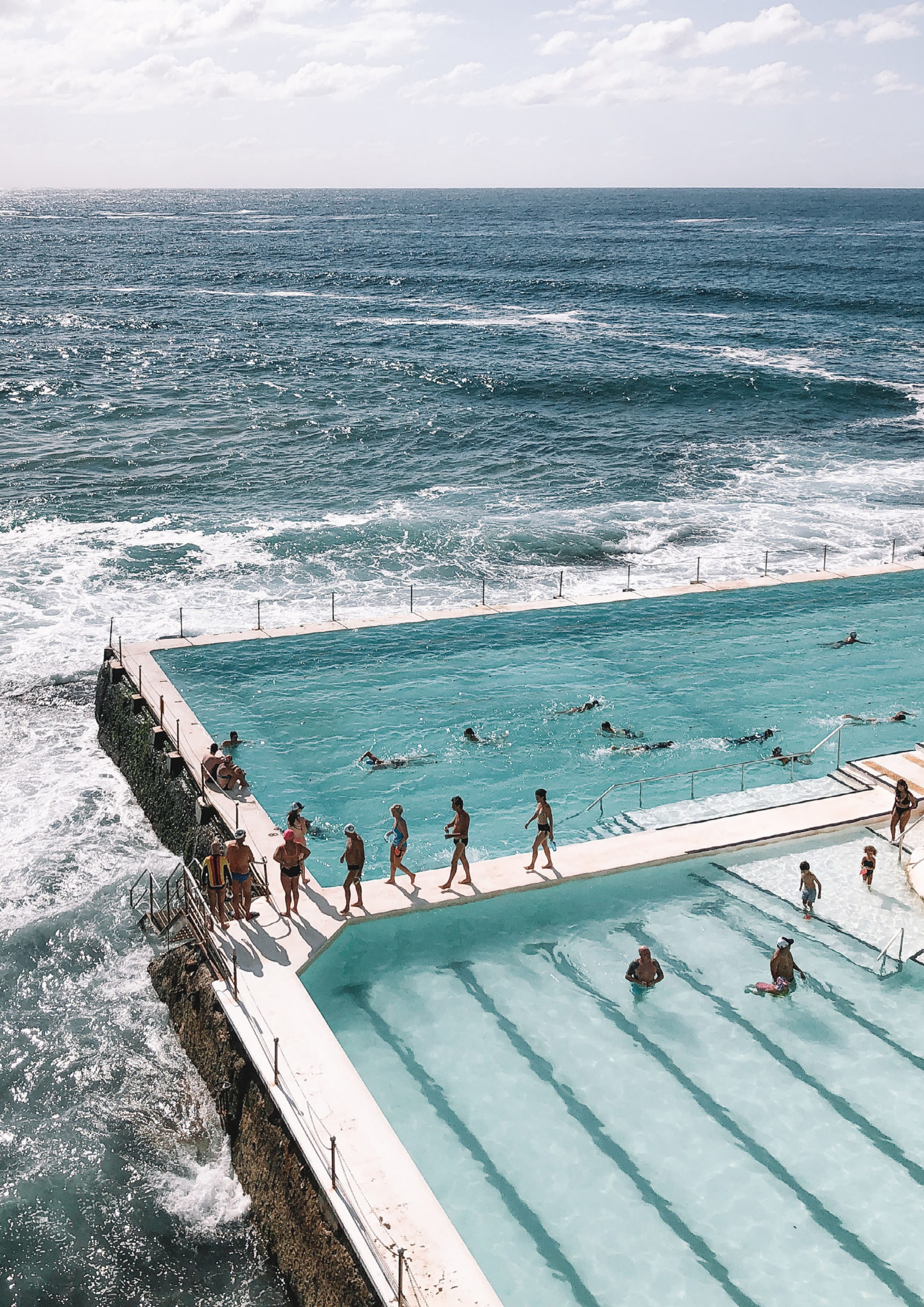
Future Ready IX

Insights into the Australian Financial Advice Profession

Prepared by Business Health Pty Ltd
January 2022

Sponsored by Midwinter Financial Services Pty Ltd



Since 2002, Business Health has released a series of whitepapers providing comprehensive insight into the health of the Australian financial advice industry and its preparedness for the future. These papers have become known as the Business Health *Future Ready* report.

Midwinter Financial Services is proud to have partnered with Business Health as the sponsor for their *Future Ready IX* report.

The data and insight presented in this report was drawn from the detailed results of over 200 advice businesses that have taken the Business Health *HealthCheck* since the time the previous report was published in January 2020. While most of these advice businesses offer a holistic range of advice solutions across wealth accumulation, protection and retirement planning, there are also niche, or specialist businesses represented. They include a diverse mix of AFSL holders ranging from the large institutionally aligned groups through to boutique, self-licensed practices.

This enables a truly multifaceted picture of today's marketplace that is unique in the Australian advice community and exclusive to Business Health.

As a provider of innovative financial advice technology, Midwinter strives to help Australian advice businesses succeed and improve access to professional advice for more Australians. We have sponsored the Business Health *Future Ready IX* report to offer this valuable insight to advice businesses who are looking for new ways to grow and improve the profitability of their business.

We hope you find the *Future Ready IX Report* of interest and value, and we look forward to exploring in more detail how we can support your business.

Steve Davison
Chief Commercial Officer
Midwinter Financial Services Pty Ltd

About the Data

All data obtained through the *HealthCheck* process is provided by the practice principal for the sole purpose of obtaining an accurate and objective assessment of their business. None of the data is collected through broad marketplace surveys, and in most cases the *HealthCheck* information is validated by either the Business or Practice Development Manager, or a Business Health partner.

Their *HealthCheck* is an innovative web based diagnostic tool designed to allow practice principals to effectively and efficiently gauge the health of their businesses. The *HealthCheck* report combines a mix of both qualitative and quantitative measures and provides a comprehensive analysis of the key business areas of the practice. It also includes a host of practical ideas and actions designed to help further enhance the business and address any issues of concern.

To augment the *HealthCheck* data, it is overlayed with the key benchmarks from 52,000 clients who have completed the Business Health *CATScan* client satisfaction survey and over 1,000 clients who have utilised the Business Health *Estate Planner* discovery application.

About Business Health

Business Health is an independent organisation headquartered in Sydney that specialises in providing advice and solutions for small to medium-sized business owners. Established in 2000, Business Health has regularly expanded its suite of services to the point where today, it offers the most comprehensive range of practice management solutions in the marketplace.

Business Health comprises a team of uniquely qualified professionals, strategically located across Australia, with the ability to deliver results locally or globally as required. Apart from Australia, Business Health has also worked extensively in the United States, South Africa, Hong Kong, the UK and New Zealand.

Business Health's experience in the financial services environment—enhanced by extensive up-to-date knowledge of international factors and trends—offers significant expertise in the area of business development.

www.businesshealth.com.au

About Midwinter

Midwinter Financial Services Pty Ltd is an innovative financial advice software company based in Sydney, Australia. Midwinter is part of Bravura Solutions, a leading provider of software solutions for the wealth management, life insurance, and funds administration sector.

Midwinter's modern cloud-based SaaS solutions improve efficiency, scalability, compliance and client engagement for hundreds of Australia's leading advice businesses, AFSL's, wealth management and superannuation firms.

Midwinter's solutions meet the evolving needs of the financial advice sector, its consumers and the professionals who provide financial advice.

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Executive Summary

Over the past few years there have been a number of major influences at play, impacting directly or otherwise, the business of advice. However, unlike previous occasions, the current raft of changes carry an air of inevitability. Business owners need to be aware of these changes and their implications on the business of advice, and take appropriate action before it is too late.

We believe that the industry has arrived at a tipping point where being a good adviser, even a great one, will not be enough to be successful. Fundamental changes must be made to the advice business itself, otherwise we can see that the dichotomy of the good practitioner versus the good businessperson will widen further.

