UNLOCK GROWTH

FROM IMPOSSIBLE TO PREDICTABLE: UNLOCKING THE GROWTH IN YOUR PRACTICE

A Roadmap to Transform Your Practice to An Efficient, Process Driven Growth Machine.

AUDIENCE

- Practice Owners
- Managers

OBJECTIVES OF THE WHITEPAPER

- Industry leader Mark Lewin details the information required to transform your Practice - through a focus on efficiency, systems, and process - into a growth driven business.

TIME TO READ

- 10 Minutes

TOOLS IN THIS WHITEPAPER

- Checklist: This document features an easy-to-use checklist to assist your business review and planning
- Resources: further links to assist your planning.
- Business Valuation: An opportunity to benchmark your business progress by documenting a current business valuation.

Your Focus is This: Drive Your Practice to be An Efficient, Process Driven Growth Machine.

What is the most important thing to you?

Most financial advisers we ask say that it is spending time listening to and helping their clients.

At Back Office Hero we challenge this view. We believe that to grow their business, planners need to profoundly shift their focus.

Specifically, the most profitable practice owner will be the financial planner who transitions to become a business owner.

So, the question becomes, how do we transition from a practice to a business?

A Framework for Change

In beginning their practices, planners are obsessed with out-performance, catering to all client's needs and offering numerous services. These services are many and varied and may have included offering direct share portfolios, corporate superannuation plans, home mortgages, tax-effective investments and selling insurance bonds.

As you move from being a financial planner to a business manager, the business objectives will transition towards looking more like the following:

- Engage ideal clients.
- Use data to improve your business decisions and business planning.
- Outsource.
- Build systems and procedures that provide compliance.
- Embrace technology.
- Increase the enterprise value of the business.

Today's practice manager must learn to specialise, become efficient using technology, reject prospective clients that sit outside of the ideal client definition and use business metrics to guide strategic direction.

Each manager will be at a different stage of his or her business development and have different levels of experience, but they must learn to focus on the priorities of the business in the future. To help in this process they should answer the following questions –

1. Who will be an ideal client for the business?
2. Which products and services will be offered to clients?
3. How do we deliver these products and services?

By answering these questions your priorities begin to take shape and you are on your way to a successful transition.

Source: Business Health White Paper 'Future Ready VIII, January 2020'

The Roadmap for Transformation.

1. Accept Only Ideal Clients

That old adage applies, when starting a business, you are hungry for any growth, beggars can't be choosers and you sign up anyone you can. However, the sooner you choose to transition towards selecting ideal clients the better it will be for the overall health and performance of your business.

Your criteria for choosing ideal clients may include –

- Potential revenue floors and ceilings.
- Age group.
- Complexity.
- Location.
- Coachability.
- Acceptance of advice.

Most importantly, your choice of client must fit the business you have built, work within the service agreement you offer, and they need to be interested in their financial future. These clients never leave your business and ultimately add to your business valuation.

