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Develop Business/Practice Management

5 Steps to Optimizing Your Business

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When you work on activities that deliver the highest margin for your effort, you create your own practice management "efficient frontier." That means you're creating sustainable value in your business and achieving your full potential. Here's how to do it.

Optimization is the process of making a system or design as effective and functional as possible. You help investors optimize their portfolio design through modern portfolio theory. And, just as an ideal investment portfolio occupies the upper-left quadrant of the return-risk graph, you want your practice efficiency (return vs. effort) to hover in the northwest corner too.

In other words (and this shouldn't surprise anyone), work on activities that deliver the highest margin for your effort. You can create your own "efficiency frontier" through the following five-step process of business optimization.

Step 1: Realize

Your journey toward efficiency begins with identifying challenges and problems preventing your business from achieving its maximum potential. When evaluating these difficulties, carefully distinguish between symptoms and root causes. Symptoms are the pain that you are experiencing in your business. Root causes are the source of that pain. Most businesses have a tendency to treat the symptoms, which is why the problems never get solved.

Here are four common root causes for advisory business problems:

- **Business obesity.** If you have more clients than you can reasonably service, you and your business are carrying a fair amount of extra weight. In order to grow your business faster, you are going to need to lose some of that weight. Business optimization is about becoming a lean, mean fighting machine.
- **Business model.** Sometimes the structure of an advisor's business is based on outdated, invalid assumptions. You cannot continue to adhere to the assumptions and expectations that defined this industry 20 to 30 years ago. Over the years, the financial industry has been developing and embracing [more complex](#) business models in an effort to offer more value to the client. You may have clients with greater assets and more complex needs, meaning more time needs to be spent with them. This creates a problem if the structure of your business cannot meet those expectations.
- **Margin.** Lack of margin, or [free time](#), could also be holding you back. You cannot optimize a business that is in severe overload or stretched beyond its capacity. If you do not have margin in a business, it is impossible to perform at the highest level. Margin is the key to accelerating the growth of your business. Margin gives you the time to do the

things that need to be done, such as bringing in those higher-revenue-generating clients. If you want to grow a business and exceed people's expectations, you have to make the time to focus on these issues.

- **Self-sabotage.** Our individual belief systems and behaviors can keep us from making the best decisions. For example, maybe you are someone who has a tendency to overcommit or underestimate how long it takes to complete a task. This creates problems for your team because they are saddled with the responsibility and [added stress](#) of trying to complete too much work in too little time. Become aware of your destructive behaviors and make the needed adjustments with the help of your team. Ask for feedback. Most of us are not aware of our blind spots.

Step 2: Minimize

The goal of the minimizing phase is to reduce the challenges in your business. Eliminating obstacles creates margin so your business can grow faster. Minimizing can include [reassigning smaller clients](#), but that's certainly not all there is to it.

What you need to think about in this phase is your workload capacity gap, the difference between the amount of work it takes to run a world-class business and the capacity that your team has to do all of that work. Think of it this way: workload is what you do (and should be doing) for your clients; capacity is the number of staff hours available to handle the workload.

Many businesses operate with a crippling gap between workload and staff hours. This causes stress for everyone on the team, and it limits the potential revenues of the business. That's because everyone may be working diligently, but their efforts are not properly focused. It is important to do everything possible to [reduce workload](#) before attempting to increase capacity.

Examples of reducing workload include:

- Streamlining the number of clients you have
- Setting an [account minimum](#)
- Eliminating unprofitable services or product lines that you dabble in
- Eliminating clients who do not fit your business model
- Delegating low-profit clients to a [junior partner](#) or another FA
- Using technology to gain efficiency in work processes

Let's say you trim down your workload to focus on your primary task and you find you still don't have enough staff hours to cover your workload. Only then, when you're sure you've focused on your true mission, should you increase capacity by finding the right people to do the jobs that are not covered.

