MACQUARIE

A confident performance

2014 Financial Planning Benchmarking Report

FORWARD thinking

Contents

Report sections

0 10 20 30

1 Executive summary

The performance of financial advice practices since our last benchmarking report has been impressive, which makes it a fascinating time to examine the role of confidence and the drivers of success.

For six years, we've been conducting the Macquarie Practice Consulting benchmarking survey to provide financial planning practices with industry benchmarks.

For the first time since the 2007/08 financial year, we are pleased to report it's a much-improved picture of performance.

Enhanced confidence has played a role but this isn't purely a story of improved sentiment. Prudent management of expenses throughout the past few years has allowed this year's revenue growth to flow through to the bottom line, resulting in a six per cent increase in operating profit.

The winners are practices that took a proactive approach during the past few challenging years and carefully positioned their businesses to take advantage of improved market conditions.

While it's far from a return to 2007 and 2008 – where revenue and gross profit were at record levels – it's encouraging to see things moving in the right direction.

Key takeaways from this year's results include:

Revenue and profit up

Better market conditions have helped to drive up average revenue for the first time since the 2009 benchmarking report and average operating profit has grown for the second consecutive year, helped by continued careful management of expenses.

Client numbers down

Client numbers are down by 14 per cent, in part, due to recent regulatory reforms. What's most pleasing is firms are earning more revenue from each client; indicating a focus on retaining and servicing clients who truly value advice.

Plans for improvement

Following a period where dealing with regulatory reform has been a priority, advisers are turning their attention to everyday matters. They're considering a wide range of plans including: making their practices more efficient, strengthening client relationships and improving the effectiveness of referrals.

Finally, *A confident performance* seems an appropriate title for this year's report. Not only because confidence has played a role in this year's improved performance but also because our study posed the question: does confidence lead to success? The results are fascinating and provide practical insights on how to improve the performance of your business.

We hope you find this year's report interesting reading.

2 Survey snapshot

In October 2013, we surveyed 226 Australian financial planning practices as part of our sixth Financial Planning Benchmarking Report.

