Lessons Learned and Experience Shared

After delivering 'health checks' and benchmarking the performance of advice practices for more than 21 years, the team at Business Health share some of the key learnings it has observed with regard client and practice...

The Practice

This summary article focuses on key takeaways associated with the structure and activities of an advice business and how business mentors have a meaningful impact on the bottom line of advice practices...

Observation 1

While client numbers have significantly reduced over the years, the notional profitability of practices has remained static. It seems to us that practices today have effectively trod water in their search for an acceptable return on investment – with the savings provided by technology, reduced client numbers, and a more disciplined approach to fee levels and structures being more than offset by increasing operating costs, regulatory requirements, and time pressures.

Observation 2

The need for scale has gradually and surely emerged over time as a key factor. Practices with annual revenue of $500K for example, are averaging a notional profitability level of just 10%. And while this may have been acceptable in years past, we don't believe it is tenable now. Add to this the comments of several respected industry commentators that a revenue level of closer to $1 million will be required and it's easy to see the enormity of the 'scale challenge'.

Observation 3

The percentage of practices seeking external input/advice through a coach, advisory board or respected B/PDM has remained frustratingly low over the years – disproportionate to the value of the practice itself. When we consider the challenges of the 21st century, we can't help but ask why haven't more business owners sought advice, guidance and external input into their business?

Our frustration has only risen over the years when, we can see through our bi-annual Future Ready analyses, that those practices who engage with a coach etc on a regular basis, are achieving a higher level of profitability when compared to those who don't.

Observation 4

Fnancial planning practices have not been very adept at putting in place plans for their own business. In much the same way as the plumber with a leaking tap at home, financial planners don't plan very well for their own business.

While this trend has remained a major disappointment for us over the years, it has reached 'alarm bell' status in our view – the marketplace is simply too challenging to navigate without clearly thought out, documented and actionable business plans.

Observation 5

It's perhaps the ultimate irony that we've seen no real progress in the area of succession or transition planning over the years. The percentage of practices with an effective plan in place, has continued to lag behind the owner's advancing years – so much so that we believe that we've reached a critical point.

The fact that succession planning can be difficult, challenging and even daunting does not excuse owners from proactively taking control of their transition planning. If they don't plan, they will remain vulnerable to the vagaries of the market and exposed to the real possibility of an increasing number of practices coming onto the market, a shortage of potential buyers and (surprise, surprise) reduced valuations.

Observation 6

The accumulator demographic which has comprised the major portion of the client base for most practices has obviously aged and has seemingly not been supplemented by a younger base. Clients aged 60-plus now make up 55% of the clientele – significantly higher than the 38% stat of 2001. They have stayed and they have greyed. And they don't have the same needs as they once did.

Tips for practice owners

Treat the practice as the very valuable asset it truly is. And pay it the respect it now demands by putting on the 'business owner' hat and answering the big questions currently in play:

- What is my desired end game?
- Can I be flexible and open to new ideas, concepts and approaches to business?
- Measure the key lead and lag indicators, benchmark against best practice with a focus on 'profitability' and not revenue.
- Is my level of profitability (remembering the industry average is around 28%) sustainable into the future? Does it represent a fair and reasonable return for the investment I'm making – not just in terms of money, but also in terms of time, people and community?
- Are there any key people (or client) dependency issues which you need to get on top of – before it's too late?
- Determine your plans for the next 1 and 3 years, commit them to writing, stress test them to ensure they're realistic and achievable and – just do it!
- Plan for your succession/transition before you have to. Document your plan, identify potential successor/s and satisfy yourself that funding will be available. And if your plan is to sell or merge, make sure your business is in the best possible shape it can be before you take it to the market.

Enlist external input:

- Appoint a business coach – someone you respect, will listen to and who can help you implement your plans. Pre-requisite – a documented plan for your business.
- Consider joining a peer group to listen to, as well as share and collaborate.
- Keep abreast of the latest industry happenings, trends and developments
- As an AR you are effectively outsourcing some of your requirements to a third party, being your licensee. Are you satisfied that you are receiving value for the fees you're paying? A question that should be revisited regularly.
- Satisfy yourself that your service offer continues to meet the changing needs of your client base. Outsourcing, strategic alliances and ramping up your internal capabilities are all options for consideration.
- Get to know your clients' children, before they fire you when mum or dad passes. Research has continually shown that this will the most likely outcome, unless the adviser gets on the front foot before it's too late. The key to the inheritance door, could well be – education.
- How's your sales and marketing capability? For many of the reasons alluded to in the above, attracting new clients will be important for most practices over the course of this decade. Will your website, social media presence, CVP and all round profile stand up to the scrutiny of a new prospect, who is used to transacting with tech savvy organisations like Uber, Instagram, Trip Advisor and WhatsApp? Does your CRM hold all of the information needed to allow you to develop and maintain meaningful client relationships? Do you know the names of the other professionals your "A" clients utilise – lawyer, broker and accountant for example.
- As the business of financial planning has become more complex over the years, employing more staff and grappling with seemingly everchanging regulation we've noted the role of 'Practice Manager' gain in prominence. Perhaps not surprising with practices of

$1M+ revenue on average employing 10 staff, while $3 million-plus revenue practices employ 18.5 people (including advisers). The role is already delivering tangible benefits to the business in terms of managing people, systems, reporting and that most valuable of resources, time. We suspect that, over the next few years, their influence and impact will continue to grow.

