

Practice management by the numbers

7 Key Takeouts
Financial Advisory Industry
2020

About Business Health

Business Health is an independent organisation specialising in advice and solutions for small to medium sized business owners. Since its establishment in 2000, Business Health has evolved as one of the leading international practice management groups. Business Health comprises a team of uniquely qualified professionals with the ability to deliver results locally or globally as required. Internationally, including the United States, Canada, Hong Kong, UK and New Zealand, Business Health has established a reputation for innovation and cutting-edge solutions. Our experience in the financial services environment, enhanced by an extensive up-to-date knowledge of international factors and trends, positions us to offer significant expertise in the area of business development.

If you'd like to discuss how your own business stacks up and what you can do as a result, contact Business Health on 02 9518 6966.



7 key marketplace metrics

for the financial advice industry

“

You can't manage what you can't measure.”

This has been one of our key messages ever since we launched Business Health in 2000. And while a lot has happened since then, this message hasn't changed – it simply makes good business sense in our view to know your key metrics, track them over time and to know how you compare in the marketplace. So, in an effort to contribute we are delighted to partner with Praemium to share with you our latest analysis of the key financial data provided by 300+ Australian practices. We hope these will help you to paint a picture of your business – pretty or not. And, armed with this knowledge, we hope you'll gain some insight and a few pointers towards a stronger, more sustainable practice.

01

Revenue per client



Marketplace average: \$3,558

This is one of our favourite measures as it directly calls into play the relativity of the business' offer to the fees it's charging its clients.

It's easy to calculate, review each year and ultimately allows the business to gain a sense of its profitability.

01 Revenue per client

If your number is higher ↗

If you are providing highly technical services/advice to higher net worth clients for example, it would not be unreasonable to assume a higher level of revenue per client. Is this you?

Of course, the more you charge, the greater the client's expectation. Are you confident that your clients are satisfied with the services they're receiving (for the fees they're paying) or do you think it's perhaps time to actually ask them?

If your number is lower ↘

While there is nothing necessarily wrong per se with this, it does beg the question – why are your clients paying on average, less than the marketplace? Perhaps it's because you are deliberately focussed on a lower net worth clientele. And, as long as you're delivering your services profitability then you're good. But if this isn't the case:

- » Is it time to review your fee structure/level?
- » Are you giving away value that others are charging for?
- » Are there some clients who are receiving much more from your practice than their fee justifies – perhaps they are taking up a disproportionate amount of your time and resources for example. Most likely, your staff will know. Is it time to review their fees and/or move them on?

The bottom line

You need to be confident that your clients are satisfied that the fee they're paying you represents value to them. And, on a related note, how would the practice stack up in a 'look back' compliance audit? And if you have any doubt:

- Ensure that your service offer, CVP and actual value is being reinforced at every opportunity through your various communications, website, social media and review meetings.
- Are there any additional services that should perhaps consider as part of your offer?
- And, to be doubly certain – regularly seek feedback from your clients (confidential, anonymous, benchmarked surveys are best).

02

Clients per adviser



Marketplace average: 241

This metric allows you to gauge your productivity and, in turn, your staffing and service levels. While current thinking suggests that the maximum number of clients an adviser can effectively manage is around 100, we believe that this is very much dependent on the specifics of your offer and business model.

02 Clients per adviser

If your number is higher ↗

What's driving this? It could be that your practice is being efficiently managed through the effective use of technology, having the right people doing the right jobs, and being supported by a strong 'people management' program. All leading to satisfied, motivated staff, working efficiently towards a shared set of goals. No duplication or wasted efforts! In which case – nice work!

But sometimes this metric can prove to be a double-edged sword. Make sure that tasks aren't falling between the cracks and the work that needs to be done is actually happening. Red lights to pay special attention to:

- » Client complaints and general levels of satisfaction
- » Mistakes are being made
- » Staff morale
- » Compliance audits

If your number is lower ↘

Perhaps it's because your business model requires you to deliver a higher touch, technical or specialist service to your clients who have a complex set of needs. In which case, serving a smaller number of clients needn't be of concern as long as you're doing it profitably. However, if this doesn't apply to you, then you need to ask why you are operating below the benchmark of your colleagues:

- » Is there a capability or skills issue in play?
- » Perhaps the adviser is spending too much time on non-advisory type work?
- » If other tasks are diverting the adviser's attention, you will need to understand the reasons why – these will range from personal preference ('I actually like doing the admin'), through to lack of resources and possibly inefficient systems and processes.

The bottom line

The greatest strength can sometimes also lead to a significant weakness. Building and maintaining meaningful relationships takes time, effort and is invariably valued by clients, however the effort required can also divert the adviser's attention and energy away from the other tasks they should be focussing on.

Balance is required.

