THE SEARCH FOR EFFICIENCIES – BETTER BY CHANGE, NOT BY CHANCE

Part 2: Harnessing M&A activity and digital solutions to build better businesses

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Advice businesses get better by change, not by chance. Unlocking more efficient and productive ways to run their businesses, while creating value for clients is increasingly key to advisers' success.

This research paper brings together the content from a webinar HUB24 hosted with some leaders of the advice industry to discuss what innovative and adaptive changes they were seeing across the advice landscape – AZ Next Generation Advisory (AZ NGA) CEO Paul Barrett, Viridian Advisory CEO Glenn Calder and Clearview Financial Advice and Matrix Planning Solutions CEO Allison Dummett – with some advisers to inspire innovative ideas for achieving business efficiencies and success.

This paper looks at growth, whether it be through M&A activity or structurally positioning a business for growth through corporatisation and the better utilisation of resources. Technology can play a part in supporting these goals, some requiring effective implementation of off-the-shelf solutions to deliver tools such as better project management, and others including more transformational changes to digitise advice to facilitate scale and the delivery of advice to all client segments.

1. M&A NOT ENOUGH WITHOUT CLIENT GROWTH

M&A activity is one of the strategies used by advice practices as a way to fast-track growth. Adviser Ratings conducted a recent survey that found out of the 500 practice owners surveyed, 65% of advisers were growing their customer books, while 55% expected to grow their adviser numbers either organically or through acquisition[1].

However, some argue M&A is not the panacea that it may seem. According to Barrett, while M&A has the potential to catapult a business to the next level, it needs to go hand in hand with organic growth in order to extract maximum value from an M&A deal.

This is because if a practice buys a client book, unless they are growing net client numbers in that book, the business will be financially worse off because of the costs associated with running a newly acquired business – interest, principal repayments and all the other operational costs.

Further, post the business sale, buyers must consistently achieve net client growth (new clients minus clients lost) given the average advice business loses clients at an annual rate of 5% (based on AZ NGA's research). This means that on average, a practice with 200 clients at an average fee of $3,500, will lose 45 clients over a five-year period and $157,500 in annualised revenue.

"So, if you buy a book of $300,000 of revenue, you want to be targeting after the first year, 5–10% growth," Barrett said.

Dummett agreed and said often practices approach M&A by acquiring client books as a revenue play when they need to consider it more holistically. That is, they need to consider the types of clients they are acquiring, whether they represent value for the business and whether the acquisition provides scope to change and reprice the relationship with clients.

A practice in her network has recently completed a transformation project on a client book they acquired two years ago, where the fees clients were paying were significantly below the cost to serve. The practice repriced its advice proposition and educated the clients it wanted to retain around the value and cost of the services provided; nearly all accepted the new terms and wanted to continue the service at the new rate. The practice also transitioned some clients to an ad-hoc relationship, moving from an ongoing fee to a 'pay as you go' service. In both models, the focus was on the client's best interests and ensuring they were being met.

"The practice focused on the profit and conversion of the overall asset they bought as opposed to just revenue," Dummett explained.

Doing M&A which brings in a certain client type, adds a capability your business does not already have, or adds something to the business structure you need such as a management team, is key to making it a successful acquisition.

1 Adviser Musical Chairs Report Q4 2020 AdviserRatings

2. PROFESSIONALISATION IS NOT CORPORATISATION

Corporatising involves the adoption and application of business management practices and the separation of ownership from management through the creation of a joint-stock or shareholding structure for a business.

"When I hear the word corporatisation, I see SME businesses with world-class governance and that's going to enable them to run their SME business in a really efficient and productive way and compete against whoever it is they are competing against," said Barrett.

According to Calder, professionalism covers what Barrett refers to as corporatisation, but is more positive. "Corporatisation to me has some mildly negative connotations but increasing professionalism, moving forward with innovation, it feels like all positive language because we've improved something – the way we value it, its speed in terms of time and information. That's got to be a positive thing in increasing professionalism."

In the advice industry, corporatisation is different things to different people, but it is an agreed process that creates a robust, trackable and accountable business model which uses analytics and real-time metrics to value a business.

"I still think one of the greatest things we ever did was to make all of our people shareholders, but we could only do that if we valued our business," said Calder.

Barrett agreed: "Making sure key staff are shareholders or have a pathway to become shareholders is important," he said.

Helping other businesses to make this transition is a service he says Viridian could take to other businesses, however, it can create a lot of work for the finance team. "Once you start thinking about the capital value of your organisation, the finance function has to be able to facilitate bringing on additional equity owners," said Barrett.

3. SCRUTINISING THE BUSINESS TO EXTRACT VALUE

Underutilisation refers to not being used enough or not used to full potential. In an advice practice, utilisation refers to using of resources in the most efficient and beneficial way.

Last quarter, AZ NGA tracked utilisation with half of its firms to predict the number of meetings an adviser needed to do every month across a year to bring in 10 new clients.