Respondents

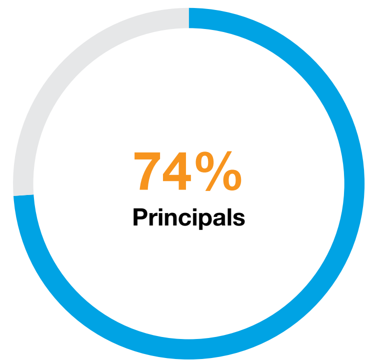
Age

25% Less than 40 years

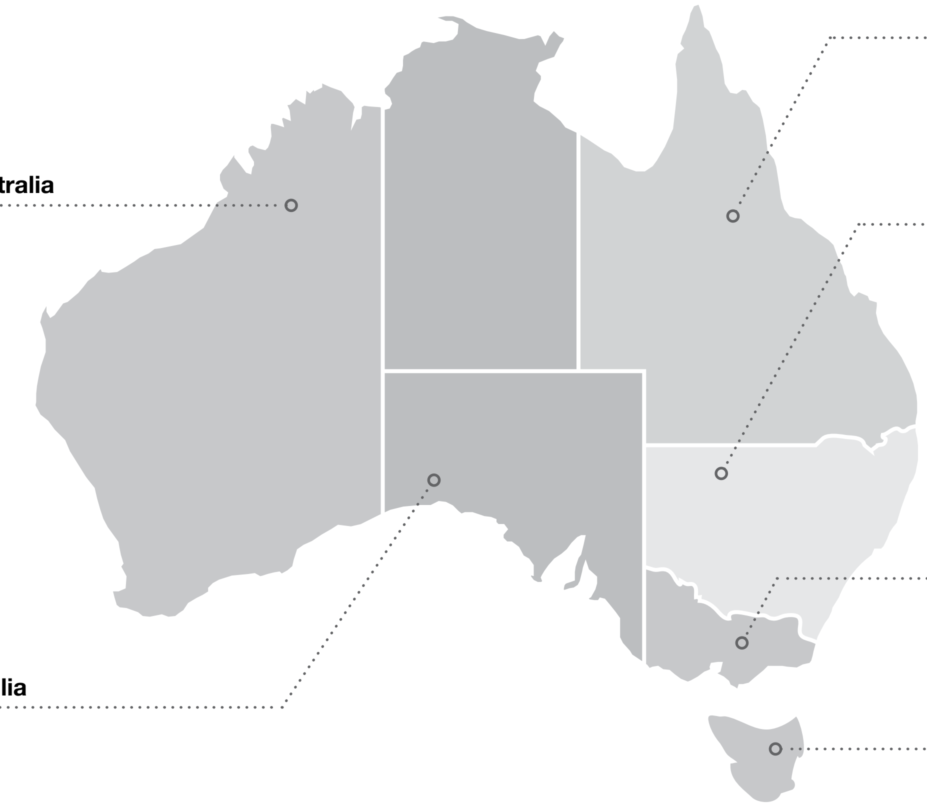
48% 40-54 years

27% 55+ years

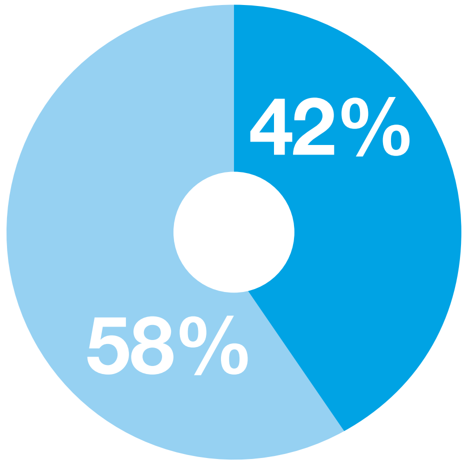
Role



Location

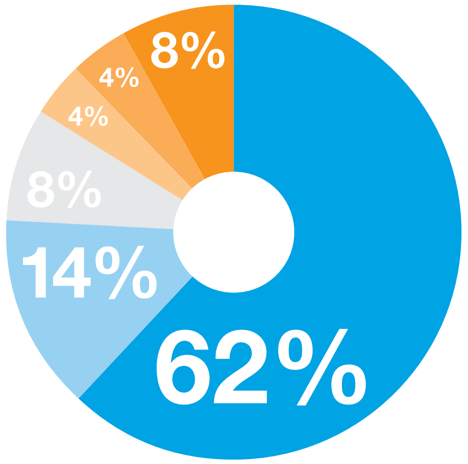


Practices



Licence type

- Hold their own Australian Financial Services Licence (AFSL)
- Small firms operating under a dealer group's AFSL



Business type

- Financial planning
- Insurance business with a financial planning division
- Financial planning practice with accountants
- Accounting firm with a financial planning division
- Mortgage broker with financial planning division
- Other

AVERAGE PRACTICE IS 12 YEARS OLD

29% 1-5 years

22% 6-10 years

26% 11-20 years

20% 20 years +

Services offered

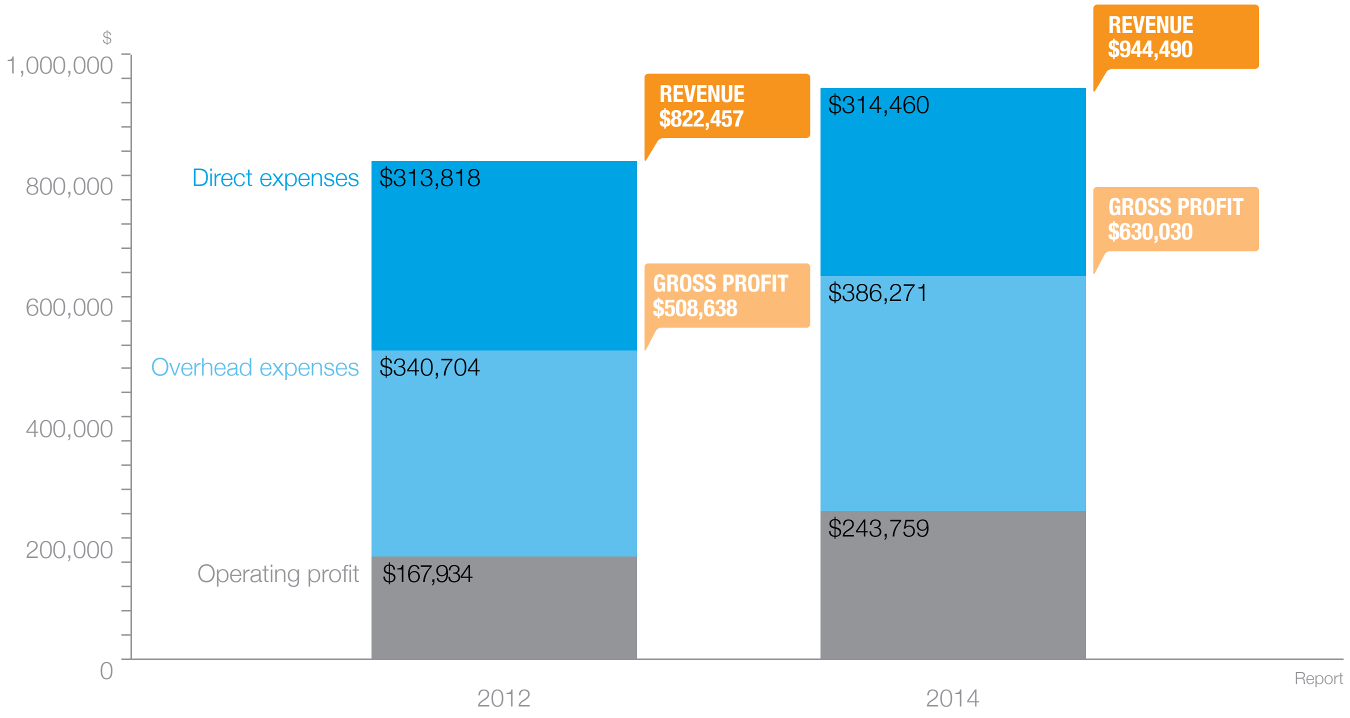
1	LEASING	6%
2	OTHER	12%
3	ACCOUNTING	18%
4	MORTGAGE ADVICE / BROKING	25%
5	SHARE TRADING / BROKING	42%
6	LIFE INSURANCE ADVICE AND / OR BROKING	84%
7	FINANCIAL PLANNING	94%

