MARK TIBERGIEN, THE ICON

Mark Tibergien has been a highly respected thought leader in the wealth management industry for decades. Author of three of the most widely read books on practice management, he has advised almost every successful firm in the industry. For many years, Mark was the partner-in-charge of the Business Consulting Group at Moss Adams LLP. Over the last eight years, as the CEO of Pershing Advisor Solutions, a BNY Mellon Company, he has helped build it into one of the leading custodians for large wealth managers. He shares his thoughts here on how he believes the industry will evolve over the next 10 years.
Why RIAs May Start Looking More Like Accounting Firms

**By Mark Hurley**

**Equity units could be replaced by income units and cash flow will replace revenue as a valuation tool.**

*Editor’s note: This is the fifth in a series of interviews with thought leaders on the future of the wealth management industry.*

Hurley: What will this industry look like in 10 years? What will be the profile of the winners?

Tibergien: There will be a clear dichotomy between types of firms and sizes of firms. There will be successful local businesses. But the landscape also will look a lot like the accounting profession with a handful of dominant national providers. Ironically, they will look something like the wirehouses but on an advisory chassis, with professionally managed, structured branch office systems that will have a common brand and client.

There will also be regional firms similar to Group B accounting firms. I can envision 40 or 50 of them. Already, we can see the roots of these businesses growing in a number of markets. Hurley: How big will each be in terms of revenue?

Tibergien: A regional firm probably is going to be in the $300 million to $500 million range. I think a true national firm has to be a multi-billion dollar business.

Hurley: And what about the successful local firms, those with enterprise value?

Tibergien: Probably at least $15 million to $20 million revenue businesses.

[Enterprise value] will be measured in terms of cash flow and [ownership] will probably look more like income units than equity units as it changes hands over time. Its value will be a function of cash flow.

One of the fascinating things about the marketplace today is that advisory firms often trade at an inverse relationship to their size and quality. Part of it is that the level of unsophistication at the low end forces people to price on a multiple revenue basis. But the larger a firm becomes, their economics become more transparent, and people are able to pay at a multiple of their cash flow instead of revenue.

There are some who will continue to overpay for equity. They are assuming a [future] cash flow that may not be real.

Hurley: What would you view as an appropriate multiple cash flow?

Tibergien: There are three elements that define an appropriate multiple cash flow. First: Is there cash flow? That is, cash flow after a fair compensation to the owner and after other expenses are covered.

Second: What is the degree of confidence on that cash flow? Third, what is the growth rate? In terms of cash flow and not revenue.

The bigger the numerator, the more confidence I have that the growth rate will continue. The business should also have greater growth because there is more critical mass. Smaller firms justify a lower multiple because they have higher risk, lower growth, and not as big of a numerator.

Hurley: How much of this is a PV calculation of the future cash flows from the existing clients?

Tibergien: I’m not sure that [in many cases] the multiples paid are necessarily logical. If you look at the underlying asset that generates the cash flow, in most cases it looks like a depleted oil well.

Hurley: You have argued that the top three firms in their markets have twice as many opportunities for economic growth. Doesn’t this point to option value and not just cash flow?

Tibergien: That goes to my argument that larger firms command a higher multiple.

Hurley: How will specialization affect the evolution of the industry?

Tibergien: Whenever we talk about the top three firms attracting twice as many clients as their next nearest competitor, it’s really firms in a particular [specialty].

Going forward, a key differentiator will be clarity of value.
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There are eight different driving forces that cause a business to grow. The two most common are a niche strategy where they have a clearly defined community that they’re serving. For example, business owners in transition or citizens living abroad or professional athletes. It cannot be too broad and must be defined in a way that makes sense.

The second most common driving force is that they have a technical specialty. They are known for something.

Hurley: How many local winners, super-regional and national firms?
Tibergien: There will still be literally thousands of lifestyle practices.

Hurley: But how many total firms will actually be businesses?
Tibergien: The marketplace certainly could justify 100 of them.

