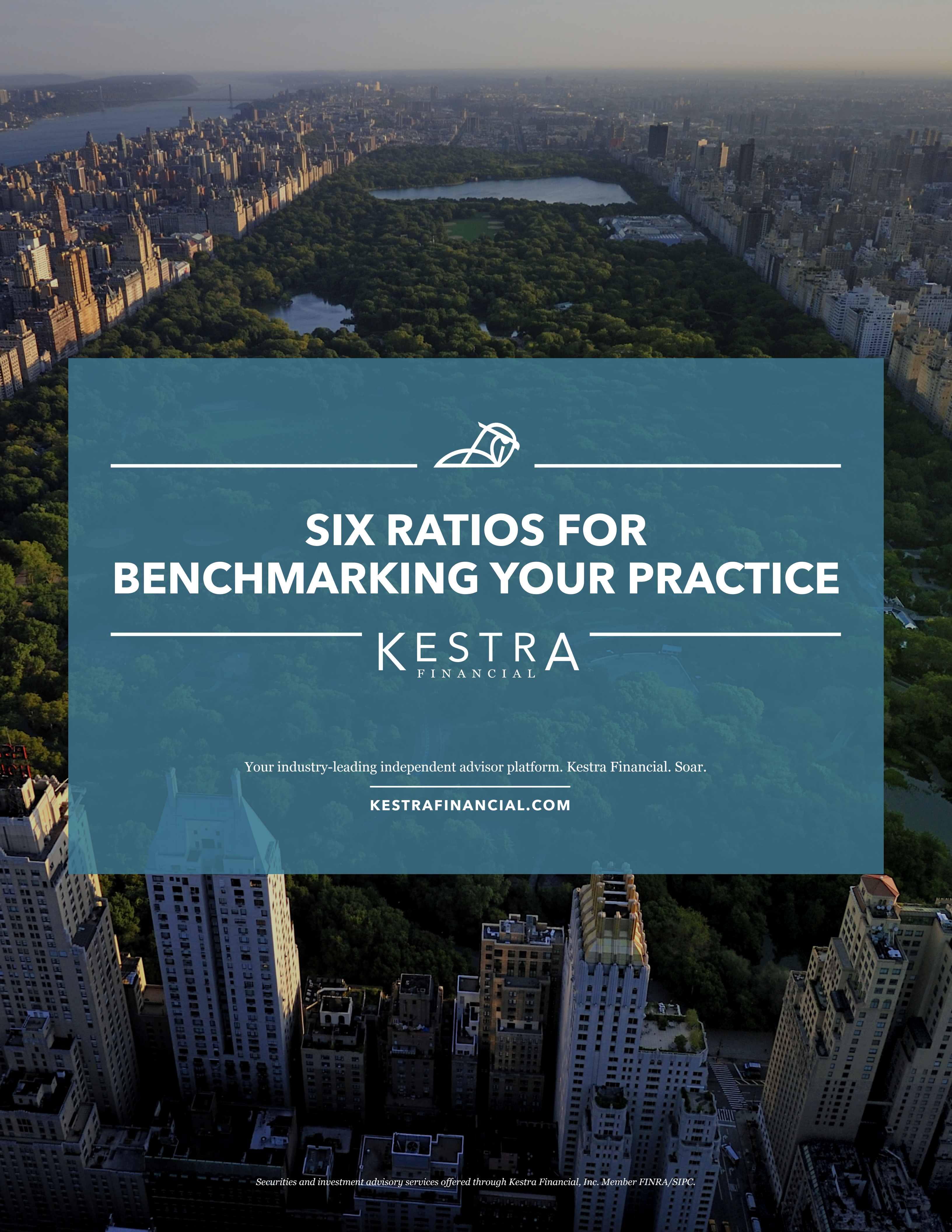

SIX RATIOS FOR BENCHMARKING YOUR PRACTICE

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BENCHMARKING YOUR PRACTICE

One of the trickiest aspects of being a financial advisor is simultaneously navigating your dual responsibilities as both a financial advisor and business owner. In order to gain a well-rounded perspective of your firm's performance, there are several key metrics you should use to assess and interpret its financial health. We've outlined six ratios that will offer deeper and more valuable insights into where you stand and help you maximize your performance.