MORTGAGE ADVICE IS RELATIVELY HIGH GIVEN THIS IS AN AREA TRADITIONALLY AVOIDED BY ADVISERS

3 Your performance

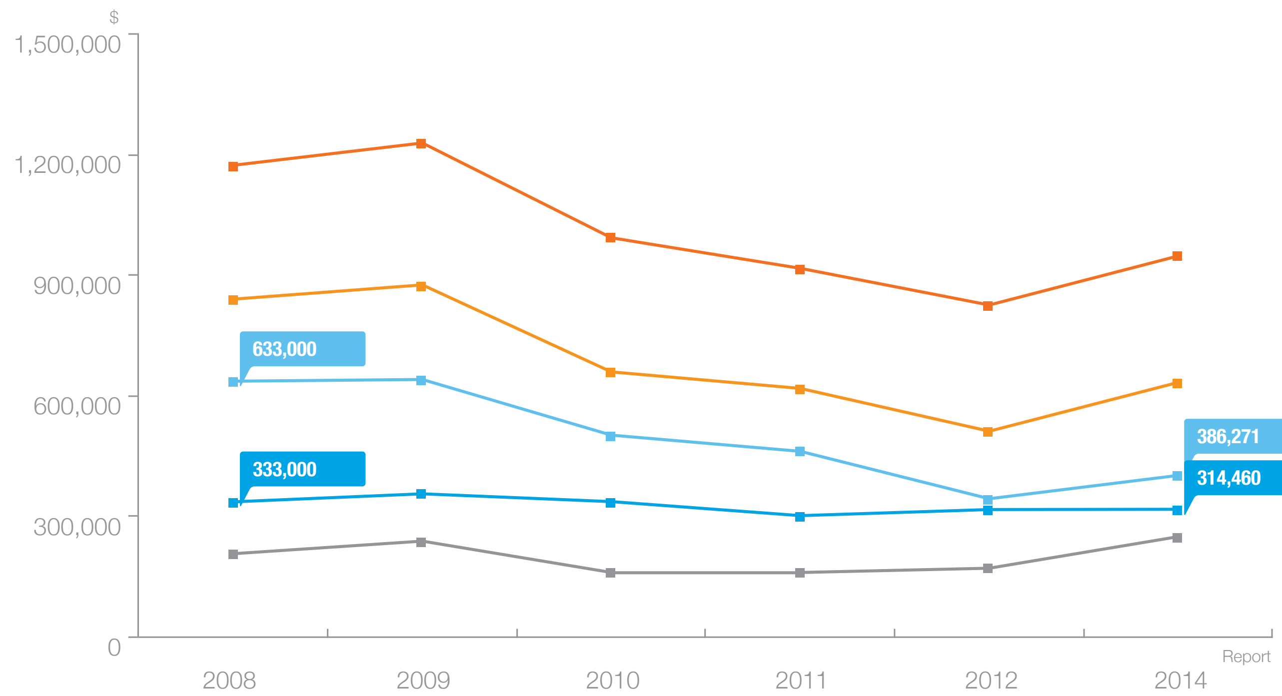
With expenses carefully managed and revenue up for the first time since 2009, growth has flowed through to the bottom line, improving operating profit margin by six per cent.

Revenue and profit up on last benchmarking report



Practice financials

Firms that carefully managed their expenses during the past few leaner years have positioned themselves to take advantage of improved markets.



REVENUE 2012 to 2014 **↑15%**

Improved confidence helps grow revenue

Helped by better market conditions, average revenue has trended up for the first time since our 2009 benchmarking report.

OPERATING PROFIT 2012 to 2014 **↑45%**

Profit up for second year

On average, operating profit has increased both as a share of revenue (from 20 per cent to 26 per cent) and in absolute terms (from $167,934 to $243,759 – the highest level since the survey began). This is a direct function of the factors outlined in detail on this page – increased revenues combined with controlled expenses.

OVERHEAD EXPENSES 2008 to 2014 **↓$246,729**

Overheads continue to be well managed

A comparison of the 2012 and 2014 reports shows average overheads for boutiques have increased slightly, driven up by increased support staff numbers. Firms operating under a dealer group's licence have continued to reduce overheads to a manageable level.

DIRECT EXPENSES 2008 to 2014 **↓$18,540**

Little change to direct expenses

There were only minor increases to salaries between the 2012 and 2014 reports and, therefore, little change to average direct expenses. This is a continuation of a theme that was noticeable last year. Direct expenses, particularly salaries and bonuses, have again been carefully managed.

4 Your clients

Though client numbers are down this year, firms earned more revenue from each client.

Client management benchmarks

The results indicate advisers are managing their client bases more effectively, as evidenced by an increase in revenue per client combined with a reduction in client numbers.