Hurley: What are their owners doing today to prepare for the next decade?
Tibergien: Five characteristics: First, they are very clear on their positioning. They know who is their optimal client and they build a client-service experience around that.

Second, they have a structure that supports their positioning. For example, if your business is organized around retirement plans, you are going to have a different structure than if your focus is high-net-worth or ultra-high-net-worth individuals.

Third, they have a human capital strategy that is aligned with their vision. Thoughtful reward and people-development structures, career paths and plans to recruit people.

Fourth, they manage profitability rather than treat it as a consequence. Most advisory firms tend to think there are only two levers in the profitability game: growing revenue and controlling cost. In reality, there are at least four others. One, pricing strategy: Is pricing appropriate to what is delivered? Two, productivity: Is work flow and the process to on-board clients and serve them efficient, effective and productive? Three, client mix: Are there optimal clients who receive a consistent experience? Four, service mix: Is the service mix appropriate to client mix?

Lastly, they have implemented a systematic client feedback process. They are not just making judgments based on good feelings. They elicit what their clients are thinking so that they can continually think about how to build a better business.

Hurley: Where do acquisitions fit in all of this?
Tibergien: Acquisitions are a way to acquire talent or to acquire clients.

Hurley: How many owners of firms actually do a real strategic planning process?
Tibergien: More now. When I first started in this business, the notion of talking about strategy was pretty random. Everybody had a lifestyle business. Today among the larger firms, there is a conscious awareness that they have to think about the future.

I’ve fallen in love with the concept of “zoom in, zoom out.” It is not the formal “Let’s develop a vision and then an action plan” with 20 steps that you take. A more practical approach for small businesses is imagining what will be happening out five or 10 years and then focusing on one or two things that could be accomplished this year to move your business forward.

Hurley: Jeff Thomasson argues that there will be a fight for talent, and only those firms with great cultures and that can offer an opportunity to build substantial personal wealth are going to be able to attract and retain the best people.

Tibergien: I agree. It is both a cultural and an economic decision.

I’ve given a lot of thought about the talent shortage and recently had the epiphany that we don’t have a talent shortage, we have a management shortage.

Here’s my argument: This is a business where you have independence. You profoundly impact the lives of other people. It is intellectually challenging. It’s financially rewarding. If you just add long walks on the beach, it’s a great personal ad.

But why do we have 40,000 fewer people today than we did in 2008? Why do young people say, “That’s not a business that I’m interested in?” There is a lack of management’s ability to attract, keep, develop and promote individuals into what should be an extraordinarily fulfilling career.

This is not a hunt for clients; it is for talent, an entirely different battleground. A human capital strategy almost supersedes every other strategy in the marketplace.

Hurley: How will the relationship between advisors and custodians change?
Tibergien: The primary reason that custodians exist is to keep clients’ assets safe. A lot of value, but a highly commoditized business, which is causing every custodian to rethink their proposition.

Those with a retail orientation would rather bypass the intermediary and go direct to the client through a combination of digital solutions, low-cost people and an investment strategy. Others may try to be a superior provider of technology. Although we spent hundreds of millions of dollars a year on technology, the challenge [with relying on that strategy] is that technology in the advisor business is a complex proposition, and you have to be right.

BNY Mellon is an institutional firm, the largest custodian in the world. We have about $28 trillion
of assets under custody and/or administration. Our clients are global, and we deal with every imaginable financial institution you can conceive of, including sovereigns. We are personally invested in our clients’ success. We think of ourselves first as a business solution provider with custody in our core.

My expectation is that custodians will probably start charging advisors directly like the old bank custodians did for a custody fee. That will probably come out of the fee that they charge to their clients and will be a cost to doing business.

Hurley: In every industry, at some point, either value-added goes up or fees go down. What will the winners do to address this?

Tibergien: In many ways what Jeff [Thomasson] has created at Oxford is really a pretty good vision for the future of this business. Focusing less on investment and more on value in life.

[Future winners] will have a more holistic orientation that thinks about the individual. It’s beyond picking the right funds or ETFs. It’s more about how people will make an impact with the money they have.

