At the Capacity Crossroads: Three Visions for Scaling the Advisory Firm You Want

Michael Kitces

Advisors come to a significant transition moment when we reach our personal capacity for serving clients. Industry expert Michael Kitces helps us look at the key factors involved when we reach this crossroads and consider what to do next.|

Kingdom Advisors is the leading advocate for the Christian financial industry.

We offer a step-by-step process to confidently deliver advice that aligns with Christian values.

Study Groups connect like-minded peers for encouragement, best practices, and accountability.

Major shifts happening in our industry now: how advisors build paths of success and how we generate revenue

Two Business Models

Influence how we shape our business

Commission-based advisory business

Higher initial revenue – $100K client produces $5K in revenue in two weeks

Starts over every year

Rewards advisor's ability to find new clients

Fee-based advisory business

Lower initial revenue – $100K client produces $250 in three months

Yearly compound growth

> Over 15-year periods, fee-based businesses often become two to three times larger than some of the most successful commission-based businesses because of cumulative compounding.

Rewards advisor's ability to serve existing clients

Dynamics of Scaling Up

Capacity dynamics

As the firm owner hires more employees to take on more clients, they spend less time seeing clients and more time managing staff.

Physiological dynamics

Our brain structure informs the number of people we can have meaningful relationships with as advisors.

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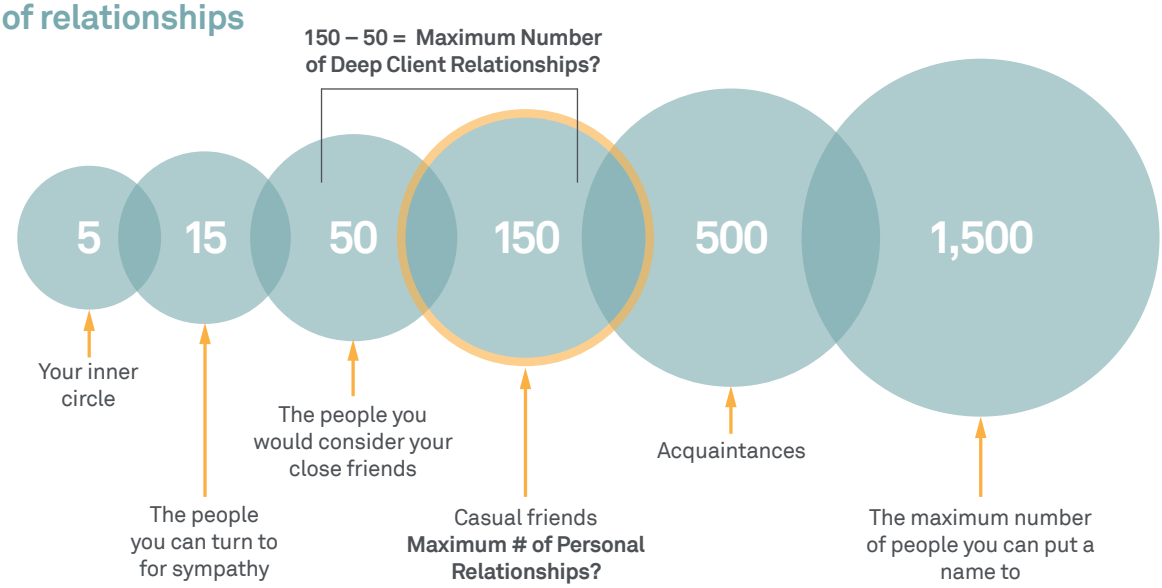
Circles of relationships



Our brains' processing ability defines the number of meaningful relationships we can have as advisors: 150 total, including 75-100 clients before we cap out.

Business dynamics

First 100 clients – high profit margins, limited overhead costs

Second 100 clients – revenue may double but profits often increase by no more than 10-20%

Efficient, well-run solo advisory firms produce nearly as much take-home income as partners at super ensemble firms.

Capacity Crossroads

Transition moment for the advisor when you reach the number of high value relationships you can personally serve before you can't handle anymore. Often comes between year 5 and year 10 when the advisor reaches 75-100 clients.

Choices to make at the Capacity Crossroads:

What do I want to build?

What comes next?

3 Pathways

Solo/Lifestyle Practice

Serves limited number of clients with deep, specialized services

Drives significant fees with limited time

Built on: preference to work to live rather than live to work

Unique concerns: managing capacity, selectivity of clients, letting go and outsourcing some work

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Boutique

Serves broader community

Built on: mission to serve more clients with excellence

Recommended book: *Small Giants*, Bo Burlingham

Unique concerns: attracting and retaining committed team members with the same passion for the mission

Enterprise

Large advisory firm

Scaling up to serve thousands or tens of thousands of clients

Built on: entrepreneurial vision to grow something much larger

Unique concerns: outside capital partners, accelerated hiring, systematizing processes for higher volume

Have I spent so much time focusing on growth that I haven't thought about what I'm actually growing for?

Why am I growing?

Is there a point when I reach enough?

What does enough look like?

What is my definition of success?

Discussion Questions

1. What is your personal capacity for serving clients? Has that changed over time as your business has grown?
2. Which of the three business models that Michael discussed is most important to you?
3. Have you defined what enough looks like in terms of your client base? How did you (or will you) make that determination?

Personal Reflection

1. What does success mean to me?
2. Is my current advisory practice leading me toward my definition of success?
3. What is the next step I will take after this Study Group?

In what areas do I need to offer prayers of gratitude?

Are there needed changes to make to my practice?

Deep Dive with Michael Kitces:

Further Reading Materials

Michael has provided three extensive articles in which he digs into topics he mentions in this presentation. Available at **kitces.com/KA2022**

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