This suggests advisers are focusing on clients who value advice and are willing to engage meaningfully with them.

Boutiques focus on high value clients

Revenue per client has increased substantially at boutique practices while client numbers have been reduced by 20 per cent. Boutiques also have a third fewer clients than the group average but earn significantly more revenue from each client. This suggests boutiques are servicing high value clients and are actively focusing on clients where they're able to add real value.

Revenue per client significantly improved

		2014 REPORT	CHANGE FROM 2012
1	FUNDS UNDER ADMINISTRATION	$110 MILLION	↑ $17 MILLION
2	CLIENTS	412	↓ 69
3	CLIENTS PER ADVISER	153	↓ 32
4	ACTIVE CLIENTS (CONTACT AT LEAST ONCE PER YEAR)	77%	↑ 8%
5	REVENUE PER CLIENT	$2,292	↑ $582

One size does not fit all

Practices that generate the majority of their revenue from either accounting or insurance have significantly higher client numbers than the group average.

Practices that have been in business longer also tend to have more clients on average. By way of comparison, practices that were focused on financial planning had an average of 311 clients.

ACCOUNTING
645
CLIENTS

INSURANCE
714
CLIENTS

20+ YEARS
520
CLIENTS

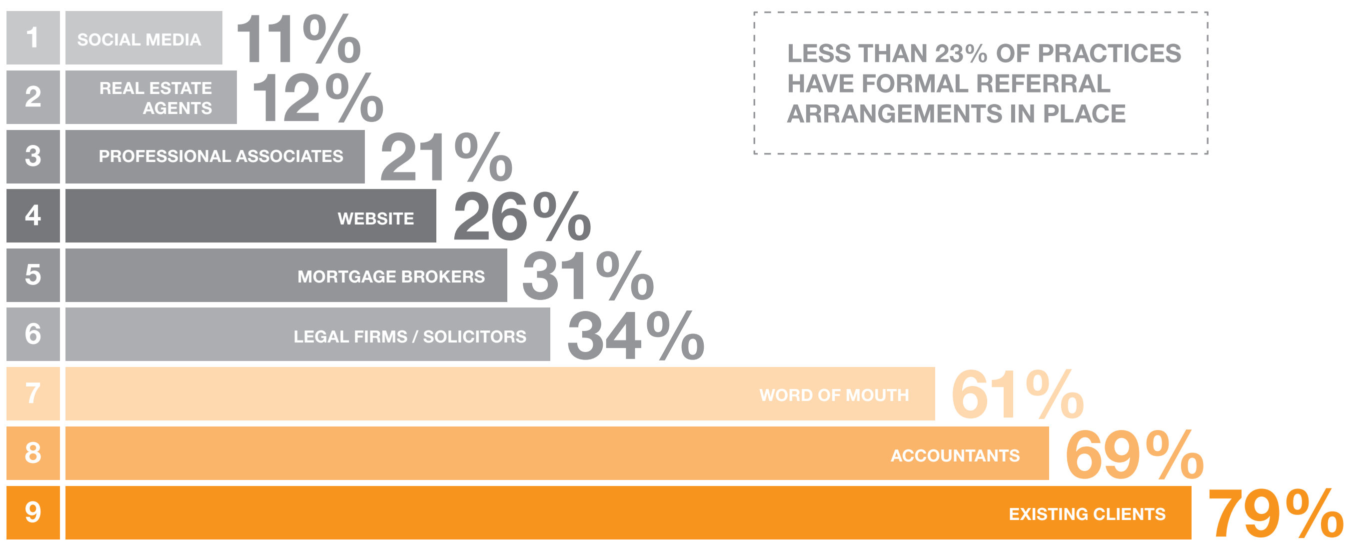
The importance of client referrals

Referrals from existing clients are the most common referral source and are also the top reason advisers attributed to this year's increased profit result. Referrals from other professions – predominantly from accountants – are another important referral source. There's scope to improve the effectiveness of referral practices. Less than 23 per cent of practices have formal referral arrangements in place.

The picture looks different for insurance advisers. They receive fewer referrals from their own client base. Instead, they rely more heavily on referrals from accountants and mortgage brokers and are nine per cent more likely to have formal relationships in place (although this difference is not considered statistically significant).

The differences in referral strategies between these two business models (financial advice specialists and insurance advice specialists) raises an interesting question as to whether there are strategies that can be shared to raise the volume and quality of referrals across the advice spectrum.

Existing clients still principal source of referrals



5 Your people

There's been little change to headcount or salaries for a number of years and firms are not expecting to hire new employees in 2014.

The average practice headcount looks like:

- **2.7** Advisers
- **0.7** Paraplanners
- **1.8** Support-admin
- **0.8** Other

59% of firms plan to find more ways to be more efficient in 2014. With less than 20 per cent of firms expecting to hire new employees, it's clear firms are looking to make more of their existing resources.