We also have to imagine what the next generation of wealthy people will look like. For example, it is a mistake to think that millennials will accumulate wealth primarily through inheritance. It’s an extraordinary insult to every millennial who’s in a well-paying job and is saving better than his or her parents ever did. How they live their lives and what they consider important likely will change, and being conscious of that is important.

Hurley: Go further on the profile of future clients of successful wealth managers.

Tibergien: Gen Xers are often ignored, which is a giant mistake. They may be the most cynical generation in the history of man, but they still are wealth accumulators and making an impact.

Hurley: Such as serving in Iraq and Afghanistan?

Tibergien: Doing extraordinary things. They are caught between the boomers and the millennials. Boomers were terrible savers and subsequent generations are better savers. They also will be more sophisticated about wealth. There is an educational role for advisors. They have a responsibility to convey to their community proper decisions, good decisions and choices, not just about investing. It’s about living in a way it makes sense.

Hurley: What role will “big data” play?

Tibergien: We have delivered advice based on static information, so big data will be a more powerful connector in how we provide not just wisdom but insight into individuals’ behaviors. It will be a real game-changer in the advisor business and potentially for a custodian like Pershing in delivering data that provides real insight into the behaviors of clients.

Hurley: Successful firms will have to go through a pretty robust transformation right at the point when most of the founders are getting old?

Tibergien: The founders have done their job. Just like the pioneers crossed the mountains and went over the rivers and through the woods, they didn’t necessarily build nice homes. They founded the communities. The next generation has the responsibility to create cities and towns and sewer systems and electricity and all of those other things that are critical to this business.

Hurley: Assuming that founders can let go.

Tibergien: Advisors are people, and voluntarily or involuntarily they’re letting go. It’s just a question of timing.

Hurley: Where do the banks fit in the industry’s future?
Tibergien: Larger financial institutions have a role to play, and I have a visceral reaction when people describe the RIAs as “independent.” I don’t know what that means. Ownership? Independent in the way in which they give advice? Independent of accountability or responsibility?

I certainly don’t view them as independent. I view them as professional buyers, not professional sellers. Professional selling organizations are product advocates. Professional buying organizations are client advocates. Either can work, and it doesn’t mean that they are not doing things in the best interest of the client. The question for the banks and the brokerage firms is whether they want to shift from being professional sellers to being professional buyers.

Hurley: And wealth manager brands?

Tibergien: Everyone today talks about “my education, credentials, smartness, people, price.” But those are just table stakes.

Brands have to evolve so they define why firms exist. Clients think in terms of “What’s the business’s expertise? Is it big, broad and deep in a way that it can help me?” We will see a shift away from the cult of personality to the culture of expertise.

Hurley: How do they do that?

Tibergien: Advisory firms should identify the top 25 clients that they want to replicate—not the richest clients, but what [ideally] all clients could look like—and their 15 to 20 characteristics, such as source of wealth, family structure, problems and challenges, demographics. Often a common pattern exists.

Hurley: If you owned a wealth manager, what would keep you up late at night?

Tibergien: Compliance risk. Wealth managers do not have command and control structures as good as those at broker-dealers. I would worry what my people are doing when I’m not looking as [my firm] becomes a much bigger company.

But implementing systematic controls causes people who are attracted to the business to chafe. This is part of the maturation of a business because reputational, financial and compliance are massive concerns.

For example, RIAs will not escape the implications of the Department of Labor’s fiduciary rule, something different than exists under the SEC. It implies that there’s going to be an extra level of compliance.

Hurley: What is the most remarkable change you see in the industry over the past 10 years?

Tibergien: The growth of advisory firms. I remember when it was a big deal to be a $10 million firm, then a $100 million firm, and now there are 350 firms over $1 billion.

Hurley: What’s going to be the most remarkable change in the future?

Tibergien: The flow of talent into this business. People will wake up to the fact that they are missing out on a truly great profession by not being here.

Hurley: Thank you very much.

Tibergien: Thank you.

Effie Guo contributed to this article.