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# 10 Steps to Increasing Practice Profitability



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The landscape of professional financial practices is shifting. What once were solo operations have evolved into larger, more complex team structures, thanks to consolidation and organic growth. While this transformation offers exciting opportunities, it also brings new challenges—specifically, managing growth without sacrificing efficiency or profitability.

Our data suggests that as practices expand, they often become less efficient, and their profit margins shrink. Looking ahead, profitability is likely to play an even bigger role in practice valuations, making it more critical than ever for advisors to sharpen their focus on both top-line revenue and bottom-line efficiency. The good news? Growth and profitability aren't mutually exclusive. By taking a strategic approach to financial and operational management, you can optimize both.

Below, we outline ten essential steps to improving profitability while maintaining sustainable growth. For a more in-depth analysis tailored to your practice, our valuation services provide detailed data and insights to reinforce these strategies.

## **1. Understand Your Financial Metrics and Benchmark Against Peers**

Knowing your expense ratios, profitability margins, and operational efficiency compared to practices of similar size is critical. Many advisors accept their earnings at face value without closely examining their P&L statement, which can lead to missed opportunities for optimization and decreased practice value. A thorough analysis as part of our valuation process can help uncover hidden inefficiencies.

## **2. Set Clear Expense and Profitability Targets**

Financial improvements don't happen by chance. Establish specific profit and expense targets as part of your strategic planning, and actively work toward them. Each year, identify two or three key initiatives to support your profitability goals and ensure they align with your broader business strategy.

## **3. Dedicate Time to Business Planning Monthly**

Growth requires leadership. No matter how busy the day-to-day operations may be, set aside time each month to assess business performance from a strategic standpoint. Whether it's just an hour or two, treating your practice as an asset and viewing it through the lens of an investor or future buyer can provide invaluable insights.

## **4. Shift Focus to Quality Over Quantity in Client Growth**

Revenue growth is best achieved by increasing the average client size, not just adding more clients. Optimizing client segmentation leads to greater efficiency and improved profitability. Our data highlights a strong correlation between well-structured client segmentation and overall business performance.

## **5. Rethink Associate Hiring Strategies**

Many practices hire associate advisors to service lower-tier clients, but data suggests this is one of the leading causes of inefficiency. Clients with less than \$100k in assets contribute only 7- 9% of total revenue in a typical practice. Assigning significant expenses—such as dedicated advisors—to a low-producing client segment can negatively impact overall profitability.

## **6. Explore Outsourcing for Greater Efficiency**

Outsourcing services can seem costly at first glance, but when factoring in the resources required to train and manage staff, it often proves to be a cost-effective solution. Many advisors find staff management to be one of the most demanding aspects of running a business, making outsourcing a viable alternative for reducing administrative burdens.

## **7. Identify and Eliminate Inefficiencies in Client Service Processes**

Every practice operates with inefficiencies—some subtle, some glaring. But many advisors continue engaging in inefficient workflows simply because it's the way things have always been done. Assess your processes with time-value considerations in mind, breaking down each service into hourly earnings to highlight areas ripe for improvement.

## **8. Leverage Teaming and Partnerships to Optimize Resources**

Teaming with other professionals or sharing staff can dramatically improve cost efficiencies and workload distribution. In addition to reducing excess capacity, collaborative efforts can enhance marketing strategies, operational support, and service delivery, ultimately strengthening the practice's overall value.

## **9. Optimize Your Client Base**

Not all clients contribute equally to the health of your practice—some may drain resources without delivering proportional revenue. Regularly evaluating your client roster allows you to refocus on those who are productive and aligned with your business goals, leading to stronger profitability and a more enjoyable work experience.

## **10. Avoid the Misconception That Growth Alone Improves Profitability**

Many believe that scaling a practice will naturally improve the P&L statement, but data proves otherwise. Larger practices often suffer from declining profit margins unless efficiency is actively managed alongside growth. Profitability requires intentional effort, not just expansion.



## Final Thoughts

Managing growth without compromising efficiency or profitability is a challenge, but one that can be overcome with careful planning, strategic resource allocation, and proactive financial management. Implementing these 10 steps can help advisors navigate expansion while ensuring long-term success.

For personalized insights and an in-depth assessment tailored to your practice, our valuation services offer detailed data to guide you in optimizing both top and bottom-line growth.



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