



Banking the lessons from the GFC

As talk casually turns to the 'green shoots of recovery', with Practice revenues up from earlier this year and new clients being sighted, it's worth taking some balcony time and reflecting on the key learning's the market environment of the last 2 years has delivered for Practice Owners. Centurion Market Makers has interviewed over 300 Practice Owners in the past year. Centurion Director Chris Wrightson's view is that the length of this downturn, it's the effect on client asset values and therefore Practice revenue has placed some financial planning business models under significant stress, and in need of a business model review.

"As with all experiences in life, there is always an opportunity to reflect and think about what a Practice could do differently to prepare its clients and the business to handle a systemic shock, then begin to make changes for the future".

Wrightson has observed 5 characteristics of Practices that have had less stress than others, over the past 2 years, in some cases have grown both client numbers and net revenue.

The first is that the most robust Practices lead with a CVP based on Strategic Advice. 'Its a little trite to say, but those that have a client relationship based on lifestyle or objectives based planning tend to have had a different set of conversations with their client, more constructive and opportunistic, compared to Practice who have lead with an investment return proposition. The Advice clients have been more open to topping up their investments during the downturn as it helps them achieve their long term goals. Those who were promised a superior investment outcome have often questioned, sometimes via the media, the value of advice".

The second key learning is around diversity of income streams. The principal of diversification is second nature to Financial Planners. "However, we continue to be surprised at the number of established Practices whose income is solely investment asset based. The Practices who have thrived through this environment have income diversity, for example, a risk offering to their clients. The income from this part of the businesses portfolio has grown at around 20 -25% over the last two years, is a great diversifier and secure income source. Accounting based revenue has similarly held up."

Thirdly, Practices who have disaggregated advice, investment and administration fees have allowed clients to see where value is added. "Our view is that we will see more horizontally integrated Practice models. By this we mean discrete fees for upfront and ongoing advice, an asset based investment fee and an in-house lower cost investment model, and separate administration fee. Practices need to determine what model they operate and how it will assist collect a more significant share of available revenue, at a lower cost"

The fourth key lesson is clarity from the client perspective on the level and type of service they have signed up to receive on an ongoing basis. "The principle of clear agreements with clients on service levels is important to cost management and to client satisfaction, both key drivers of value in a Practice. As revenues have fallen, many Practices have had little alternative to reducing headcount and cutting client service costs. Neither is ideal in driving customer satisfaction – far better to manage client expectations upfront."

The fifth is recognition that Advice requires scale, and that Advice Practices need a degree of business process discipline to drive the benefits of size." The most successful Practices have clarity on their offer and market segment, can communicate the value they add to this segment, and are of sufficient size to deliver their service. Although predominantly SME's, these Practice have a degree of corporatisation, sufficient to free up Client contact people including Advisers, from date to day management of the business. We think of the Practice landscape being polarised - into large corporatized Practices, or alternatively those who have a specialist offer or market, smaller in size but able to charge higher fees for the value added. Common to the modus of both segments is growth by acquisition, to achieve scale"

Wrightson says that Centurions advice to Practice Owners would be to use this downturn as an opportunity to rethink their Advice offer, diversify income streams, revisit the business model and clients servicing arrangements, and to seek scale via alliance, merger or acquisition.

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