More revenue from fewer clients

		2014 REPORT	CHANGE FROM 2012
1	REVENUE PER ADVISER	$349,811	↑ $33,482
2	REVENUE PER STAFF MEMBER	$157,415	↑ $7,878
3	CLIENTS PER ADVISER	153	↓ 32
4	CLIENTS PER STAFF MEMBER	69	↓ 18
5	OPERATING PROFIT PER ADVISER	$90,280	↑ $25,690
6	OPERATING PROFIT PER STAFF MEMBER	$40,626	↑ $10,093
7	REVENUE PER CLIENT	$2,292	↑ $583
8	GROSS PROFIT PER CLIENT	$1,592	↑ $535
9	OPERATING PROFIT PER CLIENT	$591	↑ $242

A word on salaries

JUNIOR ADVISERS
CPI INCREASES ONLY

OWNER AND SENIOR ADVISERS
DOWN SLIGHTLY ON 2012

6 Your practice

Fees, pricing models and succession planning.

The facts about fees

50%

of practices increased their fees last year, and 50 per cent didn't.

62%

of revenue is derived from fees (compared with 57 per cent six years ago).

Firms aged between **four and 20 years** were more likely to increase their fees than firms starting out (less than three years old) or more established firms (more than 20 years old).

Your business model influences how much of your revenue comes from fees:

Practices, which are primarily insurance businesses, generate

>80%

of revenue from **commissions.**

Financial planning and accounting practices generate

>70%

of revenue from **fees.**

Fee types and pricing models

Most popular fee types:

Ongoing fees	88%
Plan fees	80%
Fees for specific activities	61%
Implementation fees	48%
Other	9%

Most popular pricing methods:

A combination of methods

62 per cent of firms use some type of asset-based fee in conjunction with another pricing method.

Asset-based fee and:

- set dollar fee, or
- commission, or
- hourly rate.

Succession planning still an issue

Advisers not planning for the unexpected

Despite much talk in the market about succession planning, in all the years we've been producing this report, only around half of the practices, sometimes less than half, have had a succession plan in place. In this year's report, the number has decreased from 43 per cent to 38 per cent.

Why?

It's hard! The need for a succession plan often arises out of the blue; for example, an unexpected breakdown in a partnership or a principal suddenly falls ill. If there's no plan, this can place unnecessary, additional stress on the business and the individuals involved.

Plans to sell are on the rise

Plans to sell to another practice have been on the backburner in the past few years but this year the number of firms planning to sell has increased from eight per cent to 22 per cent. As we saw earlier in the financial results section, in recent years advisers have worked hard to streamline and improve their business models in response to challenging conditions. The results of these efforts are starting to show. For those advisers who have been delaying selling until performance and circumstances improved, now may be a more attractive time to consider exiting.

7 Your future

Responses to this year's survey show that advisers are focused on making their practices more efficient, strengthening valuable client relationships and improving referral effectiveness.

Concerns for the year ahead

Unlike 2012, where legislative change, profitability and attracting new clients were clear concerns for the majority of advisers, this year there's no consensus on the issues facing advisers. The issues depend on the type of business you're in, its age and profitability.

The most common concerns are:

New clients

42% OF ADVISERS

While this ranks as the top issue, less than half of the advisers are worried about attracting new clients. It's of particular concern to boutiques, those firms that are starting out and those whose profitability is down on the prior year.

Profitability

31% OF ADVISERS

Perhaps owing to an improved year, profitability isn't raising the same levels of concern as it has in prior years. However, accounting and insurance practices, mature businesses and practices whose profits are up this year remain concerned about growing and maintaining profits.

Referrals

27% OF ADVISERS

Effective referral practices are a particular focus for firms that are less than five years old.

Efficient practices

>25% OF ADVISERS

Making practices more efficient emerges as a theme, with 29 per cent of advisers concerned about making the most of technology and a quarter of advisers concerned about managing their time effectively.

Expectations for 2014

As we'll see in the section where we explore the link between confidence and success, advisers are an inherently confident and optimistic group. In 2014, advisers again have a positive take on the coming year.

Growing optimism

84%

of practices expect profit growth (up from 74 per cent last year).

Profit potential

61%

of practices expect to grow by more than 10 per cent (up from 52 per cent last year).

Great expectations

50%

of new businesses (less than three years old) expect to grow by 20 per cent or more.

Plans for 2014

Adviser responses indicate a wide range of initiatives are planned for the year ahead. As we'll cover later in this report, it's vital principals carefully manage these initiatives to ensure they're pursuing the right strategies and don't lose focus on the core activities which create value for their business.

Lower priorities

Changes to headcount

While firms are looking to improve efficiency, their plans do not include growing or reducing headcount.

Getting pricing right

With Future of Financial Advice (FOFA) reforms in place, pricing is less of a priority than in prior years.

Adding new services

Fewer practices are considering adding services than compared with the past few years. Where firms are planning to add new services, mortgage broking is popular but there are no clear standouts.

Higher priorities

A wide variety of changes are planned, depending on the type of business. Pleasingly, three of the four highest priorities are client-centric initiatives:

1. Improving the efficiency of the practice
2. Spending more time with valuable clients and less time with less engaged clients
3. Improving client reporting
4. Surveying clients for satisfaction and feedback

8 The interaction between confidence and success

Hard-wired for confidence

For each benchmarking report, we ask advisers to rate how positive they feel about the coming year. Each year, irrespective of what markets have been like or what shape their own business is in, the vast majority (upwards of 80 per cent) tell us they feel positive about the coming year and that there are many opportunities.