The Client

Here, the team at Business Health outline six key observations it has experienced over the last 21 years when it comes to client attributes for advice practices, and share some great tips.

Observation 1
The standout mover has undoubtedly been the dramatic reduction in client numbers over the years. Practices today are serving fewer Australians. How ironic – this reduction is occurring at a time of the greatest wealth transfer in our history, as aging parents (the majority of today's financial advice clients) look to navigate the vagaries of retirement and pass on their wealth to their children in the most effective way. If ever experienced, professional advice was needed – isn't it now?

Observation 2
Given the huge reduction in client numbers over the years, it's encouraging to note the commensurate increase in 'revenue per client'. Practices have been largely successful in removing transactionally based clients (traditionally funded through grandfathered revenue) without any major 'hit' to their bottom line. In doing so, they've proven the 80:20 rule.

Observation 3
'Business Relationship' has been rated most highly in every year, with the percentage of clients expressing their intention to maintain an ongoing relationship with their adviser, never dropping below an impressive 90%. When matched with the equally impressive percentage of clients willing to refer their own adviser, it's clear to us that 'relationship' is one of your most valuable assets.

Observation 4
Clients have continually reported that they don't necessarily 'enjoy' their adviser's review/progress to plan process. The fact that it continues to be the lowest rated of our CATScan indicators, is a source of great frustration for us as we believe that the review provides the opportunity for the adviser to demonstrate their value (for the fees being paid). It is certainly the adviser's 'moment of truth'.

Observation 5
At no point in our firm's history has the level of practices seeking client feedback exceeded one in three. This has meant that somewhere between 60% – 70% of Australian practices have been operating without an objective understanding of how satisfied, or not, their clients were.

While this has always been a somewhat misguided approach, it has become even more so, given the somewhat parlous image of our industry this century.

Observation 6
The accumulator demographic which has comprised the major portion of the client base for most practices has obviously aged and has seemingly not been supplemented by a younger base. Clients aged 60+ now make up 55% of the clientele – significantly higher than the 38% stat of 2001. They have stayed and they have greyed. And they don't have the same needs as they once did.

Tips

Don't forget your greatest point of difference – your relationship. Here are some of the tips practices, just like yours, have shared with us over the years, to nurture their relationships:

- The key drivers haven't changed – frequent (10-plus times throughout the year), meaningful and customised communication. Variety in your communication can be good – mix it up between email, phone and virtual. But at least one 'in person' for your 'A' clients if possible.

- While being 'virtual' will challenge some, it certainly isn't insurmountable and we suspect that for some clients, it will prove to be an attractive part of your offer. Virtual isn't going away, make sure your clients don't!
- Never assume the strength of your relationship, ensure it by regularly seeking feedback from your clients at key 'trigger' points – onboarding, after review and on leaving. Allocate responsibility to someone in your practice to be the client advocate and ensure client satisfaction becomes a key performance indicator for them.
- Milestone recognition – say 'thank you' to clients who have remained loyal, referred you etc.
- You can't build a deep and meaningful relationship with your clients if you actually don't know them. What are their life goals, hopes for their children, their favourite sport, preference for meeting times and so on? Collect this type of data, ensure it's stored on your CRM and refreshed regularly.

Leverage your plan review process into a genuine, fulfilling experience for your clients:

- In person or virtual, our message is the same – the review is your moment of truth. Grab the opportunity.
  Never defer it.
- If clients are married, ensure both husband and wife proactively participate.
- From the scheduling of the initial appointment through to the final summary – seek the client's feedback as to what they liked or disliked about their review experience and how it could be improved.
- Proactively manage your 'revenue per client' number. This is one of our favourite measures as it directly calls into play the relativity of the practice's offer to the fees the client is paying. It's easy to measure, manage and review each year.
- While the metric itself will differ depending upon the business model, the bottom line remains the same – is the practice delivering tangible value commensurate with the fees the client is paying. And is it doing this profitably?

Implications for pricing models, include:

- Given costs rise regularly, ensure you review your fees accordingly
- Incorporate 'profitability', 30-plus%?

Fee models:

- Subscription
- General and personal advice
- Event or service driven (scaled?) – example – Centrelink, aged care,
- Retainer
- Minimum level
- Maximum capped
- ?

Fees are being disclosed and compared through very transparent structures. Regularly ask/answer the question – why should I become, or remain, as a client of yours? What would your staff say?

- This is, in our opinion, the battle ground of this decade – how do you 'prove' your value, each and every year?
- The answer will lie in clear, frequent and personalised communication, which goes to not only clients, but also prospects and referral partners.
- Clearly, your website and social media presence have an important role to play here as do testimonials, case studies, videos and events (in person or virtual).

Where will your new clients come from?

- What's your 'referral deficit'. We arrived at this term when we compared the percentage of clients who said that they were prepared to refer their adviser, to the actual number who had actually referred. Are you asking your clients for referrals in the optimal way?

- Be aware that your clients' needs are fast changing and they don't have the same needs as they once did. The implications for practices are clear – revenue will dissipate over time unless you find a way to retain and/or replace it:
- Protection and accumulation imperatives, which were, for many, the primary reasons for seeking out the adviser in the first place, are being replaced by annuity/pension drawdown concerns, while their interests will also have moved to estate planning, aged/health, ethical investing and philanthropy. And succession planning for your SME clients.
- How does your service offer hold up? In-house capability or referral to like-minded professionals?
- How well do you know the children of your best clients? What do they think of you?

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