Is a business profitability level of 24% an acceptable level of return for the business owner who has invested a significant amount of time, money and effort in running their advice business? If the answer is No, they need to take a hard look at what's going to change and who's going to implement that change.

If we have in fact reached the tipping point, the way forward could not be any clearer. Successful, profitable, valuable advice businesses in the future will not only consist of great advisers, they will also have great business managers.

> *"Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice, and discipline."*
>
> **- Jim Collins**
>
> *Good to Great: Why Some Companies Make the Leap... and Others Don't*

Key Take Outs

1. Not even King Canute could hold back the tide

As legend would have it, celebrated 12th century ruler King Canute once set his throne by the seashore and commanded the incoming tide to halt. As we know, despite all of his might and power, the tide did in fact continue to rise and Canute ended up with wet feet.

While by and large Australian financial advisers have done a fantastic job at piloting their businesses through what has undoubtedly been one of the most difficult and tumultuous times in living memory, like King Canute, unfortunately they have not been able to hold back a stronger inexorable force – in this case, escalating operating costs.

In a testament to their resilience and preparedness to adjust revenue models, the average business revenue has remained almost unchanged over the past two years. And this is despite the removal of grandfathered remuneration as well as product and marketing subsidies; the capping of life insurance commissions; client fear and uncertainty brought on by a global health pandemic; lockdowns and office closures forcing staff to work remotely; increased education requirements; licensee exits, collapses and repricing; more stringent compliance regimes... and the list goes on.

However, while business revenue has remained steady at $1.2m, the base level costs associated with running an advice business have continued to rise, with these increased operating costs now being reflected in bottom line profitability.

The average businesses profitability has fallen from 28.2% in our 2020 analysis to 24.0%.

With nearly all of the low hanging fruit already harvested and most businesses currently running a leaner P&L, if this decline in profitability continues, the ongoing viability of many more advice businesses will be severely threatened.

2. Why should I work for you?

A great question for any business to regularly ask itself is 'why should I work for you?'.

After all, the competition for finding and keeping good people is proving increasingly difficult. Salaries and benefits account for 48 cents of every dollar of revenue generated and 63% of all expenses. Effectively managing the investment in staff is paramount.

While performance management standards have generally remained in line with our 2019 analysis, against a backdrop of severe industry disruption and COVID enforced lockdowns which has forced most of us to work from home for extended periods, we were concerned to note:

54%

Just **one in two** business owners (54%) have shared their **high-level business goals** for the upcoming year with all staff.

37%

Only 37% of **owners believe their staff would rate 'culture' as very good** – a significantly lower assessment than our 2019 results.

29%

of businesses **have not sought feedback from their staff** as to their level of satisfaction over the past two years, and of the **71% that have, only 5% have used an external group** to confidentially conduct and benchmark.

With the hybrid working from home model likely to remain, even after we emerge from lockdowns, staff communication and commitment to sharing (and listening) is an area where the business principal will need to regularly monitor performance and be confident to answer the question - *why should I work for you?*

3. If relationships really do matter...

Of the nine key service delivery areas we ask clients to rate in our *CATScan* client satisfaction survey, the relationship that exists between them and their adviser continues to be the highest rated attribute. This has been the case since we introduced our *CATScan* service 20 years ago and shows no signs of reducing in importance.

Pleasingly, this is also reflected in the discussions we have with successful advisers. Almost without exception, successful advisers invariably list the strength of their client relationships as a key business asset and recognise it to be one of their major points of difference.

So, if relationships really do matter and this is critical in setting one advice business apart from all the others, it is surprising (and more than a little worrying) that the number of businesses formally seeking feedback from their clients has decreased over the past two years. While this has never been a priority for many businesses (in 2019 only 32% of advisers paid their best clients the courtesy of asking for feedback), this has now dropped to a disappointing low of just 26%.

Similarly, one of the keys to building and maintaining strong relationships is regular communication. This is true even in the best of times but given the unprecedented events of the past 18 months, it almost defies belief that many advisers are contacting their best clients less often. Only one in four advisers reported that they are now in touch with their best clients ten or more times per year which is down from the 33% recorded in our *Future Ready VIII* analysis.

Unfortunately, this disconnect between words and actions is also reflected in the data being held on many advisers' CRM systems. While almost all businesses are storing the standard hygiene policy and product information, less than 10% keep a record of key relationship building data such as wedding anniversaries, children's and grandchildren's birthdays, charitable and community interests, sporting preferences and favourite teams on their core client management system.

The time is fast approaching when advisers will need to prove to their clients that relationships do indeed matter. Based on these findings, many will struggle to walk the walk and not just talk the talk.

4. Too much 'me', not enough 'us'

As our current data set reveals, 70% of businesses are owned by a single principal. It's this person who has, in all probability, established the business, managed it in a very hands-on fashion, experienced its highs and lows and, up until recently, anticipated a convenient sale (and major contribution to his or her retirement funds).

But, as we observe later in this Report, circumstances differ significantly to previous times. What was a reasonable expectation a few years ago may no longer be realistic. In our view, the toothpaste is now well and truly out of it's tube and can't be put back in!

Without some serious planning disappointment is almost assured. Despite this, only 25% of businesses have clearly articulated their planning for the next 3-5 years and just 5% of businesses have what we would view as a comprehensive succession or transition plan in place. This situation represents, almost unbelievably, a deterioration from our 2020 Report.

Time for the owner to step up and own their situation.

5. Who is advising the advisers (and on what)

Given the magnitude of the issues that practice principals continue to grapple with, it remains a mystery (to us at least) that so few seek external input and advice to help with the strategic positioning and operational management of their business. Unfortunately, this *Future Ready IX* analysis is no different. In fact, fewer principals are now regularly seeking guidance from someone outside their business.

However, what we have again been able to prove is that those who meet regularly (at least quarterly) with an external adviser or business coach are achieving a higher level of profitability than those who prefer to go it alone. On average, we saw a 35% uplift in profit per owner for those who regularly meet with an external business adviser.

As businesses hopefully begin to emerge from the past two COVID ravaged years and come to terms with the short and long-term business implications, perhaps there is an ideal opportunity for the industry to assess and reposition the role of the frontline Business or Practice Development Manager?

From the pandemic-specific research we undertook last year, we found a significant gap between advisers and Business / Practice Development Manager's when it comes to the perception of value provided by the manager since the advent of the COVID pandemic. While 47% of these managers believed they had added significant value to their advisers, only 19% of advisers believed that they had received it.

Practice Dimensions

Following are the average advice business dimensions based on the detailed information collected from the 222 Australian advisory businesses that completed a *HealthCheck* during the period. To add to the picture, we have included a comparison to our previous two *Future Ready* papers.

KEY BUSINESS ATTRIBUTE	2021 FUTURE READY IX AVERAGE*	2019 FUTURE READY VIII AVERAGE*	2017 FUTURE READY VII AVERAGE*
Gross business revenue	$1,197,902	$1,195,418	$1,164,737
Notional profit per principal#	$262,073	$285,016	$266,998
Notional business profitability#	24.0%	28.2%	27.0%
Number of individual clients	564	530	715
Funds Under Advice/Management	$127.7m	$126.6m	$137.0m
Funds Under Advice/Management per adviser^	$53.8m	$52.1m	$50.8m
Total number of staff (including principals) ^	6.1	5.5	5.6
Notional salary bill#	$501,319	$426,713	$480,639
Notional salary bill as a percentage of business revenue#	48.3%	44.2%	44.7%
Clients per adviser^	228	241	285
Clients per support staff^	210	223	302
Support staff per adviser^	1.4	1.1	1.3
Average number of client appointments per adviser per week^^	5.7	6.1	6.0
Money invested in marketing the business	$20,951	$14,774	$17,401
Business formally surveying their clients	26%	32%	34%

* The above results have been calculated using the averages at an individual business level and then averaging these across the data group. This approach produces a far more meaningful result and explains the apparent discrepancy if some of the key business attributes are simply multiplied or subtracted from each other.

\# All the notional profit and salary calculations contained in this report assume a notional $100,000 salary for each principal working in the business.