03

Salaries as % of revenue



Marketplace average: 44.2%

While your people are undoubtedly one of your firm's greatest assets, they are also its biggest expense. And this situation is unlikely to change much in the foreseeable future as the race to hire, retain and develop staff heats up. Good people are simply – hard to find.

To determine your %: 'salaries' includes not only direct salary and incentive payments but also the indirect costs such as superannuation, leave entitlements and development.*

*For comparative purposes, we have assumed \$100K 'notional' salary for each working owner.

03 Salaries as % of revenue

If your number is higher ↗

If your total salary spend is higher than the marketplace average, it could be a factor of your local market conditions or the specific skill set you need to implement your client offer. In a competitive marketplace, where the race for talent is definitely underway, this is not unusual. But if this isn't the case, then you'll need to consider:

- » If you are actually overpaying your staff. It's best practice to regularly check in with the market to make sure your remuneration package is fair, reasonable and competitive. PDMs, HR firms and colleagues should all have a sense of the latest trends.
- » Can you move some fixed salary components to 'at risk'?
- » Could it simply be that you're now overstaffed for your current business model? Has technology, for example, provided the opportunity for cost savings, which you perhaps haven't yet fully leveraged?
- » Is there a productivity or capability issue with some of your people, so much so that you need to cover this deficiency through additional resources? Have you developed training and ongoing development programs for your key people?
- » Have you set and agreed performance objectives for every staff member?

If your number is lower ↘

This could suggest that you have efficient systems and processes in place, so much so that you don't need as many people on your payroll. On the other hand, it could mean that you're remunerating below market rates and/or you're understaffed. Hopefully not both!

In either case, it's more than likely that your staff are feeling overworked or, at worst, unappreciated. This could result in some functions being overlooked or at best, being implemented less than optimally.

- » When did you last review staff salaries?
- » Have you checked recently as to the competitiveness of your salaries to the market?
- » How would you rate the morale of your firm? How would your staff rate it?
- » Have you recently surveyed your staff as to their satisfaction levels (confidential and independent is best)?
- » Does your practice have a 'get it done' or 'it can wait' culture?

The bottom line

The biggest (and most important) business investment you will ever make is ensuring that you have the right people, doing the right job, at the right time. Up to date, clearly defined job descriptions and goals, regular team communication supported through a competitive remuneration will all help.

04

Support staff per adviser



Marketplace average: 1:1.1

This metric brings into focus the practice's operating model and the interaction between the adviser and support staff.

Who is responsible (and accountable) for what?

04 Support staff per adviser

If your number is higher ↗

Is it due to the intrinsic nature of your offer (complex, technical or high touch for example), in which case it warrants a higher number of support staff? Or perhaps there is a focus on specialist skill and development. Either way, no problem.

But if this isn't your situation:

- » Are your systems and processes delivering the efficiencies you're looking for (and others are achieving)?
- » Is there a clear enough understanding and appreciation of the role of each person in your practice? Are responsibilities and accountabilities understood, agreed and being adhered to by each staff member? How is this covered when new staff come onboard?
- » Could there possibly be a productivity or capability issue with some of your people (including advisers)? Are they fully trained up and supported with all the tools they need to serve their clients?

If your number is lower ↘

This could point to an efficiently run practice, which has perhaps successfully integrated technology into its operations. Or maybe the staff are very experienced and extremely capable at their job. Either way – a good place to be!

But if this isn't you:

- » Are your staff having to work too many extra hours to keep up with the workload?
- » Is the adviser perhaps doing some of the admin work that would normally fall to a staff member (not necessarily the best use of the adviser's time)?
- » Are admin tasks taking time away from the adviser's all important client facing activities?
- » Are there some tasks which aren't actually being effectively attended to because everyone is too busy (being busy)?

The bottom line

This is a key ratio which will help your practice get closer to its optimal performance level. Clearly defined roles, objectives and expectations, supported by regular communication all have important roles to play.

05

Client satisfaction ratings



Marketplace average: 4.23/5 (top quartile)*

Without clients, you don't have a business and, without satisfied clients your business is at risk. As such, it's simply 'best practice' to regularly seek feedback from your clients in an objective, independent way. How satisfied are they with you and your practice? If you haven't undertaken a client satisfaction survey within the last 24 months – we strongly suggest that you do so.

*Overall Satisfaction as rated by clients of advisers. Over 30,000 clients in the Business Health data warehouse as at Nov 2020.

05 Client satisfaction ratings

If your client survey results are top quartile

- Well done. Enjoy that warm inner glow (everyone likes positive reinforcement, right). And then:
- » Fully leverage these results by sharing them with clients, staff and centres of influence alike.
 - » Positive client feedback is great marketing collateral – why not include it on your website and LinkedIn page for example?

