



# To Fee or Not to Fee

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## **Making Beautiful Music Together—why advisors should form ensembles**

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There are three basic practice models in the financial planning industry: sole practitioner, silo, and ensemble. The trend to forming ensembles or group practices is well established in the U.S. among independent advisors, but has yet to emerge as a dominant model in Canada.

The problem is that financial practitioners, by our very nature, are fiercely independent. So the thought of working not only in a shared ownership model but, more importantly, a shared decision-making model can turn off many advisors, even when they see the obvious benefits to being an ensemble player.

That being said, the advantages can far outweigh the negatives of giving up some control in the day-to-day management of your practice.

### **Show me the money**

The most compelling benefit of a group practice with other players is financial. Although economies of scale are also obvious when it comes to silo offices, ensembles can go much further in reducing overhead cost per advisor. Think of it this way—there is a cost to producing a self-employed or corporate tax return, but it is never ten times higher for an office of ten advisors than it is for one.

### **Providing Better Service**

You will also have a financial and professional interest in your colleagues' books and vice versa. So it is to your benefit to make sure everyone's clients are well served during holidays, emergencies, and the busiest times of the year. This flexibility can be worth a lot in reducing stress and improving service.

This shared revenue commitment will often be reinforced by a year-end bonus or shareholder dividend.

### **Time is money**

As a sole practitioner, the buck stops with you. Whether settling HR issues or designing portfolios, you can't avoid the work that takes you away from revenue generating activities. When working in a silo, where just expenses are shared,

individual advisors are still solely responsible for all aspects of managing their practice. By agreeing to divide all the work among several trusted advisors, you can share the non-revenue producing activity such new product research, organizing client appreciation events, or writing a newsletter.

Ensembles also allow advisors to specialize in different areas of financial planning such as tax or insurance. This creates a large pool of knowledge that can be quickly accessed to better service a varied client base.

### **Giving up some control**

To reap the full benefit of the model, partners in an ensemble will often agree to standardize procedures, client deliverables, and portfolios. This can seem alien to someone who is used to running every aspect of their own practice, but a well-structured management committee will still allow all players to have a say about how the office is run.

### **Succession planning**

Ask yourself this: if you were seriously disabled, forced to retire, or died tomorrow, how would you retain the value of your practice? By combining your book with other advisors, and sharing practice management procedures, you can ensure continuity in case of the unthinkable. You can also assure prospective clients that, if you were to leave (for whatever reason), another advisor would pick up their file and run their meetings and portfolio in a similar matter.

When the time comes to sell your share of the business, you will have a ready pool of existing players and associates eager to buy in. The alternative, in case of a larger practice, is there will also be “financial buyers” who will want to buy out a well-run practice lock, stock, and barrel.

### **Shareholder agreement**

A well-crafted shareholder or partner agreement will avoid any problems such as those who want to coast while other players are still building their practice. It can also spell out clear transition plans such as buyout formulas.

Adding new players can be a challenge, but the best argument is that even though everyone ends up owning a smaller piece, it's a bigger pie.

In these challenging times, belonging to a team of professionals with a shared sense of purpose in a collegial atmosphere can certainly provide the support most advisors wish they had.