^ All of the staffing ratios have been calculated using a full-time equivalent (FTE) basis.

^^ This includes in-person and virtual appointments.

High Performers

The characteristics of high performing businesses

As defined by the top 10% of businesses based on profitability

261

Clients per adviser

$1,615,928

Gross business revenue

1.1

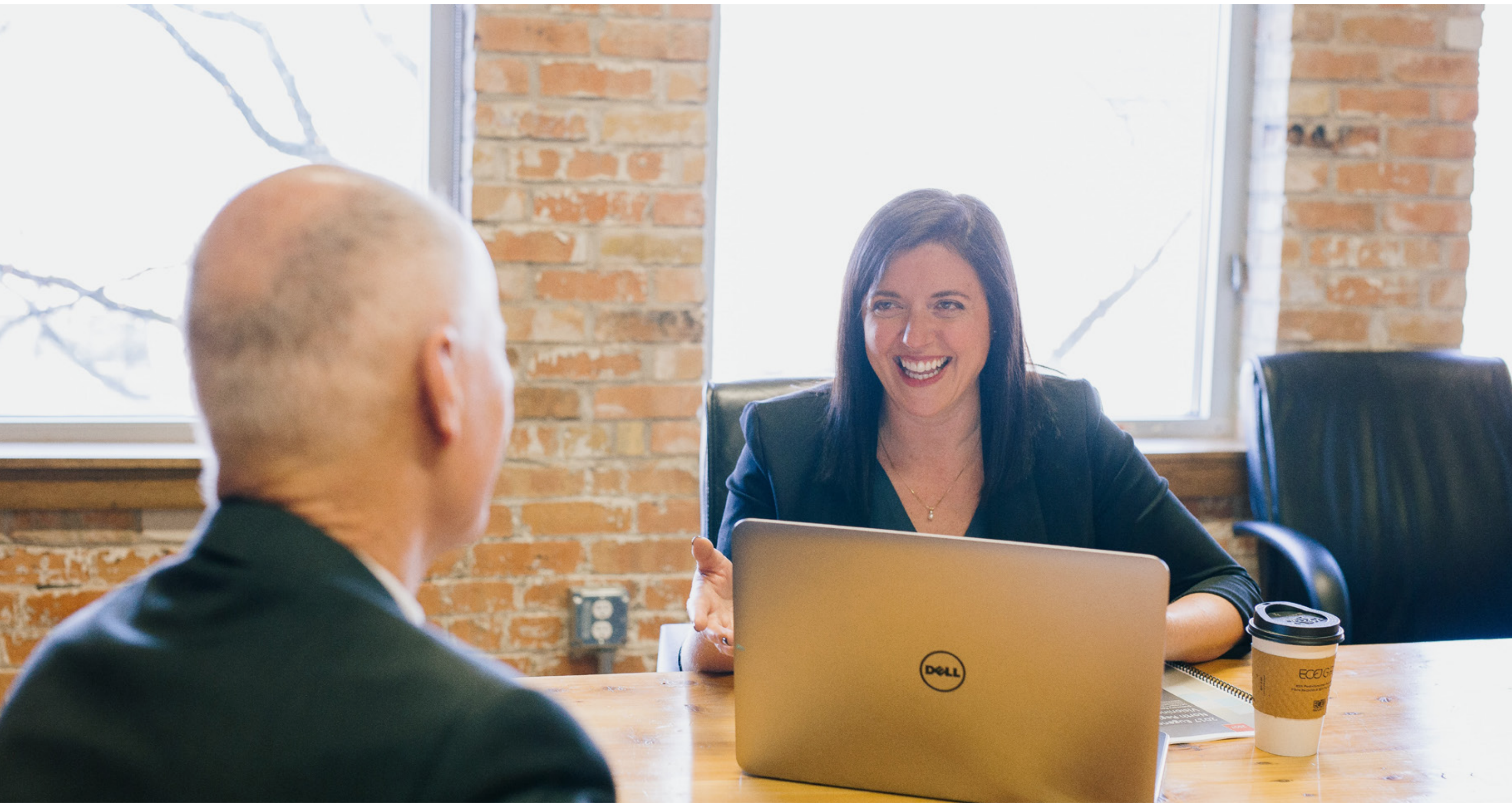
Support staff per adviser

$6,384

Revenue per client

7.4

Client appointments per adviser per week



Clients

Client Information Management

One of the statistics we found interesting from this latest analysis is the fact that 9% of businesses are now using more than one CRM system to manage and maintain their client information. It remains to be seen whether the benefits of system diversification outweigh the risks and costs inherent in entering and synchronising data across multiple platforms.

While 84% of businesses update the information on their databases within 24 hours of each client contact, 5% only update their CRM system on a monthly basis and 9% process changes to their client data *"when they get the time to do it"*. This leaves a significant number of businesses at risk of using incorrect or out of date client information.

77% of businesses also store the names and details of prospective or potential clients on their core client management system. This is down from 86% in 2019 and may go some way to explaining why businesses are running dual CRM platforms – one to manage client data and another to market and communicate to prospects.

While all the reputable CRM systems on the market allow advisers to develop and maintain a very comprehensive picture of their clients, very few businesses are taking full advantage of this functionality. Only 4% are holding 20 or more individual pieces of information on each of their key clients. A third (35%) still store fewer than 15 data points and quite often it is the more personal, key relationship building information that is missing.

It was however very pleasing to see an increase in the number of businesses leveraging the capabilities of their CRM technology to set up and track workflows (e.g. making appointments, plan preparation, document signing and business lodgement). Over half (55%) now use an automated workflow management system to help with these tasks which is well ahead of the 32% recorded in 2019.

If advice businesses are going to combat ever increasing operational expenditure and arrest the corresponding fall in profit margins, deriving the long promised (and in many cases much hyped) efficiency gains from their technology stack will be absolutely critical.

The Evolving Premises

The impact of the COVID induced lockdowns and the resulting uptake of video conferencing applications was clearly evident in our latest analysis. Whereas in our 2020 report over half (55%) of advice businesses reported conducting almost all client appointments in their own offices, this has now dropped to just 37%. A similar drop was seen in staff attendance, where team meetings, communications, development and social interactions (the major contributors to culture) have largely become virtual.

It will be fascinating to observe the longer-term effects of this shift and, if virtual meetings remain a key communication vehicle, how businesses will need to modify the way in which they engage with clients and staff alike.

Interestingly, this move to virtual meetings could in fact help advisers deliver a safer and more enjoyable experience for their older clients. One in four businesses (24%) do not have access for disabled clients and 28% reported that clients need to negotiate stairs to enter their premises. As the health and mobility of many of the older clients starts to deteriorate, the ability for them to meet with their adviser via a video conference could be a very welcome option.

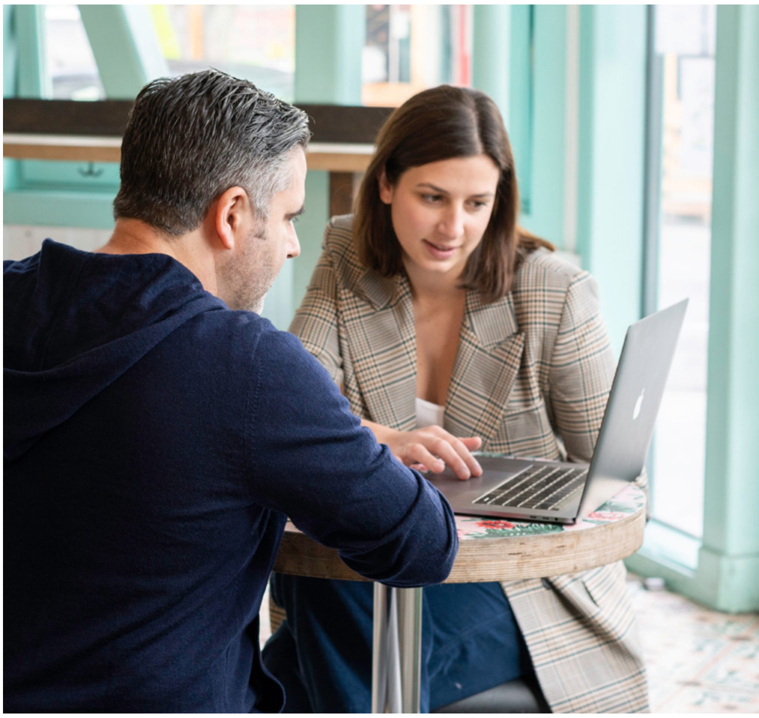
Other silver linings such as the potential for reduced office space requirements leading to lower rental costs is addressed in later sections.

