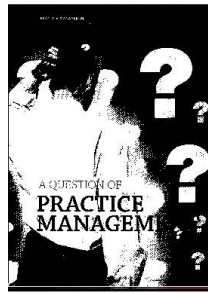


FEATURE > PRACTICE MANAGEMENT

A QUESTION OF  
**PRACTICE  
MANAGEMENT**

IMAGE: PHOTOLIBRARY

APRIL 02 - 18, 2007



SOME FINANCIAL PLANNERS WANT OUT, SOME WANT TO WIND DOWN, WHILE OTHERS SIMPLY WANT TO MAKE MORE MONEY, FIND MORE CLIENTS AND RETAIN STAFF. JANE-ANNE LEE FINDS OUT THE TOP QUESTIONS POSED BY PLANNERS TO BUSINESS CONSULTANTS.

**F**or financial planners, the questions keep coming. With an ageing workforce, tight supply and differing methods of payment, there is a need for plenty of advice.

The first question Tony Stephens usually hears as director of financial services consulting firm Business Health is: how can planners make their business more profitable? Within that profitability question is how do they boost capital value?

According to the firm's research in 2004/05, 50 per cent of existing principals in financial advice practices have no plan to be in business in five years' time so half are thinking about winding down, getting out or doing things differently. That's why questions about profitability and boosting capital value are uppermost in planners' minds.

How do they benchmark against their peers in terms of profitability, are they paying too much or too little for staff and how do they source new clients are other top questions, Stephens says.

In the fee versus commission debate, it's how do they move away from commissions towards fees? As an adjunct, if they are increasing fees, how do they show the client they are providing value?

"The other major issue is there is a dearth of quality people around at the moment," Stephens adds.

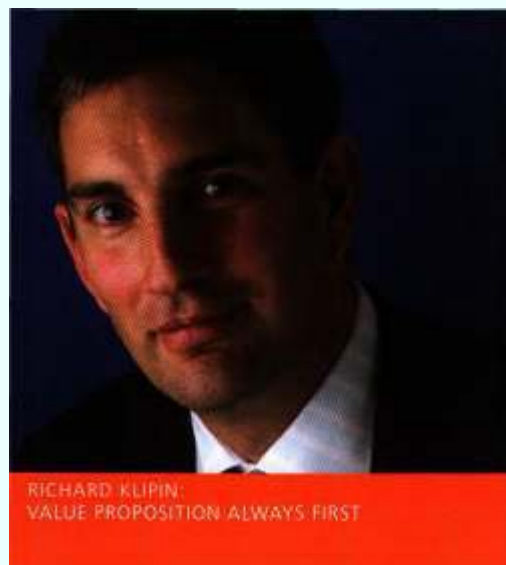
"So the issue of remuneration and how do they pay and how do they keep and attract new staff is something we are getting more questions about. To get a qualified experienced financial planner is very difficult. Because the demand is high and supply is low, it drives the price up.

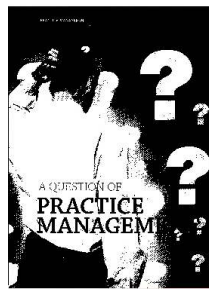
"But it's not all about money; it's how they structure their remuneration package and provide non-remuneration incentives to attract a good young financial planner. It could be that the

person may be interested in succession planning and owning a business at some time, so they may take less salary if there is the opportunity to do that."

There are other issues to be considered. For example, some people are attracted by a lower salary and a higher bonus or vice versa. Some people are prepared to back themselves and others would prefer to have a guaranteed salary. Many who own their own business are entrepreneurial by nature and they expect people who work for them to be the same. That is not necessarily the case, Stephens says.

At Kenyon Prendeville, directors Steve Prendeville and Alan Kenyon have no trouble reeling off the top five questions, beginning with what the markets are like. Of course, they have no trouble reeling off the answer, too – it's a sellers' market, reflected by the fact they have 1600 registered buyers and receive more than 20 inquiries for every listed business.





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The remaining top four questions are: what is their business worth, how can they increase its value, how can they become a preferred buyer, and, finally, what is the likely future?

Association of Financial Advisers CEO Richard Klipin says the value proposition always come first. This is followed closely by succession planning. Built into that conversation is the practice principal: what are they planning on doing in the next five years, how do they sell their business, do they bring in a younger adviser or do they sell it? If they sell it, what will happen to their clients?

That, Klipin says, is part of the heavyweight conversation a consultant would have with advisers every day. "Sitting underneath that are issues around growing the business via referrals, and how do they attract and retain good staff in their business," he says.

Then there are questions on technology to meet business needs. Do they scan documents, run a paperless office, have robust back-up systems? Can they set up their office if their current office burns down?

Finding staff is also difficult in a marketplace that has almost full employment, with many growing and developing their own staff as they progress. Growing the business and attracting new clients are other concerns.

Berry Financial Services managing director and FPA deputy chair Julie Berry says the burning question is how to attract and retain planners. "With all the compliance requirements, people have to be trained and there is a lot of money involved in doing that. You either want people who have those qualifications or some sort of certainty with staff that if you do train them up they don't walk out the door," Berry says.

How do they grow their business and what mechanism can they put in place to deal with referral services is another area of concern, she says. There is growing the business by purchasing other client bases and there is growing through building referral sources.

