5 secrets of a profitable financial advice practice

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New research has found there are five key factors behind a profitable financial advice practice. Worryingly, many businesses don't have the basic drivers in place. Does your practice?

Over the past two years, practice management group Business Health has benchmarked almost 300 practices around Australia and found a surprising percentage don't have the five drivers of profitability fully implemented within their businesses.

And we're not talking complex IT systems or huge social media campaigns. The key drivers of profitability are simple things like having a fully documented business plan for the next 12 months, according to Terry Bell, Partner of Business Health.

"It's not rocket science, but there is a major disconnect between what people know they should do and what they actually do in their business," he says.

So, if you want to be a profitable financial advice practice, here's a quick roundup of the five key revenue drivers and some ideas on how to implement them.

1. A business plan

An effective business plan means having documented strategic and operational plans that are reviewed at least six monthly and monitored monthly. Yet, of those practices benchmarked, 24% do not have a 12-month operational business plan, and only 5% have implemented one effectively.

This is despite research by Business Health showing a 209% profit uplift among practices with an effective business plan. Bell explains: "The process of writing a business plan forces you to think about the things that are important to you and your business over the next three to five years."

Where to start: If you're one of the many practices without a business plan, to get started, ask yourself what you want your business to look like in five years and the role you want to be playing. Aside from this vision, include clearly defined goals, strategies and timeframes for the next 12 months.

"You also need to know where your business stands today, so survey your clients to get feedback, benchmark your practice against competitors and find out how happy your staff are in their positions. Then make a commitment to actually follow your plan," says Bell.

2. Client review process

Although many advisers see annual client reviews as somewhat more of a chore than the opportunity it truly is, the 85% of benchmarked practices with a clearly documented process for client reviews enjoy a 192% profit impact, says Bell.

"The review is the one thing during the year where an adviser can show they are delivering value. You control the entire process, so make it an experience clients enjoy," he says.

Where to start: Begin by documenting procedures and staff responsibilities, including who contacts the client and attends the meeting. Client input into the agenda and scheduling the date well in advance is also important.

"Ensure you get feedback about the review a few weeks afterwards. Another member of staff should ring and ask four or five questions, such as whether the review was long enough, and whether it was what they were expecting or wanted," says Bell.

3. Personalised client communications

Surprisingly, only 51% of benchmarked practices use personalised mail merges and communications with their clients, despite it having a 166% profit impact.

"This is an absolute must for a successful client-centric business. You need to make your client communications personalised or don't do it at all."

Where to start: Ensure your staff have the necessary skills to personalise communications and check all database details are correct.

The practice's CRM system is a great tool for tailoring communications to make them meaningful. For example, risk-only clients are unlikely to be interested in investment information, while older clients will likely want to read about estate planning and aged care.

4. People management

Your employees are one of the most valuable assets, but in 20% of benchmarked practices performance reviews hadn't been completed in over 12 months, and 22% of firms didn't have documented job descriptions.

"Your people are the frontline and often interact with clients more than you do, so you should invest in and develop them. Not just with a competitive remuneration package, but also by recognising their career paths and professional development goals," explains Bell.

Where to start: Make sure employees have up-to-date job descriptions. An annual performance review is essential, even for employees who have been in the practice for many years.

"This can be informal, but everyone deserves you making the time to talk to them about how they are going," says Bell.

5. Client segmentation

The final profit driver is segmenting your client base. Only a third of benchmarked firms have an effective segmentation process in place, yet they're enjoying a 148% profit uplift, says Bell.

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Where to start: Begin by running off a list of clients by revenue received, as the top 20% usually provide around 80% of revenue. Consider whether the service offering is discernibly different between the two groups. Also look at whether clients contribute in other ways, such as by providing referrals.

Client segmentation should be reviewed annually to check which clients are allocated to each segment and the services they are provided.

"Even if you don't decide to have different service offerings, at least think about it."

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