Client Numbers

The dramatic decline in client numbers that we saw in Future Ready VIII has, at least for the moment, plateaued. While the average number of clients per business dropped from 715 in 2017 to 530 in 2019, this has now stabilised at 564.

However, it was interesting to note that the average number of clients per adviser did continue to fall – this key performance indicator fell from 241 two years ago to 228 in the latest analysis. Also, while advisers are servicing fewer clients in total, the number of 'A' class clients they advise actually increased from 79 to 105.

It would appear from these numbers that Australian advice businesses are becoming much clearer on who they can best serve, and they are continuing to build their businesses around these target clients.



Client Reviews

While 90% of businesses reported that they have a regular and documented client review process, the disconnect between adviser and client identified in *Future Ready VIII* remains. Clients who have completed our *CATScan* client satisfaction survey still rate the review service delivered by their advisers as by far the worst performing area.

Of the businesses with a defined process, 15% review their 'A' class clients at least quarterly, 39% meet with their best clients to review their situation on a six monthly basis and 44% schedule an annual review. One in three (31%) review their 'C/D' class clients *only when the client requests it*. (Hopefully this is in keeping with the obligations in their service agreements and does not fall into the murky area of *fees for no service.*)

Pleasingly, almost four in ten (39%) of businesses reported that at least one other staff member sits in on their 'A' client review meetings.

Finally, 80% of reviews last between 1-2 hours.

Client Communication

The Hayne Royal Commission and its associated fallout well and truly turned the bright media spotlight onto all of us who work in the financial services industry. This mainstream media interest (with unfortunately most of it being negative) shows no signs of abating any time soon.

It is against this backdrop, that we continue to be both surprised and dismayed that fewer advisers are making a real attempt to find out what their clients are thinking. The number of businesses formally seeking feedback from their clients dropped from 32% in 2019 to an almost lamentable low of just 26%, with most of these being conducted internally by the business itself.

As highlighted earlier in this Report, if the relationship is to be a core component of the adviser's offer and most probably one of their key points of difference, there must surely be a commitment to actively seek feedback from the people who are paying their fees.

Similarly, given the fear and uncertainty created by the COVID pandemic, it is extremely hard to mount a credible business case for advisers having less contact with their key clients. There are countless studies that conclusively show that in times of crisis, clients value a proactive 'reach out' and 'how are you going' call.

As the adage goes – clients don't care how much you know, until they know how much you care.

It is therefore more than a little disappointing to see that many advisers have gone missing in action at precisely the time their clients are looking to them for support and reassurance. Only 27% of businesses reported that they contact their best clients ten or more times per year. This is down from the 33% recorded in 2019.

Given this, perhaps it should come as no surprise that the 52,000+ Australian clients who have completed our *CATScan* client satisfaction survey rate their adviser's communication program as the second worst performing element of the service offer.

On the positive side, we have found a direct correlation between client communication and referral business. Where clients score the communication they receive from their adviser highly, they are far more likely to have already referred new clients to the business and also have a much higher propensity to do so again in the future.

Planning

Business Planning

Business planning has been perhaps the greatest area of disappointment and frustration for us over the years.

Businesses have been poor in investing time and effort in planning for their ongoing viability.

While they may have been able to navigate their way around this in the past, there are a number of game changers which, we believe won't allow them to continue to do so going forward. Think qualifications, 'greying' of the adviser community (not to mention their aging clients), rising costs and the exit of the institutions - and their resources - by way of examples.

However, we cannot help but be impressed by the unrelenting and indefatigable optimism of Australian financial advisers. Despite all that they have been through and all the obstacles that are still to be successfully traversed, most remain extremely positive about what they can achieve in the coming 12 months.

74%

Expect to **increase revenue**

69%

Will **increase the number of clients** they service

64%

Expect to see an **increase in business profitability**

39%

Will **recruit additional** income producers

33%

Will build on the number of third-party referral partners that support their business

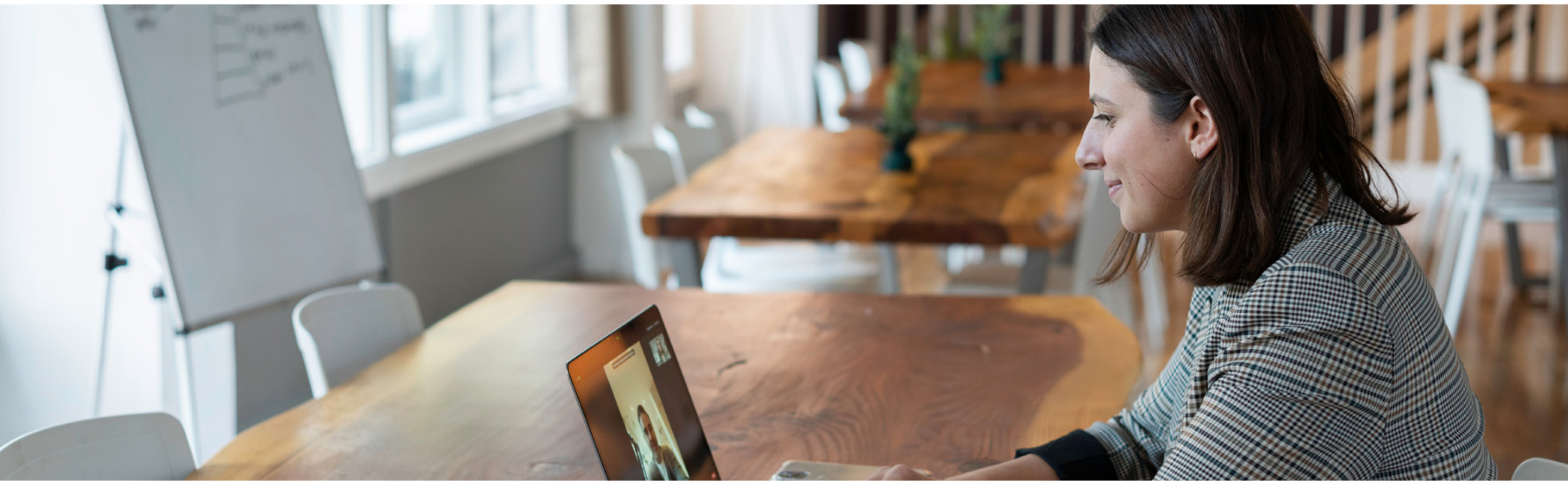
32%

Will add more support staff to their team

83%

State that they can achieve all of this and not work any harder or longer

This is against a backdrop where business as usual is incredibly difficult and the entire industry remains in a state of flux.



Business Planning
(continued)

Unless business owners quickly develop a very clear plan to address the key issues in their business, sustained success remains far from certain. Fewer principals now have a clear picture of what their longer-term success looks like – the number of businesses with a documented 3-5 year strategic plan has dropped from 29% to 25%.

Even fewer have a roadmap detailing how this will be achieved - just 22% of businesses currently have an operational business plan for the coming 12 month, down from 34% in 2019. Adding to our concern is the fact that over half of these plans also appear to be template driven and seriously lacking in detailed content.

Succession Planning

Regular followers of our Future Ready series will know that for many years we have expressed a real concern that the family, staff and clients of practice principals would be left exposed if something unexpected were to happen to the principal, or if they simply decided that it was their time to retire. This concern has now turned to outright fear as only 5% of Australian advice businesses are underpinned by a comprehensive transition or succession plan.