Step 3: Organize

This phase involves looking at every detail of your business and establishing a workable infrastructure. When you have accurate information about your business infrastructure, you are

in a better position to make decisions and provide a higher level of service to your clients. How do you determine the proper organizational structure for your business? Follow this process:

- **Select your business model.** Stop being all things to all people; commit to one [business model](#) as soon as possible.
- **Chart your business functions.** Develop a functional organization chart or high-level overview of your business, breaking each part of your business into functions. Determine what work has to be done in the three major areas: finding new business, grinding (managing portfolios), and minding (providing client service). Worry about who will do which part later.
- **Define the work in each function.** You may realize that you do more for clients than you thought or that your team is actually [stretched too thin](#) and cannot take on any more clients until things are reorganized.
- **Quantify the work in each function.** Most advisors have a very incomplete understanding of how much time it actually takes to run their businesses at optimal levels. Have your team do a time study on the important tasks for each function for a couple of weeks. You are looking for educated estimates here, not exact times.
- **Determine your required resources.** Once you know what you do and how long it takes to do it, you can determine what resources you need, including people, technology, skills, knowledge, and external support.
- **Write accurate job descriptions for your team.** Your team needs to have at least one person owning each of the find, grind, and mind areas of your business. The best way to [form a new team](#) or restructure a current one is to organize it around function rather than specialty or expertise.

Step 4: Systematize

The goal of this step is to create standard ways of performing all the important activities in your business to increase the efficiency of your team. A [system](#) is a series of steps or activities that work together to produce a predictable and consistent result. The ultimate goal of this stage is to have an operations manual that documents all the tasks and activities that make up the functions of your business. Documentation commits you and your team to the business. It increases productivity because people become more efficient when you give them systems. Systems also facilitate training new personnel and delivering better advice to clients.

The best way to identify and refine systems is to start with your functional organization chart. Once you've written down each function and thought about what happens in it, you then document everything that you do within the functions. Prioritize the systems that will have the most impact. There are five types of systems that you should create for your business, and you'll need the help of your team in developing them:

- **Checklists.** Put each step-by-step detail of your process in writing. This works best for tasks done by a single individual.
- **Workflow.** A workflow system involves several people on your team. For example, your sales process requires a workflow system. Let's say you have an [appointment](#) to meet

with a prospect. The first step of the sales process system might be to have someone call to confirm the appointment. Another might be to prepare the materials or presentation for the meeting. Each step in the process is documented as the work flows from one individual to the next.

- **Information.** You need systems in place for managing the huge [load of information](#) that flows through your business, including internal information (financial results), external information about the markets and research, and client information (which should be stored in a contact manager).
- **Hard systems.** These systems are all the tangibles of the client experience. They include anything clients might see or touch, from your presentation materials to the setup and decor of your office.
- **Soft systems.** These systems are the intangible aspects of the client experience; they affect the client, but they're not concrete. They include what the receptionist says when clients call your office, the way clients feel when they speak with your team, agendas for client meetings, and so forth.

Step 5: Optimize

The final step is about creating real and [sustainable value](#) in the business for you and your clients. The book *The Discipline of Market Leaders* presents the results from a study on leading companies that sought to determine how they came to dominate their industries. The management teams were studied, and the customers were interviewed to find out what these companies were doing differently than their competitors. Each of these companies, in its own way, created "value disciplines," or strategies for delivering exceptional value to customers. There were three primary value disciplines that these industry leaders embodied:

- **Operational excellence.** These companies were able to become low-cost producers in their industry such that no one could compete with them (e.g., Dell, McDonald's)
- **Technical superiority.** These companies are extremely committed to research and development, allowing them to create products and services two to three years before their competitors (e.g., Microsoft, pharmaceutical companies)
- **Customer intimacy.** These companies have a [deep knowledge](#) of their customers. They know them so well that they can uncover challenges to solve for them long before the competition is aware of the need.

In the optimization process, you see the value and profitability in each client relationship over time. You are probably going to spend a lot more time managing a client relationship in the first couple of years, but somewhere along the line, the amount of time levels out. You're also probably spending an equal amount of time on a \$2 million client as a \$500,000 client. This is where leverage comes in. Having larger but fewer clients is the best way to leverage your time to grow your business.

Finally, you need to see your clients in terms of lifetime value rather than just the fees they pay each year. What would you be willing to invest in acquiring a client if you knew he or she was going to pay you \$250,000 in fees over the next 10 years? Implementing these five optimization steps means taking the long view. Now that you're familiar with them, you're on

your way to creating sustainable value in your business and achieving your full potential.

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