If your client survey results are not top quartile

- Accept that your clients' feedback is in fact your reality:
- » Have you shared the feedback with your staff (they have played an integral role in the results)? What do they think, what ideas and suggestions can they offer as to why you're not top quartile?
 - » Pay particular attention to the comments clients make, not merely the ratings they give – very often this is where the real insights are.
 - » The poorest performing areas as assessed by the 50,000+ Australian clients who have been surveyed through our CATScan process are: 'communication' and 'the review process'.
 - » Ensure client satisfaction surveys become a permanent feature of your practice's operation. It is important that you regularly 'take the pulse' of your most valuable asset (your clients).

The bottom line

Seeking feedback from your clients is 'best practice'. The overwhelming number of positive responses tell us that clients truly appreciate their adviser and appreciate the chance to provide feedback. You will be giving your clients the respect they deserve but you will be required to; accept what clients tell you and be prepared to take action if the feedback demands. It remains a source of constant frustration to us, that only one in three Australian practices take the time to seek feedback.

06

Practice profitability



Marketplace average: 28.2%

This is the ultimate measure in our view. Is the business achieving an acceptable level of profit to repay the effort, time and risk invested by its owners? This is also perhaps the most difficult to benchmark – an acceptable level of profit in one practice may not be so in another.

To determine your number:

Revenue – expenses / revenue =
Notional profitability %*

*Allow \$100,000 per working owner. To enable owners to compare results to the marketplace, we calculate a 'notional' level of practice profitability which assumes a salary of \$100,000 for each working owner.

06 Practice profitability

If your number is higher ↗

A somewhat comforting position to be in for sure. But it shouldn't signal that you can afford to take the foot off the accelerator... in a marketplace as challenged and disrupted as ours, things won't stay the same forever. And there will remain threats and opportunities.

- » Are you continuing to invest in your business, setting aside some funds for 'r + d' perhaps?
- » With many predictions of an economic downturn into early next year, have you created a surplus fund to perhaps buffer you against any potential downside?
- » How about funding for your future plans? As our recent Future Ready VIII analysis showed: succession remains a major industry wide issue, and with external financing not always available, perhaps funds should be set aside for vendor financing or employee share acquisition programs.

If your number is lower ↘

There could be good reason for this. Perhaps you're in start-up mode or, while well-established, you've recently been through significant change. Or maybe you're scaling up with an eye to the future?

Once you've decided on where your business is positioned (a good dose of realism and objectivity is required), if there are no mitigating factors and you're not satisfied with your notional profitability %, you may need to:

- » Review your current business model. Some of the key metrics mentioned in previous issues will provide a few clues – start with staffing, efficiency and productivity.
- » Review your revenue flows over the past three or so years. Has it been steadily growing, remaining static or declining? What have been the drivers?
- » The biggest expense items for most practices are; salaries, licensee fee, technology and rent. When was the last time you thought about the cost:benefit of each? Does outsourcing provide another option?

The bottom line

This is the one metric that every business owner focuses on, and rightly so. As to what the 'right' figure is for your business will depend on; your business model, at what stage of development it's at and your own expectations. Nevertheless, surely it's important to have an understanding of what others in the marketplace are achieving? .

07

Rent as % of revenue



Marketplace average: 6.2%

Rent is a significant expense for most practices and we're sure that many business owners will be reviewing their performance post-Covid and thinking very hard about their need for office space going forward. Is it all really necessary? Many staff have indicated that they would like to continue working at least some of the time from home, while many clients have willingly accepted virtual meetings.

07 Rent as % of revenue

If your number is higher

Perhaps now, as we emerge from working-from-home, it's time to consider; am I happy to revert to the office set-up/arrangements which existed prior to lock down and social distancing, or should I take this moment to revisit?

- » Can I function effectively with less office space? Perhaps the meeting room can be replaced by virtual meetings (and a strong internet connection).
- » Would my staff be happy (and as productive) to continue working from home in some capacity?
- » Is my landlord prepared to renegotiate the various aspects of my lease agreement? Not just the terms but also fit-out for example?
- » Could I possibly sublet any surplus space?
- » Would a reduced physical presence still 'appeal' to my clients and referral partners?
- » How does a revised office set-up sit with my longer term plans for the business?

If your number is lower

A reassuring position to be in but it's no reason not to further review this level of expenditure. As someone famous once observed; never waste a good crisis.

The bottom line

It is 'best practice¹⁰¹' to regularly review major expense items such as rent, to satisfy yourself that you're achieving an acceptable ROI on your outlay and that your premises are 'fit for purpose', not just for the immediate but also for your longer term plans.

About Praemium

Praemium is an award-winning global leader in the provision of integrated Managed Accounts Platform technology and solutions. Our platform solution including (custody and non-custody) has grown in usage in 18 years to almost 1,000 financial institutions and over 500,000 investors, covering more than \$140 billion in investment assets globally.

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Our team is on hand to help answer any of your questions or give you a demonstration of our platform technology. Give them a call today.

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