Unless this situation is addressed (and addressed quickly) we can only hope the current owners never die, get ill or get injured, and they want to work forever!

External Advice

In any profession, the truly successful business owners surround themselves with people they trust and respect; people who bring complementary and valued capabilities and resources and people who can help them achieve their business goals. They actively canvas the opinions and thoughts of others from outside their business and are always open to different views and ideas.

Unfortunately, less than half (45%) of those running Australia's financial advice businesses have an external 'sounding board' who they regularly consult for objective business advice. Our hope is that this percentage will increase significantly in the ensuing years as more owners seek out help and support with their business planning.

The following shows who Australian practice principals are currently turning to for advice:

70%

Practice Development Manager, Business Development Manager or Relationship Manager

↑ (up from **64% in 2019**)

30%

CPA or accountant

(in line with the 29% recorded previously)

41%

Personal acquaintance or respected peer

↑ (up from **33%**)

26%

Paid business coach

(unchanged from the *Future Ready VIII* analysis)

9%

Peer or study group that meets regularly

↓ (down from 18%)

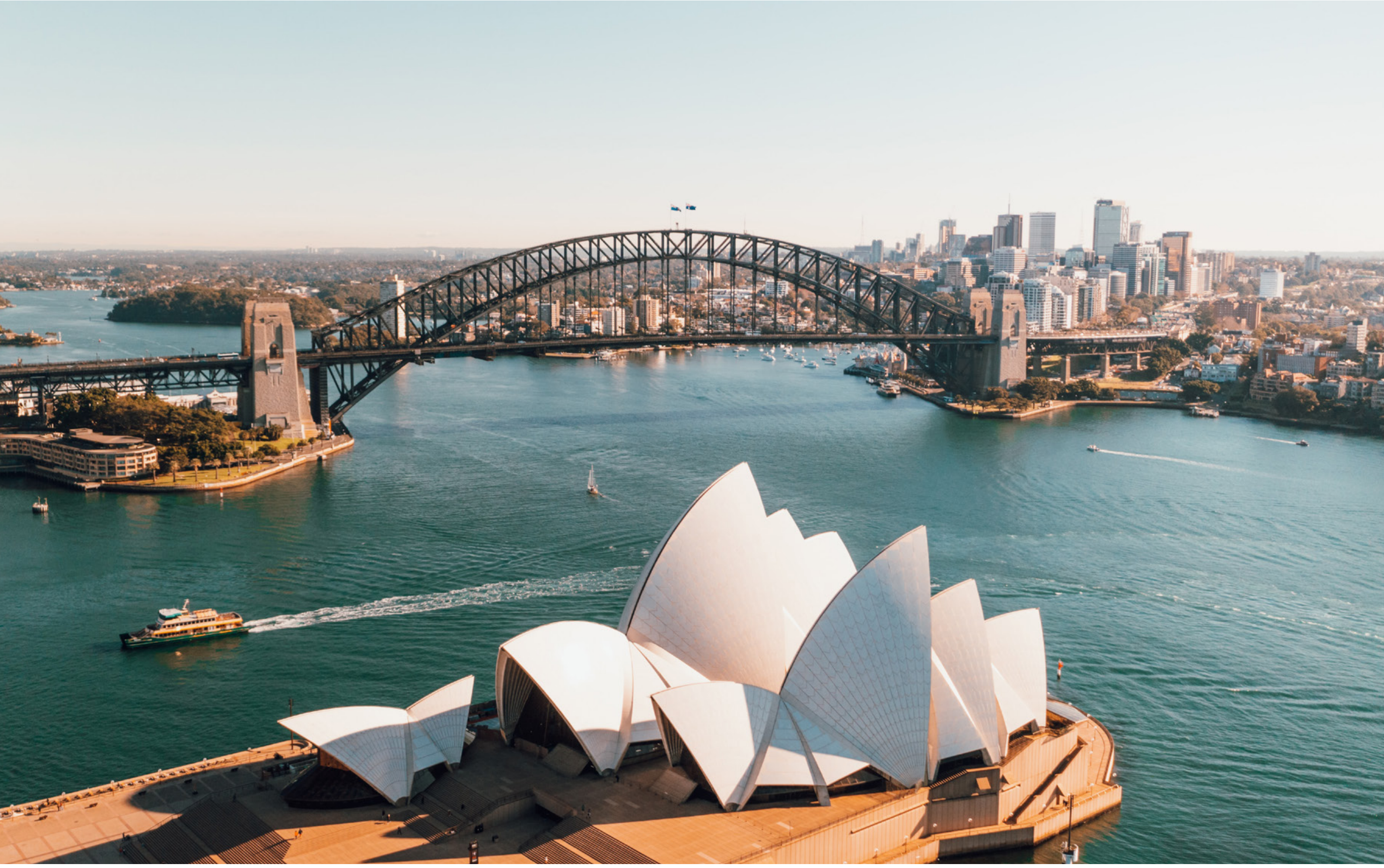
Risk Management

70% of Australian advice businesses are single principal or sole owner businesses. It is perhaps not surprising that 89% stated that their business could not continue to grow and develop without them (in fact 52% reported their business could not operate at all if they were not there), this situation clearly represents an untenable business risk to both the clients and the business itself.

This is especially true given 64% of the clients who have completed the Business Health *CATScan* client survey stated they *"would not be comfortable dealing with anyone else from the practice other than their current adviser"*.

This situation is further exacerbated by our finding that 52% of principals have no key person protection plan in place, 65% have not documented all their systems and processes and 34% also openly admitted they are consciously running their business with inadequate business continuity insurance.

Perhaps one of the very few positives to come from the COVID lockdowns is the number of businesses that can now effectively operate their business remotely. Almost half (44%) reported that they have workable alternatives readily available should they not be able to access their office premises.



External Profile

Positioning

Perhaps linked to the advancing age of the owners, our data set reflects a well-established and somewhat conservative business sector. The average business has been in operation for 17 years, with the same principal running it. They have 'grown up' with their clients – the result being that 55% of clients are aged 60+, with 48% already retired or no longer working.

However, we know from our *Estate Planner* discovery application that advised clients (i.e. those currently using the services of a financial adviser) are perhaps not as prepared as they should be in terms of planning for their estate.

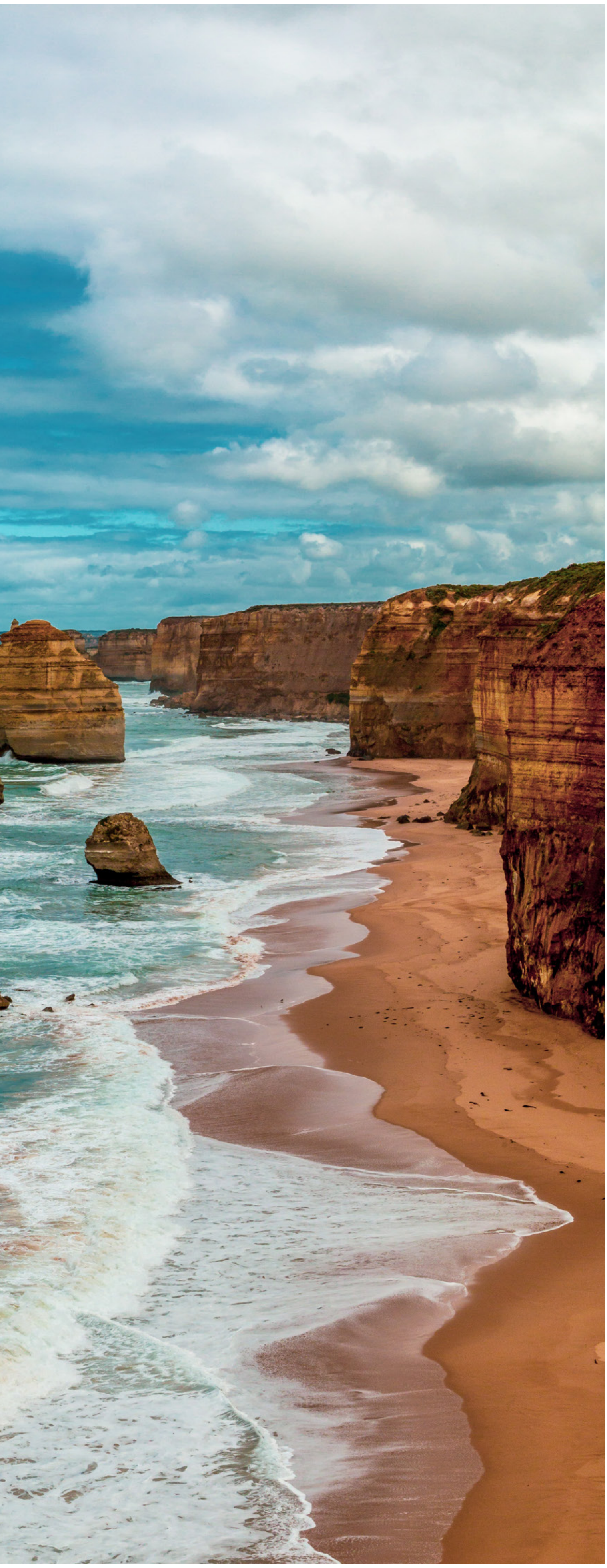
One in three advised clients don't have a current will