While it's human nature to respond positively to questions about confidence, advisers are even more confident than most.

It takes a certain personality to run your own small business and a great deal of positivity and self-belief to be comfortable managing someone else's financial affairs.

However, even in a group who overwhelmingly describe themselves as confident, there are degrees of confidence. Advisers may all be clustered at one end of the confidence scale, but it doesn't mean there aren't relative differences; some of which help to explain subtle but important differences in attitudes behaviours, and even results.

More than

80%

of advisers are positive about the year ahead and feel there are many opportunities.

Is confidence chicken or egg?

There's no doubt that confidence and success are correlated. But does confidence lead to success or does success lead to confidence? Does it matter?

Our research indicates confidence drives success (and vice versa). But rather than being a causal relationship, it's certain attitudes, behaviours and actions which link the two together.

It's not confidence that brings you success. Confidence makes you decisive and decisiveness brings you success. Confidence encourages you to be forward thinking and planning ahead brings you success. Confidence allows you to better motivate your staff; motivated staff help to bring you success.

These themes were repeated again and again in our results. Confident advisers, advisers who are satisfied with their financial performance and advisers who have higher expectations for the future, consistently exhibit a set of common characteristics that naturally lead to more positive business outcomes.

Let's look at some of these results in detail.

Characteristics of confidence

Performance orientated

Review performance monthly

Advisers who are more confident are **64% more likely** to review business performance on a monthly basis.

The number one driver of confidence is setting and achieving goals. Without clear goals – ones that you write down on paper and regularly review – it's hard to know where you're headed or whether you've reached your destination.

Your goals don't need to be grand plans that take years to achieve. In fact, it's far better to break them down into smaller, shorter-term goals.

The benefits are two-fold; piece-by-piece you'll tackle what would otherwise seem like an enormous challenge and you'll derive motivation from each goal you achieve along the way. It doesn't matter whether they're personal goals or business goals, the sense of achievement and motivation you get from reaching your goals will fuel your confidence.

Forward thinking

Tactical

Advisers who are less confident are **more than twice as likely** to be thinking about the next month or so.

Forward thinking

Advisers who are more confident are **35% more likely** to be thinking a few years into the future.

It can be easy to get bogged down in the day-to-day running of your business and fall into the trap of focusing on your immediate future, at the expense of looking and planning ahead. In addition to providing clarity about your future direction, a long-term view helps you avoid making knee jerk decisions when problems arise.

Decisive

Indecisive

Advisers who are less confident are **more than 10 times as likely** to rate indecision as one of their greatest challenges.

Decisive

Advisers who are happy with their financial performance are **67% less likely** to rate indecision as a challenge.

Indecision can cause paralysis, which can be terminal for your business. Not making a decision can sometimes be worse than any of the options you're weighing up. We encourage practices that are struggling with a decision to review the available information, act, assess the outcome and then refine their actions.

When a decision seems overwhelming, it can sometimes help to break it down into smaller decisions, with each step leading you towards a conclusion.

Just by making a decision and being confident in it, you're more likely to make the outcome a success.

Experts

Experts

Advisers who are more confident are **60% more likely** to want to be viewed as experts.

Advisers draw confidence from many sources; one avenue is how they are viewed by others. Not only do more confident advisers want to be viewed as an expert, our recent study, A Family Portrait* highlighted your clients want you to be experts; in fact they expect you to be. When presented with a range of options to describe their ideal adviser, almost a quarter of retail clients chose 'specialist'.

Proactive communicators

I want to keep my client informed

Advisers with higher expectations for growth are **64% more likely** to want to keep their clients fully informed.

Helping your clients to be informed is a powerful tool that puts you in good favour with them. We know from our recent study of advisers' clients, *Building Powerful Client Relationships*, that being proactive and keeping clients informed can help you retain your clients. Advisers who were rated highly by their clients in these areas were significantly more likely to retain their clients (93 per cent intend to stay with their adviser) and obtain referrals (58 per cent would recommend their adviser to others). Take the time to help your clients be informed; it's a good investment of your time and theirs.

Investing in success

Benefiting from technology

Advisers whose profits are up are **50% more likely** to be looking at technology as a way to improve their business.

With practices looking for ways to make their businesses more efficient without increasing headcount, technology may offer a viable solution but will require advisers to take a forward thinking approach to investment. By contrast, businesses whose profits are under pressure may agonise about investing in their business and struggle with the idea of spending money to make money.

* Study – Macquarie 2013 A Family Portrait | Responders 2,000 Australians

Lack of confidence colours concerns

There was a surprising level of consistency in the concerns of advisers who were less confident and less profitable than their peers.

Staffing concerns

Staff motivation

Advisers who are less confident are **more than three times as likely** to rate staff motivation as a key challenge.

Staff retention

Advisers who are less confident are almost **three times as likely** to rate staff retention as a key challenge.

