Determining Compensation: Chief Operating Officer (COO)

Excerpt from Adding the Dedicated Management Position Guidebook

Compensation is a central pillar of human capital management, and when compensation is managed strategically it can help attract and retain talent, as well as boost financial and operating performance. As you determine your compensation philosophy for the chief operating officer position, consider the following:

- Aligning cash compensation with your firm’s strategic objectives
- Reinforcing the compensation plan with benefits
- Implementing professional development and retention initiatives to complement the overall strategy

Figure 1 provides an overview, based on national aggregates, of what firms can expect to pay a chief operating officer.
Now that you have a good sense of what compensation looks like for a chief operating officer, your next steps are to consider the total cost of adding this position and determine if you will pay in the lower, median or upper quartile of the compensation range.

**Estimating Total Position Cost**

The cost of a new position includes cash compensation for base salary and incentive pay as well as non-compensation expenses such as insurance premiums, retirement benefits, payroll taxes and professional development expenditures. FA Insight survey data reveals that for every dollar paid in base salary and cash incentives, the average advisory firm also spends about 15 cents for non-compensation expenses that relate to the position. Using this factor, Figure 2 illustrates typical total employment costs for a chief operating officer by lower, median and upper quartile compensation targets.

**Figure 2: Total Projected Employment Cost for a Chief Operating Officer**

<table>
<thead>
<tr>
<th></th>
<th>Lower Quartile</th>
<th>Median</th>
<th>Upper Quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Compensation</strong></td>
<td>$109,367</td>
<td>$156,238</td>
<td>$194,048</td>
</tr>
<tr>
<td><strong>Non-Compensation Expense</strong></td>
<td>$15,898</td>
<td>$22,712</td>
<td>$28,208</td>
</tr>
<tr>
<td><strong>Total Employment Cost</strong></td>
<td>$125,265</td>
<td>$178,950</td>
<td>$222,256</td>
</tr>
</tbody>
</table>

Source: FA Insight based on FA Insight proprietary survey data, 2012.
Estimating the Total Position Cost: Chief Operating Officer

Step 1: Determine Where on the Range Your Firm Will Target Pay

The following are guidelines for thinking about compensating individuals at the minimum, mid-point or maximum.

- **Minimum**—Base pay at the lower end of the range is typically appropriate for an individual who is developing the required skill set for the role and has yet to fulfill all of the baseline accountabilities of the position.
- **Mid-Point**—Pay near the median reflects an individual who is fully competent to assume the position and is able to adequately complete all accountabilities as described within their position description.
- **Maximum**—The higher end of the range reflects an individual who is highly experienced, is able to innovate within the role, coach and mentor others, and take a leadership position within the role.

Step 2: Adjust for Local Labor Market Conditions

The compensation benchmarks in Figure 2 reflect national aggregates. An adjustment factor may be warranted to better tailor the benchmarking to reflect your local labor market conditions. For additional information, visit erieri.com.1

Step 3: Completing the Calculations for Estimating Cash Compensation

The following table will help you compute the total cash compensation cost your firm can expect when adding a chief operating officer.

<table>
<thead>
<tr>
<th></th>
<th>Example</th>
<th>Your Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position Benchmark Median</td>
<td>$156,238</td>
<td>$__________</td>
</tr>
<tr>
<td>Local Labor Market Adjustment</td>
<td>+10%</td>
<td>+/- __________ %</td>
</tr>
<tr>
<td>Market-Adjusted Median</td>
<td>$171,862</td>
<td>$__________</td>
</tr>
<tr>
<td>Target Pay Relative to Median</td>
<td>+15%</td>
<td>+/- __________ %</td>
</tr>
<tr>
<td>Cash Compensation Cost</td>
<td>$197,841</td>
<td>$__________</td>
</tr>
</tbody>
</table>

Source: FA Insight based on FA Insight proprietary survey data, 2012.

The above example begins with median benchmark cash compensation for the chief operating officer position as per Figure 2. The data should be used as a guide only. A range of factors will influence the level of compensation for a position.

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Four out of five firms have strong growth aspirations. However, only 14% have a documented plan for their future structure. Whether you are looking to increase firm value or enhance your client experience, how you leverage people resources will be a key determinant in your success. While there are many growth strategies touted as the key to success, few are as powerful as those focused on human capital. In particular, understanding and planning for the right organizational structure and the addition of key positions at the right inflection points in the growth trajectory of an advisory firm can be transformational in helping you achieve your business vision.

Breakout Growth: Adding Key Positions to Unlock Growth Potential is an integrated thought leadership program designed to help you best position your firm for sustainable, transformative growth by focusing on defining, adding and integrating key positions—specifically, the associate advisor and dedicated manager.

This program will help you answer:
- How can adding dedicated management or an associate advisor position drive firm growth?
- When is the right time to add a new position?
- How do you assess affordability?
- How do you determine the appropriate compensation level?
- How much in additional revenue will you need to generate to support the addition of a new role?
- What are effective strategies for sourcing and onboarding new talent?

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Firms that hire an associate advisor:
- Have 44% higher income per owner
- Have 38% greater operating profit per client
- Grow their client base 15% faster

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2 FA Insight.
The program components are as follows:

- A white paper, *Breakout Growth: Adding Key Positions to Unlock Growth Potential*, presents the case for adding an associate advisor or dedicated manager at critical junctures, including insights from top firms that have successfully integrated these positions.
- A guidebook series designed to help you determine the right time to hire, define roles, assess affordability, understand compensation considerations, source candidates and effectively onboard new hires.
- Modular tools are available to support your specific needs including sample job descriptions, career paths, onboarding action plans and more.
- Webcasts crafted to illuminate the challenges that many advisors face when designing and implementing an organizational structure that will drive sustainable growth over time.
- Regional workshops offering a deep dive into the program content, including the opportunity to interact with peers who are facing similar challenges in the realm of human capital management and building a plan for sustainable growth.
- Access to Solutions Consultants who can engage with you on a 1:1 basis to develop a customized action plan to drive your future success.

By leveraging the tools and resources of *Breakout Growth: Adding Key Positions to Unlock Growth Potential*, you will be able to assess your readiness to add either an associate advisor or dedicated manager, determine compensation, assess affordability and develop an effective onboarding strategy—helping you to increase their value contribution on day one.

To learn more about the *Breakout Growth Program* and the resources available, please visit tdainstitutional.com/breakoutgrowth.

### AT A GLANCE

**Firms with dedicated management:**

- Produce 41% higher operating profit per client and 36% higher income per owner³
- Acquire clients 12% faster³
- Grow revenue 67% faster³

³ FA Insight.
About the Authors

About FA Insight
Dan Inveen and Eliza De Pardo established FA Insight in 2008 in order to address financial advisors’ growing needs for business-building assistance. The firm works exclusively with financial advisors or entities that service financial advisors. Located in the Pacific Northwest, FA Insight research and consulting supports clients across the U.S.

fainsight.com

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