Less than half of advised clients with superannuation have a binding nomination in place.

Almost half of the advised clients are worried that the assets their children will inherit may be 'lost' if their child divorces or separates from their spouse or partner.

As much as this represents a significant risk to the clients, their family and their adviser, it also presents an enormous opportunity. While older clients may no longer have a need for accumulation type superannuation products or life insurance and protection policies, their situations can still be quite complex. Many are looking (and are willing to pay) for quality professional advice to help them navigate what they see as an exceptionally confusing and extremely complicated financial environment.

Despite being in the prime position to help, many advisers are unable to leverage this relationship and may not be in a position to continue to provide a valued service to meet their older clients' changing needs. Only a third (35%) of businesses offer advice on aged care, less than half (42%) offer an estate planning solution and only one in two (52%) have a service to assist with Centrelink.



Perhaps most worryingly of all, just 24% of businesses have any intention of expanding the depth or breadth of their solution or service suite in the coming 12 months. This could lead to some robust but ultimately disappointing client discussions and force many loyal and long-term clients to seek the help and guidance they need from another source.

While consumer engagement in many industries has been digitised, the financial advice industry has fallen behind this trend. Most advice businesses now have a website of some kind, 38% of these are relatively static sites and have not been updated in at least six months, and 18% are not yet mobile ready. 29% of businesses still do not have a social media presence such as a company LinkedIn page or Facebook account.

One in three businesses (34%) now incorporate managed accounts into their solution suite and 91% describe life risk advice as a core element of their offer.

Given there has never been greater scrutiny on the advice sector, it appears many advisers may still have trouble clearly articulating the value they bring to their clients, prospects and referral partners – one in two (53%) do not have a documented Client Value Proposition (CVP).

The above presents, we fear, a crisis in positioning as well as marketing – with static websites, minimal social media profile and no business plans to expand their current range of services, how will prospects and referrers be able to evaluate one businesses offer from another's?

Operational Compliance

Somewhat surprisingly, 21% of principals stated they have not had a review of their compliance processes undertaken by someone external to the business in the past 12 months. Pleasingly 38% of businesses reported that there were no issues identified in their last audit. While 56% had some issues identified, these have now been rectified. However, over a quarter (29%) still do not document all their discussions with their clients.

While there is no doubt a much-heightened focus on compliance, there still appears to be some potentially quite serious gaps in the compliance regimes of some businesses – the table below shows the increase in the percentage of owners who are not very confident that their internal processes adequately reflect their regulatory obligations.

Implementing robust compliance processes will continue to be an important area. Advice businesses that build compliance into the core of their operations and business systems will achieve the highest efficiency gains and highest level of confidence in their compliance framework.

Regulatory Obligation	Not Very Confident (with comparison to 2019)
Managing conflicts of interest	25% (15%)
Breach identification, assessment, and reporting requirements	33% (22%)
Training for themselves and their staff/representatives	33% (31%)
Monitoring and supervising their staff and representatives	36% (25%)
Anti-money laundering	17% (16%)
Counter terrorism financing	18% (18%)
Internal & external dispute resolution arrangements	30% (31%)
Margin lending	43% (29%)
Providing all the right disclosures when they provide advice	20% (14%)

Professional Indemnity Insurance

Only 5% of the businesses stated they have lodged a claim against their professional indemnity (PI) policy in the past three years. 31% reported that their annual PI premium was now more than $15,000 per year (up from 26% in 2019) and 25% now have a PI excess of more than $40,000.

Capability

People

In what's perhaps a sign of the new operating environment, while the number of full-time equivalent team members per business has increased from 5.5 to 6.1, businesses were not able to convert the additional resources into top line revenue growth. Despite the number of support staff increasing from 2.9 to 3.6, the average number of client appointments conducted by each adviser each week dropped from 6.1 to 5.7.

Performance Management

The biggest expense for almost all businesses is salaries. Assuming a notional $100,000 package for each working principals or owner, the average business is investing in the order of $500,000 per annum in salaries and benefits – this accounts for 48 cents of every dollar of revenue generated by the business.

Given the magnitude of this commitment, it is somewhat surprising that more is not being done to maximise the return on this investment. Consider:

37%

One in three **do not have position descriptions** for most of their staff - role clarity could well be an issue in many of these businesses.

49%

Almost half **do not have agreed and documented performance objectives** for most of their staff.

52%

Have **not conducted performance reviews or appraisals** with their staff in the past six months (although without an accurate and up to date position description and a set of agreed performance goals, conducting reviews could be very difficult).

77%

Have **managed to formally review each staff member's remuneration package** against the appropriate workplace agreement, industrial award or the market.

48%

Also **offer some form of staff incentive or bonus program**, although half of these exclude some team members and for many of the plans it remains unclear how individual payments or rewards are determined and distributed.

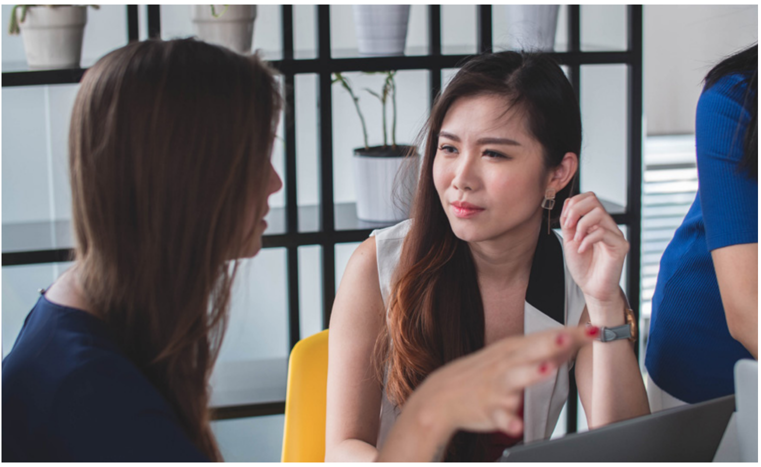
As the deeper profit analysis shows on pages 29 & 30, for those businesses willing to invest in their people, the results are quite significant. Businesses that have invested time and effort to implement an effective performance management system are delivering considerably more profit to the business owners than those that are not yet leveraging the full potential of their team.

Team Communication

There is no doubt that staff, most of whom have or continue to work from their home, want to have regular dialogue with the owners and leaders of the business. They want to understand how their employer is going – is it on track with its plans and how does it see the future playing out? I.e. will they have a job?

It was therefore very pleasing to see that 65% of businesses now hold regular weekly or fortnightly team meetings involving most, if not all their staff. Of a little more concern however was the fact that only half (54%) of these owners have shared their high-level business goals for the upcoming year with all staff.