1 OVERHEAD RATIO

Overhead ratio, or overhead as a percentage of revenue, is used to manage growth and expenses. It can help you assess your growth trajectory against costs and can be used to compare your firm with like practices. It is most often used for budgeting, weighing new investments, and staffing decisions. Your goal should be achieving the lowest operating expenses without compromising your service. Too high an overhead ratio and you may need to reduce expenses or even staff. Too low and you might look for opportunities to invest in your business.

Key Learning: Improve your overhead ratio by reducing expenses, improving efficiencies, increasing revenue through marketing, or examining your staffing and compensation models.

2 GROSS PROFIT MARGIN

Gross profit margin is a great tool to measure company efficiency and compare how overhead costs relate to revenue. In addition, gross margin can provide insight into other aspects of the health of your business, including profitability, pricing, and compensation. For example, your gross margin may show the need to increase pricing for services to create a higher gross margin. Of course, pricing at too high a premium could drive away clients.

Key Learning: Low gross margin might signal declining revenue, low pricing, or a need to cut labor costs. High gross margin could reveal an opportunity to invest in marketing, technology, or staff.

3 OPERATING PROFIT MARGIN

Operating margin is a ratio that can quickly reveal the health of your business in terms of profitability and operational efficiency. Like any ratio, operating margin is best analyzed over a period of time. It can show the history of profitability of your practice, as well as the stability of revenue and expenses. Additionally, you can use it to determine missed opportunities.

Key Learning: If your business's operating margin is too high, consider hiring or making investments in your practice. If it's too low, you'll want to reduce expenses or improve efficiencies.

4 REVENUE PER PROFESSIONAL

Revenue per professional is a great tool to measure productivity and resource utilization of professional staff. It can help diagnose poor pricing, as well as potential issues in focusing on growth vs. client servicing. As a matter of practice, this ratio should always be cross-referenced with revenue per employee and compared to other like firms. Successful businesses are able to leverage their professional staff to maximize productivity. Too low a ratio, and your professional staff might need to focus more on new business growth. Too high, and you may need to increase staff.

Key Learning: Improving your revenue per professional ratio requires looking at both your sales pipeline and service models.

5 ACTIVE CLIENTS PER PROFESSIONAL

Tracking the number of active clients per professional is a valuable metric in determining general productivity, efficiency and staffing measures. It's necessary to compare this ratio to your competition. If you have too many active clients per professional, you could potentially be underservicing clients or have too many of the wrong type of clients. You may need to increase staff or reexamine your active clients. Too low, and you may want to add clients or address it as a level-of-service issue.

Key Learning: Active clients per professional is a great indicator of basic staffing and structural issues as it has implications for support staff, as well as your client mix.

6 REVENUE PER ACTIVE CLIENT

This ratio is useful in measuring the size of client relationships and in looking at profitability per client. While there is a high correlation with the size of your firm, to best manage this ratio it's important to maintain a strict minimum account size with few exceptions, and then evaluate minimum revenue retroactively. There are few downsides to high revenue per active client, but one might be that you have a low active client base or a client base that is not increasing their assets under management with your firm. Too low revenue per active client and you may have too many clients or too low minimum account size.

Key Learning: Try establishing or increasing account minimums and stay disciplined in client acquisition to improve this ratio.

CONCLUSION

Having a clear view of these analytics can help guide many decisions that your firm will need to make. Ultimately, how you address the questions facing your firm will determine the health of your business. Ensure that your decisions are based on sound strategy and are data-driven with the help of these ratios. Know your data. Once you are informed, partner with Kestra Financial for a customized support system that can move your business forward confidently.