2. Building Business Systems

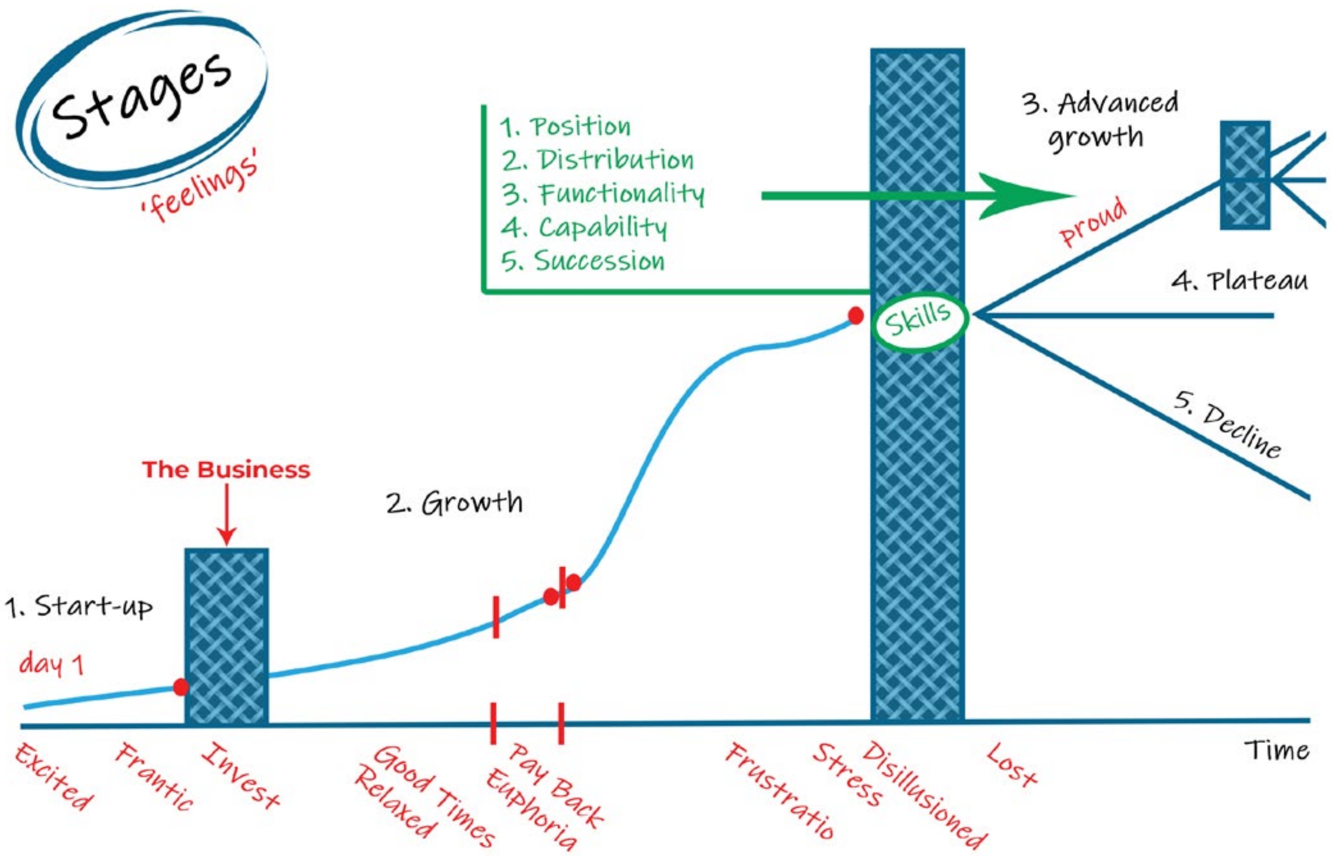
Successful businesses contain well communicated and documented processes or systems. The benefits include:

- Reduce the time it takes to run the business.
- Allow you to consistently exceed customer expectations.
- Drive reliable consistent results and quality, all the time.
- Increase productivity and performance.
- Reduce costs.
- Increase profitability.
- Enable the team to focus on client facing activities.

Source: Bruce French, 'Benefits of Developing Systems'.

Most businesses share similarities in their development process. The following chart demonstrates how a business will move through different stages, and how 'barriers' are encountered along the journey. These barriers can be broken to move to the next level of growth and capability or… a business may remain static or begin a process of decline.

Well communicated and documented processes or systems help to build 'scale' and 'sustainability' into your business.



Increasing Your Business Valuation - The Process-centric Business

Two decades ago, many financial planning practices were made up of planners working in their own silos, who would not necessarily share techniques, resources, or methods.

Eventually, managers realised that as overheads and compliance costs were rising, good planning practices turned to a ‘process-centric’ system. In these advice practices, the approach to each client was industrialised while the advice remained unique and tailored to each client.

As systems developed and written documented procedures became more widespread, businesses could demand higher valuations. Tim Noonan, retired Managing Director of Capital Markets Insights for Russell Investments, spent most of his professional life advising planners in the US, UK and Australia and would often state, ‘Support your sale valuation with a notional leather-bound, procedures manual’. He contended that buyers would naturally attempt to push down your price but that the best way for you to support your valuation was to showcase your written procedures.

3. Outsourcing Non-Core Business Activities.

Tasks that have been traditionally outsourced include both menial and repetitive areas as well as specialist activities such as accounting and I.T.

For the small business, this lets the owner or staff focus on increasing revenue from their core business activities, while being safe in the knowledge that other tasks will be completed accurately.

Recent advances in technology have now enabled the outsourcing of more complex activities such as investment management. Efficient planning business are now outsourcing up to 100% of the investment management process.