Open and effective communication is a two way street. It is equally important that the key leaders of the business receive honest and direct feedback from the members of their team. Often staff are more comfortable in providing feedback about the business and the environment they work in to an independent third party. Some staff may 'suffer in silence' if they have concerns about their working environment, their relationship with other staff members or even their role and remuneration. Only 5% of Australian advice businesses currently use somebody external to the business to collect and collate staff feedback.



Internal Culture

Despite the changes to the employment marketplace caused by the COVID pandemic, staff movement has remained relatively unchanged over the past two years – 77% of businesses reported low staff turnover compared to the 71% recorded in our previous analysis. This excludes those who joined because of business growth or expansion.

Where we have seen a change however is with the team morale. In 2019 almost half (46%) of the principals thought their staff would rank the morale in their office as *"Very Good"*. This has now dropped to 37% and is perhaps reflective of the challenges associated with managing a remote team and maintaining a strong and positive culture when many employees are working from home.

Information Technology

Another area impacted by COVID, although in a positive way, is the ability for businesses to remotely access their business network. 85% now report that they have complete remote access to all applications (e.g. client data, calendar, email, planning and modelling tools, financial or account management systems, etc).

Perhaps reflective of this move to more cloud-based technology, 93% now back up their critical data daily or in real time. However, one in three (32%) stated they have not tested or restored from their back-ups in at least six months (if indeed at all) and 22% do not have adequate security and file encryption for transmitting sensitive data. This lack of data protection and cyber awareness could be putting many advice businesses at risk of data loss or breach of regulatory requirements.

Key Performance Indicators

Revenue

While revenue alone does not dictate the success - there are numerous examples of failed businesses that generated high revenue - it is nonetheless a critical factor in determining the sustainability of an advice business.

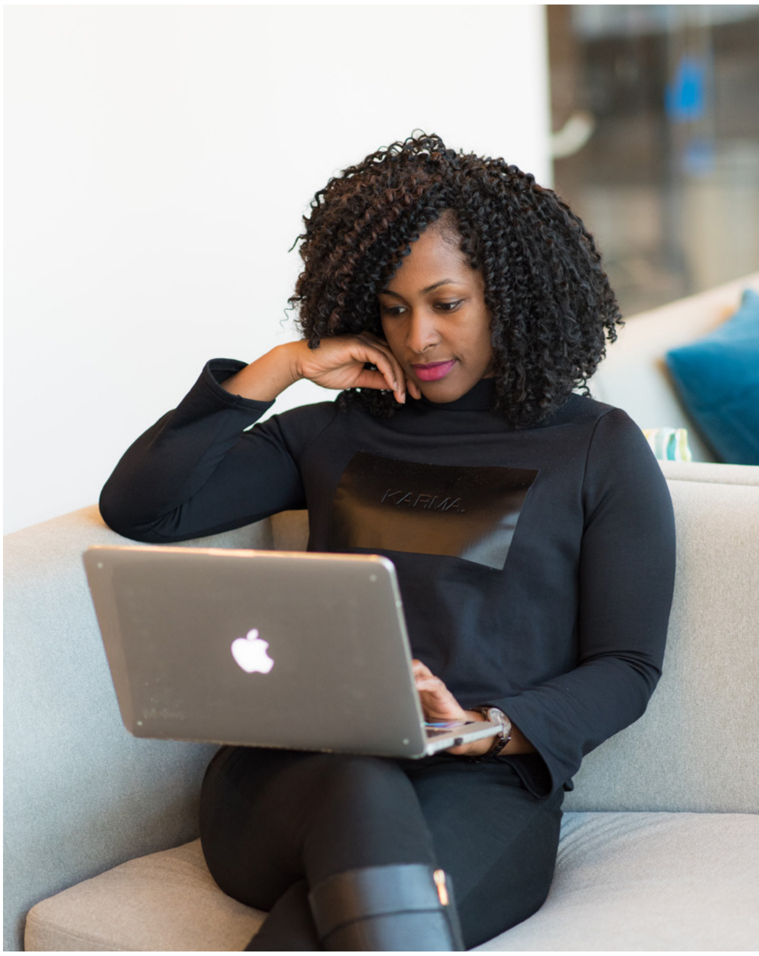
Despite all the external forces impacting the revenue generating ability of Australian advisers (think the removal of grandfathered remuneration and product or marketing subsidies; the capping of life insurance commissions; increased education requirements and the amount of time needed to be spent on non-client facing activities), the average revenue per business has remained steady at $1,197,902. Even with some businesses recently receiving revenue support in the form of government funded COVID subsidies, we have seen very little movement in this key performance indicator over the past six years. The average revenue per client also remained constant at $3,558.

While advice around insurance and protection solutions remain an important element of most service offers, we are not seeing a rise in 'risk only' advice businesses. Only 14% of businesses reported 75% or more of their total revenue was generated from risk or insurance-based advice and policies. Only 2% of businesses are charging a fee for service for their risk advice and 69% expect to utilise a hybrid commission structure in the future.

Three quarters (74%) of businesses have reviewed their pricing models in the past 12 months, and interestingly, 20% of businesses are now placing a greater value on their time and expertise and charging for their first appointment with a client. 74% also have service level agreements in place for all their key fee-paying clients.

Client retention remains very strong – 43% of businesses report losing none of their key clients during the past 12 months and a further 49% quoted less than 3% key client attrition.

Expenses



While revenue has remained static, the cost of doing business has continued to rise. The average notional expenditure of each business is now $813,247, up from $758,261 in 2019 (please note that all our notional expense calculations assume a $100,000 salary for each working owner).

Salaries continue to be the largest expense item with the average notional annual salary bill representing 63% of total expenditure. The average operational running expenses (which include rent, IT, general administration, and licensee fees) account for 24% of revenue and 32% of expenditure. On average, each business was investing 1.6% of their revenue to market their business.

Profitability

To account for the varying remuneration models adopted by each individual business owner, we use the following formula to determine profitability:

$$\text{Profitability} = \frac{100\% \times \text{Gross Revenue} - \text{Notional Expenses}}{100\% \times \text{Gross Revenue}}$$

Using this formula, the average business profitability has dropped from 28.2% in 2019 to 24.0%.

While 26% of businesses are delivering a notional profit of 40% or greater, 8% were only marginal with a profit margin between 0% - 10%. 19% reported a negative notional profit - that is, at their current revenue and expenditure levels, they cannot support a $100,000 salary for each of the working owners.

While the profit squeeze has been felt by businesses of all sizes, it is the small businesses with revenue of less than $500,000 that continue to be hit the hardest. Even after increasing the average revenue per client and surrounding themselves with more support, the average notional profitability of these small businesses has dropped to an all-time low of just 6.8%. This equates to an average profit per owner figure of just over $36,000.

A deeper analysis shows that when a notional $100,000 salary is applied for each working owner, almost half (44%) of these small businesses return a negative profit.

In pure financial terms, this is a relatively poor return on the investment for their time, experience and expertise. However, when you also account for the level of business risk all advice businesses are now carrying (regardless of their size), and the toll running an advisory business can take on the physical and emotional health of its owners, many must be seriously questioning whether it is indeed all worth it.

Profit Drivers

Our proprietary Business *HealthCheck* not only benchmarks how each advisory business is performing, as shown below it also allows us to quantify (in terms of bottom-line profit), the payback successful principals are receiving on their investment in building stronger, more sustainable businesses.

