

THE BIG, BAD P&L



Does your profit and loss statement feel like a monster?

Here's how to tame it and make it work for you.



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In an industry where numbers and finances matter greatly, I have always found it interesting that most advisors do not make it a habit to look over their profit and loss statements.

It could be because of the nerves that come with analyzing expenses and income when you are the boss. It can be a little scary to see the weight you carry on paper, but often it's just because you get lost in all of the details, all of the numbers, all of the line items.

Let me assure you: It feels scarier than it really is. Attempt to see your numbers as just that — numbers. They *will* change every month. Do not put unnecessary pressure on yourself to hit every benchmark, every time. I've seen offices in the red during one quarter and jump to benchmark profits the next simply because they fixed their pending business funnel. It can be that simple of a fix in 90 days.

So remind yourself that you are simply looking at a picture of what it looks like, today. Tomorrow it will be a whole new picture. But applied knowledge is power. If you *know* what your books are saying, then you can make informed financial decisions without that nagging thought, "Was that the right call?"

P&L STATEMENTS: WHEN, WHY AND HOW

How often should you look at a profit and loss statement? I suggest you request one every month from your books person. Not only does this hold him or her accountable for getting it done, but it also allows you to make sure things are being coded correctly each month, instead of finding out something was coded wrong for six months and then needing to go back and adjust. This also allows you to get a monthly pulse on profits.

Here are a few practical ideas on how to turn the lights on and minimize the scare factor of your P&L. These strategies should be done at least twice a year, or quarterly. This is not needed more than four times per year.

LUMP ACCOUNTS AND EXPENSES INTO CATEGORIES

These are the top five we examine. *Note, not ALL expenses will be included in these first four areas; these are just the top sections to examine.*

- 1 **Marketing and Advertising**
Any and all marketing spend goes here
- 2 **Staff Wages and Benefits**
This should include *support* staff only.
Producing advisor salaries go on a different line.
- 3 **Non-Owner Commissions**
This is any income-producing advisor in your office who is *not* an owner. It should include their salaries, commissions and any benefits.
- 4 **Office Rent**
- 5 **Profits**

Once you have your expenses lumped into the different categories, then do the following:

1 Find the percentage of revenue you are spending on the preceding items using these formulas:

- a. Marketing cost/Total revenue =
Percentage spent on marketing
- b. Staff wages and benefits/Total revenue =
Percentage spent on wages
- c. Non-owner commissions/Total revenue =
Percentage spent on non-owner commissions
- d. Office rent/Total revenue =
Percentage spent on rent
- e. Revenue – Expenses; then take that number and divide by total revenue.

This is your profitability percentage.

Where should you aim to be in your benchmarks?

An important fact about the financial industry that most advisors often forget is that the profit margins are incredibly high. Most industries in our nation hope to hit 5% to 10% profits. This is a *great* thing; we are in a very lucrative business. But oftentimes, advisors buy into the idea that they must spend money to make money. While this is true, they don't need to spend *too* much money.

The benchmarks that follow serve as a *guide* for advisors to know where to aim. That being said, if an office is in high-growth mode, it may be spending 25% on marketing and have lower profits for a season, which is understandable and healthy. If an office is AUM-heavy and has a lot of recurring revenue, its marketing percentage is going to be much lower. There is *no right way* to do it. But offering these benchmarks is at least a starting point for anyone who is new to looking at their finances.

Benchmarks:

- Marketing and Advertising: 15% to 20%
- Staff Wages and Benefits: 9% to 15%
- Non-Owner Commissions: 10% to 20%
- Office Rent: 3% to 5%
- Profits: 30% to 40%

2 | Find what percentage of your overall expenses each expense category makes up.

A portion of what we do at Track That Advisor is analyze advisors' books. We receive a profit and loss statement, dissect it, then give a thousand-foot view of what is being spent where and how it lines up with benchmarks and national averages.

What we've found over the last seven years is that most offices spend 75% to 80% of their expenses on support staff, advisors and marketing. This explains why so many offices had their most profitable year last year, due to marketing costs diminishing greatly. But it is also worth noting that the majority of advisors' expenses cannot be cut; they are mandatory expenses that keep the machine running.

So, if you are not hitting the profits that are suggested, and you can't cut expenses, how do you solve that problem? You take a look at your internal sales process and track that data. You examine where people are falling off in your sales cycle and fix that area specifically. That will help increase revenue, and therefore, profits since no additional spending is required.

I hope this gives you a bit of guidance on how to minimize the stress caused by opening up that dreaded P&L. If you break it up into sections and examine those pieces, the lights get turned on and the monster is gone. Do not be afraid to tackle the hard and scary stuff. It will make you a better business owner!

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A SIDE NOTE AND QUICK FOOD FOR THOUGHT

Advisors Excel Co-Founder David Callanan uses the term “dripping nickels” when referring to advisors who are missing the small amounts of money going out the door that could be saved. While that most certainly can be an issue we can see in a P&L, more often than not, I see it being an issue on the marketing and sales process side of the coin, in conversion rates. Let's look at an example:

Let's say you have 10 first appointments come to their meeting. If you only convert 50% of those leads to a second appointment, you lost five units in that one transition period. If the national average cost per kept first appointment is \$1,000-\$1,500, then you just let \$5,000-\$7,500 walk out your door. Now that, my friends, is more than dripping nickels — that is a hole in your pocket! But none of that will be shown in a P&L. It's just another item to keep in mind when focusing on cash flow and profits. It's a silent hole in many office systems.

This is a hypothetical example provided for illustrative purposes only; it does not represent a real-life scenario.

Erica Pauly is the founder of Track That Advisor, a data analytics company founded in 2015 that provides analysis on over \$1 billion of new annuity and assets under management each year for independently owned advisory offices across the nation. For more information, visit www.trackthatadvisor.com.