Employees are central to the success of any business. In a small business, where losing a key staff member can be catastrophic, they're arguably even more important. A major factor in motivating and retaining staff is creating a positive work environment. It's much easier to create an attractive workplace when you have confidence in yourself and the direction of your business.

Business concerns

Increase fees

Advisers whose profits are down are **32% more likely** to be planning to increase fees.

Buying a business

Advisers whose profits are down are **twice as likely** to be considering buying a new business.

When consulting with advisers, an issue we sometimes come across is advisers who are focused on the wrong priorities. Rather than asking themselves whether their fundamentals are right – like whether they have the right type of clients, are offering the right services and are taking care of existing clients – there is a temptation to look for a silver bullet.

For example, when profits are down, thoughts may turn to increasing fees or buying another business. These are entirely legitimate strategies but they're not for everyone and they're unlikely to be effective if the fundamentals of your business aren't right. Without a solid foundation, you're coming from a weaker position to try and grow your business.

Growth concerns

Finding new clients

Advisers who are less confident are **50% more likely** to rate finding new clients as one of their greatest challenges.

With the majority of new clients coming from the clients you already have, the best way to attract more clients and more business is to look after your existing clients. Stretching yourself across too many different strategies in an attempt to capture more clients can be counterproductive. It can cause you to lose focus on what's really important. If you take care of your clients and focus on your strength in providing good financial advice, more business should naturally follow.

Which circle are you in?

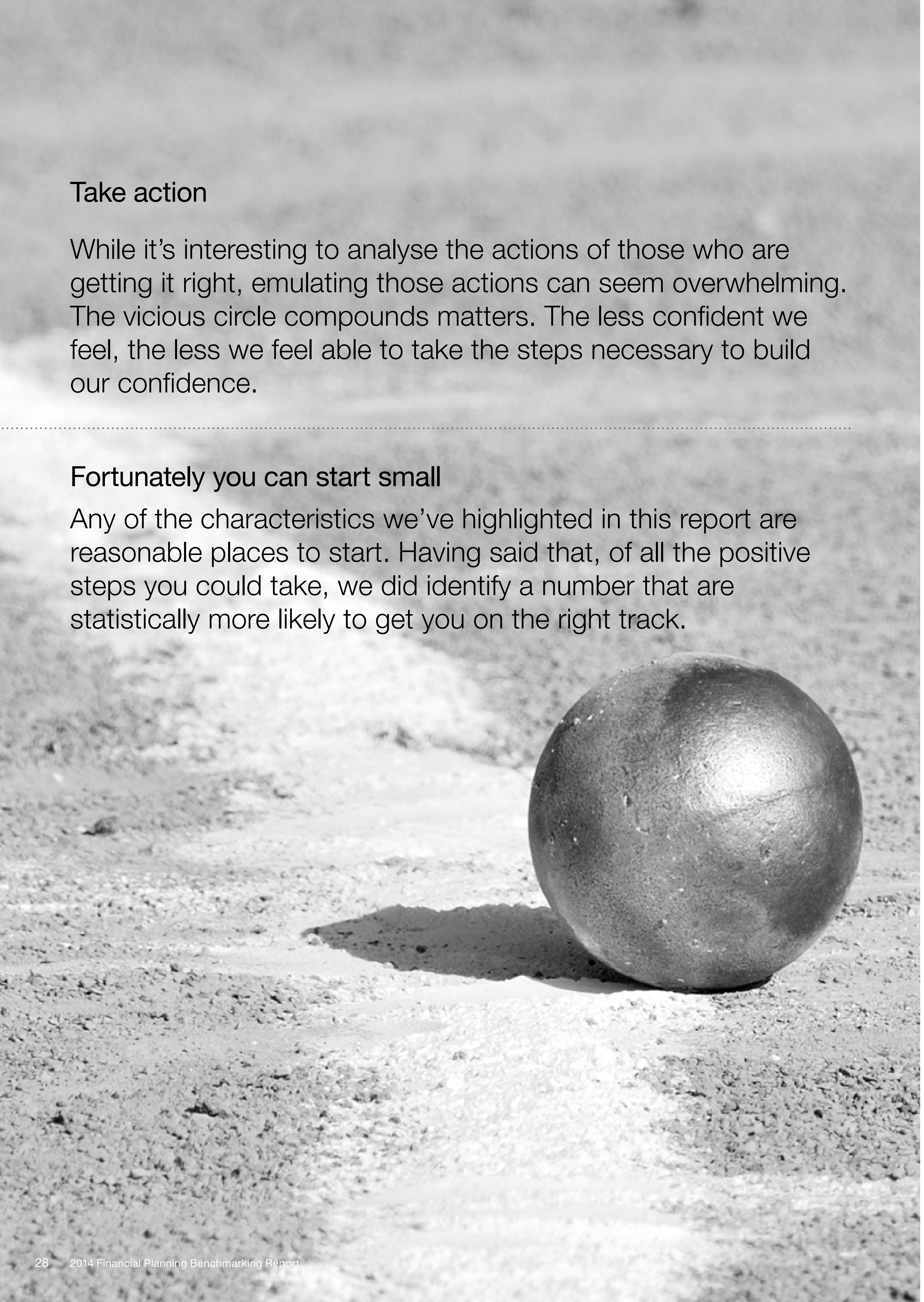
We found a great deal of evidence in our research that confidence and success have the ability to create a powerful feedback loop. A loop that can be positive or negative.