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
CLIENT MANAGEMENT SYSTEMS			
Prospect data stored on core CRM	77%	$283,006	45%
Prospect data stored elsewhere	23%	$194,667	-
Manually create & track workflows	45%	$203,976	-
Create & track workflows using an automated system	55%	$306,129	50%
Less than 20 client data fields stored	96%	$255,847	-
20+ client data fields held	4%	$401,806	57%
Effective implementation	**3%**	**$450,655**	
Automated CRM, client data updated immediately, housing prospect details, automated workflow tracking and holding 20 or more data fields			

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
CLIENT SEGMENTATION			
No	38%	$201,300	-
Yes	62%	$295,587	47%
Effective implementation	**34%**	**$322,541**	**60%**
Formal segmentation model, differentiated service offers and process reviewed annually			

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
CLIENT REVIEW PROCESS			
Involving the adviser alone	60%	$243,285	-
Involving the adviser and another from the business	**39%**	**$291,176**	**20%**

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
SEEKING CLIENT FEEDBACK			
No	74%	$219,634	-
Yes	26%	$385,459	76%
Effective implementation	**2%**	**$416,410**	**90%**
Formal feedback process, involving external expertise and sharing results with all clients, staff and business partners			

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
"A" CLASS CLIENT CONTACTS			
10 or less times per year	73%	$233,807	-
More than 10 times per year	**27%**	**$334,894**	**43%**

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
BUSINESS PLANNING			
Longer Term Strategic Plan			
No	18%	$195,258	-
Residing in the principal's head or only partially documented	58%	$204,487	5%
Clearly documented	25%	$440,185	125%
12 Month Operational Plan			
No	33%	$165,092	-
Only partially documented	45%	$239,852	45%
Clearly documented	22%	$449,361	172%
Effective implementation	**8%**	**$515,099**	**161%**
Documented strategic & operational plan, reviewed at least 6 monthly, monthly progress to plan monitoring			

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
SUCCESSION PLANNING			
No written succession plan or buy sell agreement	76%	$243,038	-
Clearly documented succession plan/buy sell agreement	24%	$323,365	33%
Effective implementation	**5%**	**$561,663**	**131%**
Documented plan, reviewed regularly, covering all contingencies, successor identified and agreed with funding in place			

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
EXTERNAL ADVICE			
No	33%	$206,899	-
Yes	**67%**	**$288,309**	**39%**

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
CLIENT VALUE PROPOSITION			
No	22%	$147,810	-
Yes but only in the principal's head	31%	$268,893	82%
Yes and fully documented	**47%**	**$305,829**	**107%**

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
STAFFING LEVELS (FTE)			
Number Of Business Owners			
One or less	70%	$239,345	-
More than one	30%	$314,276	31%
Support Staff Per Adviser			
Less than one	32%	$174,802	-
One or more	68%	$303,572	74%

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
PERFORMANCE MANAGEMENT			
Staff with up to date job descriptions			
None	21%	$117,696	-
Less than 50%	8%	$142,254	21%
Between 51% - 75%	8%	$229,984	95%
More than 75%	**63%**	**$331,431**	**176%**
Staff with individual performance objectives			
Less than 50%	32%	$158,514	-
Between 51% - 75%	16%	$203,560	28%
More than 75%	**51%**	**$344,375**	**117%**
Last performance reviews/appraisals			
More than 12 months ago	23%	$157,104	-
Between 6 – 12 months ago	28%	$288,596	84%
Within the last 6 months	**48%**	**$296,783**	**89%**
Last salary/remuneration review			
More than 2 years ago	7%	$106,906	-
Between 1 - 2 years ago	15%	$234,512	119%
Within the last 12 months	**77%**	**$283,058**	**165%**
Offer staff incentive/bonus program			
No	52%	$200,691	-
Yes	48%	$327,666	63%
Effective implementation	**18%**	**$382,024**	**194%**
Majority of staff have written position descriptions and individual performance objectives, performance appraisals conducted at least twice a year, compensation reviewed annually and bonus plan in place			

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
STAFF AWARE OF BUSINESS GOALS			
Less than 50%	11%	$207,212	-
Between 51% - 75%	35%	$238,292	15%
More than 75%	**54%**	**$301,643**	**46%**

KEY VALUE DRIVER	% OF BUSINESSES	PROFIT* PER PRINCIPAL	INCREASE IN PROFIT*
SEEKING STAFF FEEDBACK			
No	29%	$204,764	-
Yes conducted internally	66%	$255,454	25%
Yes using someone external to the business	**5%**	**$716,942**	**250%**

* All of the profit calculations contained in this report assume a notional $100,000 salary for each owner working in the business.

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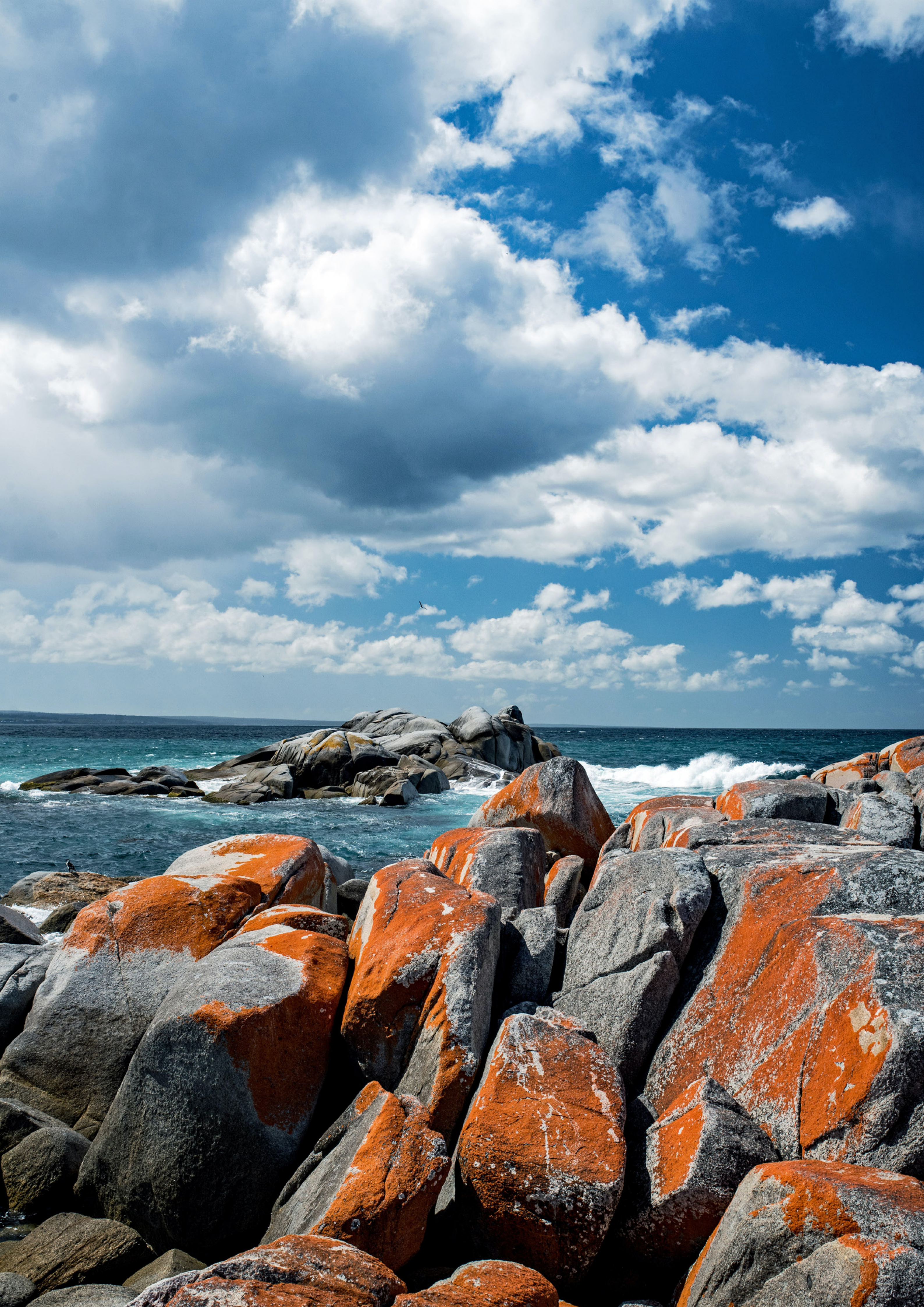

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