In their paper “A Data-Backed Solution to Building a More Profitable Advisory Business’, SEI Investments Management Corporation stated that,

> *“Our research supports our view that the most resilient advisors – and those most likely to prosper – are laser-focused on two priorities; nurturing client relationships and truly transforming the client experience.”*

A potential buyer of your business is not purchasing your personal reputation, your credentials or your premises and staff. They are looking to buy engaged clients, efficient operations, and established systems/procedures. These are the key factors that will continue to drive the growth of the business and determine your sale price.

4. Get Out the Measuring Tape: Data Matters!

It is easy to overlook the central importance of data to your business. You need reliable and accurate business data on which to base logical and concrete decisions. You'll feel more confident in your judgement if you can point to sound reasons, based on data, for your business choices.

A series of data recorded over time begins to tell a story about your business, allowing you to react and focus on what your business is telling you. The data will be able to tell you clearly where there are opportunities to reduce expenses and to increase profitability, and it can provide you with a 'dashboard' from which you can drive your business.

Common metrics for a planning business may include:

Profitability

- Direct expenses to gross turnover (target less than 40%).
- Overheads to gross turnover (shouldn't exceed 35%).
- Net Profit (target 25%).

Productivity

- Revenue per adviser.
- Clients per adviser.
- Revenue per FTE (full time equivalent employee).

Ideal client

- Revenue per client.
- Profit per client.
- FUM per client.

5. Transformation Benefits: Build Your ‘Sale Ready” Document

Of all the tools, documents and techniques that you can use to support your business valuation, your Information Memorandum (I.M.) plays a significant role. It is not only the dominant document required to sell your business, but if produced yearly, it contains critically important management information to support business and marketing plans and assist in day-to-day decision making.

There is no other document that summarises the core elements of a planning business as succinctly as the IM. Therefore, you should put the time into devising the system that will collect the data annually that forms its content. The exact contents will undoubtably vary from company to company, however, the following can be used as a guide.

- An Executive Summary noting client numbers, funds under advice, recurring income, CRM used and licensee details.
- Business details including name of the business entity and trading name, AFSL details, street address, website address and email contact details.
- A brief overview of the company’s history.
- A basic Organisational Chart with staff names and positions.
- Your Client Valuation Proposition.
- Your compliance history.
- How your company operates and the range of services it offers.
- Your reason(s) for selling the company (if you are a seller).
- Details of the premises you operate from. Are they owned, leased, or do you work from multiple locations?
- Give an outline of your customer base. Include a description of client categories, client age brackets, details of your typical client and any referral sources.
- FUM analysis and history, FUM per client, significant managed fund exposure and the type of investments across your client base.
- Your client retention history.
- Illustrate the general financial health of the business by providing historic revenue, expense and profit figures and associated ratios.
- Business assets and liabilities.
- State your expectations regarding the selling price of the business, the terms of sale and desired time scales for completion.

A well written I.M. demonstrates an organised, competently managed business. You want to showcase the positive aspects of the business, but if there has been issues the I.M. is the place to set the record straight.

By attracting several buyers, you have increased the competitive tension of your marketplace with a better chance of realising your selling price. Always use a non-disclosure agreement before distributing the Information Memorandum.

6. Transferability – The Back Office Hero Benefit.

The ultimate objective of the business transformation process is to increase the value of your business.

This increase in value can be demonstrated at the end of each financial year by producing an annual Information Memorandum (I.M.) which will build an ongoing story about your business, its progress, and its value. This is the document used to market your practice to buyers or prospective investors by presenting a full, true, and complete disclosure of all the information which may materially affect the practice valuation.

This enables your practice to remain ‘sale ready’.

It’s almost too late to try a build a quality I.M. after someone has made you an offer. You also lose the first mover advantage of setting your price and sale conditions if you are not prepared.

By constructing the I.M. at least annually, you will over a period get a real sense as to how to improve the enterprise value of the business. This may entail one-off projects to.

- Clean up the so-called ‘rats and mice’ clients.
- Consolidate several legacy investment platforms.
- Build out your written procedure’s library.
- Cleanse the data on your CRM.
- Remove a category of clients.

Transferability refers to the ease with which a buyer can take over your business or integrate it into their own. The result of completing the transition from a practice to a business will be a ‘cleaner’, more compliant, and efficient business that drives growth, and one that is attractive to a buyer.

Clients value your guidance when you bring simplicity and organisation into their lives and as a business manager, you need to bring clarity and processes into your business to positively influence its value.

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