The AZ NGA review measured this prediction against the actual number of meetings an adviser was going to have a year. The best case percentage was 40% of their KPIs.

“If we were to agree that an adviser’s key skill set is sitting in front of clients and advising them and they are only at 40% utilisation of that task, there is a problem,” said Barrett. “We’ve got these highly-skilled expensive resources at 40% utilisation. Why?”

This analysis highlights what many advisers already know – they spend a large part of their time doing administrative tasks rather than focusing on seeing clients.

Barrett concludes: “Underutilisation is probably the biggest single challenge facing large advisory based practices today.” Understanding how this impacts a business and what changes can be made to more efficiently use an adviser’s time to ensure they are freed up to do what is valued by their clients, is fundamental in the search for efficiencies.

4. DIGITISING ADVICE TO MAKE INCREMENTAL AND TRANSFORMATIVE CHANGE

Digitising advice is regarded as the holy grail in terms of solving the challenge of scale. It can provide the industry with the efficiencies it needs to make advice more accessible and more cost effective.

The opportunity to digitise is an opportunity not lost on Calder. "I think digital connectivity is the secret key in unlocking the future to pretty much everything here." It solves the resourcing, time and development challenges smaller practices have which forces them to be a price taker.

"To me it's absolutely going to be the future and we are either going to be a taker of those services or we are going to start to band together for a shared vision and advice delivery."

"The old days of having a million dollar revenue practice or a sole trader practice are getting harder and harder," said Barrett. "The good news is that with scale comes better IP as well as better balance sheets and profit and losses and these firms that were once cottage industry firms are now becoming corporate modern SMEs with lots of horsepower and they're able to provide far more sustainable value propositions for their clients and their staff."

However, there is a balance. According to Australian Financial Advisers Darwin office Managing Partner Dwayne Hameister, digitising too much of the advice process could actually reduce his enjoyment of his profession.

"I wouldn't want to be more technologically advanced than I am. I don't want to automate the whole process because my satisfaction is with meeting clients." He spent Easter at Hervey Bay with two of his retiree clients, staying the night and enjoying a BBQ where they discussed his clients' current circumstances.

SCALE TO HELP SMALLER CLIENTS

Servicing smaller clients who have very pointed needs remains a challenge – such as advising a client's daughter on choosing a super fund for her SG payments from her new casual job.

"For us to provide advice on $8000 saved up, our cost to service is $3000. How could we actually provide that?" asked Calder. A digital delivery and connectivity mechanism for these clients to stay connected to the business would pave the way to satisfy that need but also to offer more services in a cost-effective manner.

Taking the detailed grunt work out of advice is also important for the business of advice, so advisers are not bogged down in this work and can spend more time with their clients.

It is an essential ingredient in the digitisation of advice because it is both a scale and numbers game. You need to scale to invest in innovation and development, while you also need enough advisers and practices to use the technology to increase the efficiencies of the industry.

According to Calder, while Viridian has wanted to innovate by using technology, scale had previously hampered its success.

"You need to be a certain size to be entrepreneurial and to make some impact or difference. Otherwise, you're a taker of all services. It's hard to be a developer of services."

USEFUL OFF-THE-SHELF TECH SOLUTIONS

According to Barrett, accounting and financial advice business owners should think about technology in terms of small incremental gains rather than big technological breakthroughs.

"Everyone is looking for that technology solution that will solve all their problems but there are off-the-shelf software solutions available today that can transform one aspect of their business."

One such example is project management tool, Trello, which an AZ NGA practice integrated into its business in under a month. Trello enables different staff and departments to work on a client file and keeps the business updated on what everyone inside an organisation is working on. It meant the property, accounting and tax partner and financial adviser could work on the client file and have workflow emails and task management occurring at the same time.

Focusing on processes can also improve efficiencies. Conducting a Time and Motion Study analyses workflow to calculate minutes taken per task to identify blockages and inefficiencies which could be addressed.

An interesting perspective is not whether the industry has enough tools to make efficiency progress, but whether lack of execution is leading to inefficiency.

"Most advice SMEs don't have expertise in project and change management," said Barrett. "They haven't had to in the past and that's where businesses like Matrix, Viridian and AZ NGA should be able to bring that type of skillset to the SME to help them implement technology that already exists today."

5. CONCLUSION

Positioning advice practices for growth requires decisive action and change.

Some of these actions will be more pronounced than others, but common to all is a search for efficiencies and a better way. This paper has highlighted some strategies that are used for growth and contextualised them in advice practices, providing insights on how they could be done better, differently and overlaid with a practice's own client value proposition. Whether it is a client growth approach to M&A, building an accountable business model, better utilising the resources of the business including advisers themselves or digitising advice to build efficiencies and scale, advice practices can position their businesses for future growth.

This paper is part two of a three part series which can be found at hub24.com.au.

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