Then, of course, there is the sensitive matter of how do they charge for their service. Do they offer fee for service or a mix of up-front payments and how do they price their business?

"The other question is compliance, making sure documents and procedures are compliant and keeping it up to date. Are there processes and

procedures they can put in to do that?" Berry says.

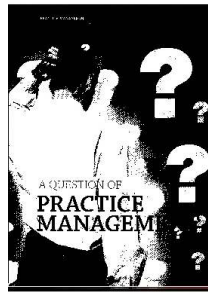
With so many older planners in the industry, succession planning is another key issue. Berry says the way of valuing a business is changing: where it used to be multiples of ongoing revenue, there is a move towards profitability. The issues revolve around how do they sell their business so the client base is retained, what is it worth, who do they sell to and how do they ensure the clients are being looked after.

Mark Meehan, chief executive of Tynan Mackenzie, a medium-sized boutique financial advice company, agrees succession planning is among the top concerns. "But it usually happens too late in the business cycle. A lot think about it only when it hits them in the face – when they are getting sick or when they don't have the energy. When you think in our industry most small business owners consider the capital value they have accrued in business a significant part of their lifelong wealth creation, it is peculiar we would leave that discussion until so late. It's the mechanic with the worst car on the block," Meehan says.

He rates how to generate the sort of client leads that suit the business, are going to be profitable, are going to be long-term clients and will suit the business model as the key questions. That's followed by how do they set in place a structure for employees that rewards them, motivates them and helps them build for the long term.

He says that usually comes down to a discussion about their equity participation model – whether to and how to and what is the right structure. The interrelationship between the wealth management platform, for example, wraps, and product and client quality financial advice also occupies discussion time. If an adviser hasn't completely settled on a platform and there are lots of competing offers in the market, the question is how do they know once they have committed to a platform that they are not going to be caught in a second-tier environment.

"One final question is how to make their business more efficient. Businesses like Tynan Mackenzie have a scale about them that allows it to work in an efficient manner. There are other businesses who would like to know how that can work for them, driving efficiencies by focusing on market sectors, use of middle-office software suites, by industrialising or corporatising a client



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and adviser service model. Those are things that small business owners are keen to understand. First, how we did it, is it applicable in their situation, and how can it be applicable."

When Futuro first started, managing director Dennis Bashford says the top questions centred on where firms were going to source a constant stream of clients that met their demographic requirements. For business planning, they wanted an idea of their revenue and expenses in the early stages. They wanted to know how hard they were going to work and they wanted to concentrate their efforts in areas that would produce the greatest return, not just in revenue but in setting up their business systems to work better. They also wanted a point of reference in terms of technical and business support.

"We have only been going for four years," Bashford says.

"As a new business, we were never going to attract more mature and established practices because we didn't have a track record. So the people we looked for initially were in the start-up area and a lot of the support we gave was based on the above. Four years on, as we gained traction and credibility, our recruiting focus changed and we are now recruiting more mature practices and bigger hitters in the industry.

"Most planners know what they have to do to make the business better. They have a reasonable idea, but they don't have the disciplines in place to do what they know has to be implemented. They want to make the office more efficient. A lot of them want to work a bit less, have more fun. It's more to do with being a victim of their own success. All the things they did in the beginning were right for the business at that stage, but once the business gets to a certain level, then the disciplines required are significantly different.

"With more mature practices, they are asking: what specifically have they got to do to make their business run more effectively? How do they set up their business for sale? Some of those

things would be under the general heading of corporatising the business. Is it possible to find a potential buyer now even though they are not ready to sell it today, but in the next year or five years?

"They want to be able to build a business that people will want to buy. They may have a client base with a certain demographic. We believe this client base needs this sort of advice. Will you, as a dealer, allow us to give that sort of advice?

It will depend if they have the skills or not. We can help them to get those skills to deliver that advice."

RetireInvest Epping financial planner and co-proprietor Tony Williams says the top five questions usually start with: what do they want their business to look like? This is all about understanding their market, who they want to deliver to and how they want to do it. The other dimension involves different models – from high service to lower service; from high touch to low touch. Some planning practices are using technology to a high level, but this may mean they are more volume-oriented; others are using less technology but more face-to-face contact.

This question is then followed by: what do their clients want? What do they want to offer clients? What should they charge for the client offer and, finally, how do they leave the business?

"Once you have decided what sort of clients you want to serve, you then need to understand the sort of things they get excited about, that are their needs," Williams says.

"Clients may want things we don't want to offer, such as insurance, or they may want us to offer loans, for example. They might want six meetings a year, we may want to offer one meeting a year. It's really down to the service offering we are putting in front of the client. With the exit strategy, they need to have built a practice model that enables all the participants, clients/directors and staff to get what they are looking for from it." □

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**WHEN YOU THINK IN OUR INDUSTRY MOST SMALL BUSINESS OWNERS CONSIDER THE CAPITAL VALUE THEY HAVE ACCRUED IN BUSINESS A SIGNIFICANT PART OF THEIR LIFELONG WEALTH CREATION, IT IS PECULIAR WE WOULD LEAVE THAT DISCUSSION UNTIL SO LATE.**  
**”**

— Mark Meehan, Tynan Mackenzie