The virtuous circle

Our results indicate advisers tended to be more confident where: they've found what they're good at, have focused on a specific area of expertise, have set clear goals and have managed their time well. These behaviours and actions help advisers to achieve success, which in turn builds greater confidence. With increased confidence, advisers feel empowered to exhibit the types of behaviours that drive positive business outcomes. It's a virtuous circle and it's a powerful force.

The vicious circle

Not surprisingly, it works the other way too. We also found evidence of advisers who, when they started to struggle with their business, would focus on legitimate strategies but ones that weren't necessarily going to solve the issues in their business. For example, they were more likely to want to change their fee models, buy another book of business or bring on more clients. Their time management would suffer, they'd be stretched too thin and they'd begin to feel like they were losing control. That feeling reduces confidence, making it harder to achieve success. Without success, confidence takes a further dive, which makes it harder to implement the sorts of behaviours that are going to generate better business outcomes. This vicious circle is a downward spiral of self-doubt and negative emotions. It's the polar opposite of the virtuous circle but it can be equally as powerful.



Take action

While it's interesting to analyse the actions of those who are getting it right, emulating those actions can seem overwhelming. The vicious circle compounds matters. The less confident we feel, the less we feel able to take the steps necessary to build our confidence.

Fortunately you can start small

Any of the characteristics we've highlighted in this report are reasonable places to start. Having said that, of all the positive steps you could take, we did identify a number that are statistically more likely to get you on the right track.

1 Set goals

Esteemed psychologist, Albert Bandura*, in his self-efficacy model, highlights the importance of mastery.

Mastery comes from your past successes.

The knowledge that your success has been brought about by your hard work and skill – rather than luck or chance – is a great motivator and an important source of confidence.

Remember to break your goals into smaller milestones. Look at your goals over different time periods by asking yourself: what do I need to do next week, next month and next year to achieve my longer-term goals? This will give you a roadmap to help achieve your goals and the confidence to tackle them.

2 Focus on what you're good at

The results show a strong relationship between success and specialisation.

Advisers who have a focused area of expertise – as opposed to providing a range of services – were 18 per cent more likely to have higher profits and 36 per cent more likely to expect future growth.

Find what you're good at, do it well and partner with others to provide the services that aren't your area of strength.

*Self-efficacy: Toward a unifying theory of behavioral change. Bandura, Albert. Psychological Review, Vol 84(2), Mar 1977.

3 Get the basics right first

There are no shortcuts when it comes to success.

You need to get the basics right – such as looking after your clients – before you start searching for more business or start thinking about buying another one.

Expanding a business on shaky foundations will only lead to further issues and distract you from the day-to-day management of your existing business.

4 Live vicariously

If indecision is terminal, success is contagious.

Bandura's model of self-efficacy suggests that studying the success of others can enhance your belief in yourself. The examples provided in this benchmarking report are a start; they help you to understand what's working for others. Talk to your peers, your colleagues and even your clients about their personal experiences. Take the time to understand how others have built their confidence and be empowered by their success.

5 Take care of yourself

To a great extent, you are your business. You need to be in good shape to drive your business forward. Focus on managing your time and your stress levels.

Be confident in your own ability.

Your business will feed from and reflect your personal attributes.

9 About Macquarie Practice Consulting

Macquarie Practice Consulting delivers fresh insights and practical solutions to financial services firms.

Macquarie works with a wide range of firms across Australia, from sole practitioners to larger diversified practices. This puts us in a unique position to observe how the financial planning industry is evolving and to understand the opportunities and challenges facing individual firms.

The breadth and depth of our contact with financial services professionals, combined with our proprietary research (including reports such as this one) enables us to generate meaningful insights that can help inform strategic direction and drive better business performance.

Speak to your Macquarie Business Development Manager about how you can use our insights to improve your business.

About the numbers in this report

Unless otherwise indicated, numbers quoted in this 2014 Financial Planning Benchmarking Report are averages calculated from data collected via a survey conducted in October 2013 and relate to the 2012/13 financial year.

Profitability calculation

Profitability numbers in this report were estimated based on data provided by survey participants. This enables the profitability numbers of firms to be compared using a consistent method.

The method used in this report is:

Revenues

Provided by participants.

Direct expenses

Number of advisers multiplied by average salaries (provided by participants and including super) paid for different levels of adviser (market rates used for principals).

Gross profit

Revenue minus direct expenses.

Overhead expenses

Business expenses (provided by participants), less salaries paid to advisers (as calculated above).

Operating profit

Gross profit minus overhead expenses (also equal to revenue minus both direct and overhead expenses).

*For more information about how Macquarie Practice Consulting can help drive the direction and profitability of your business, contact your Macquarie Business Development Manager or visit macquarie.com.au/mpc-benchmarking macquarie.com.au/mpc-benchmarking