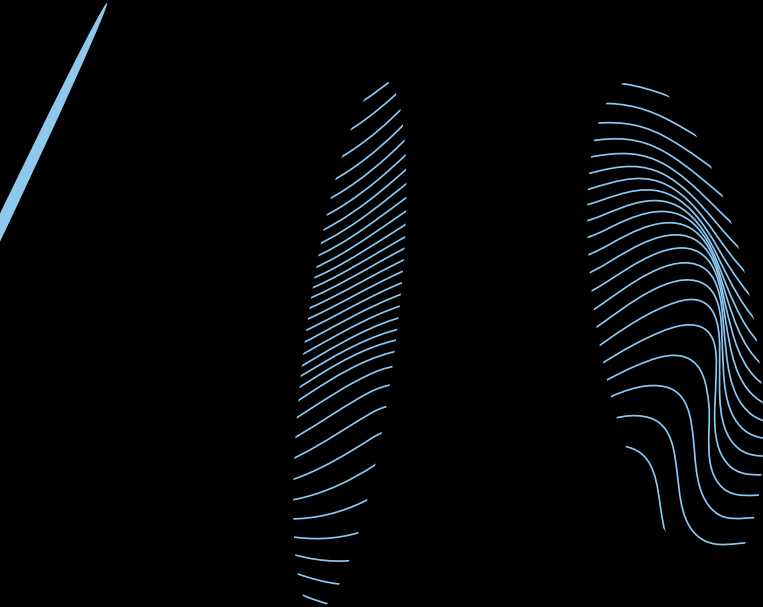
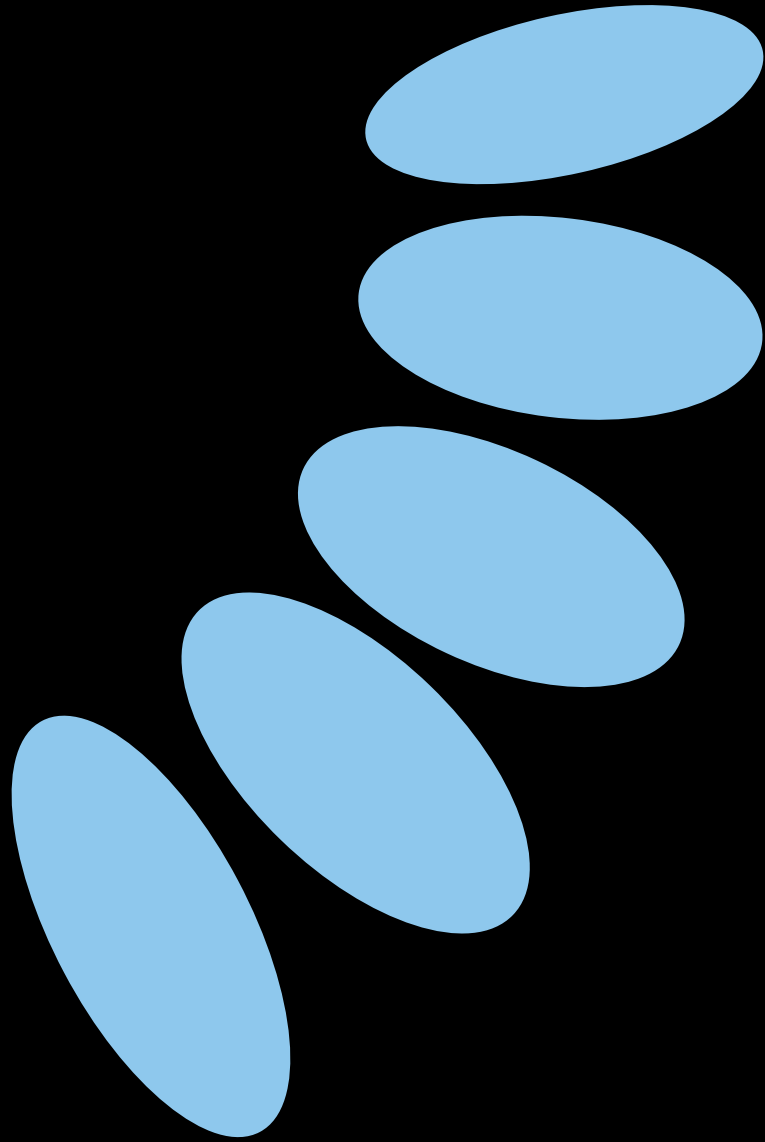




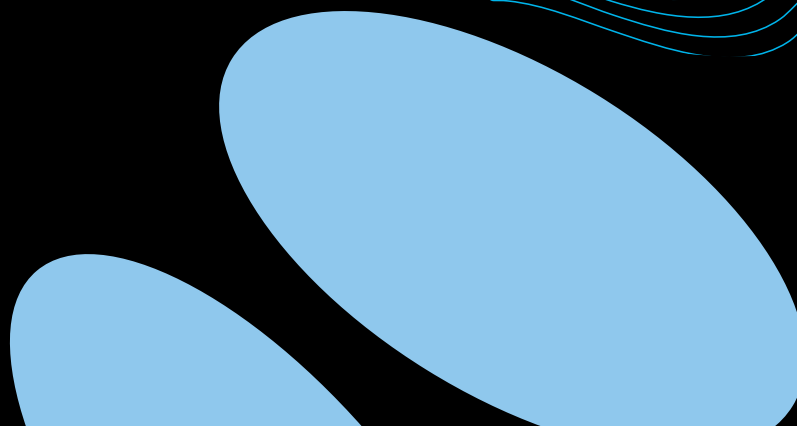
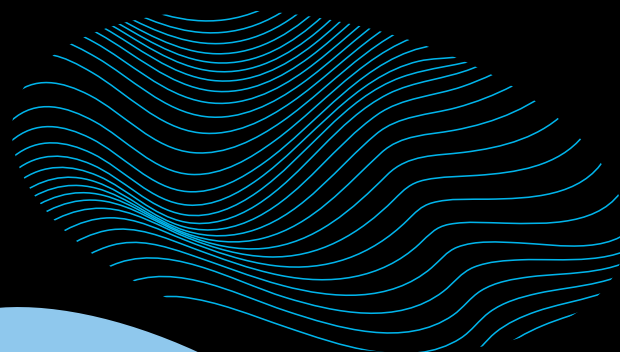
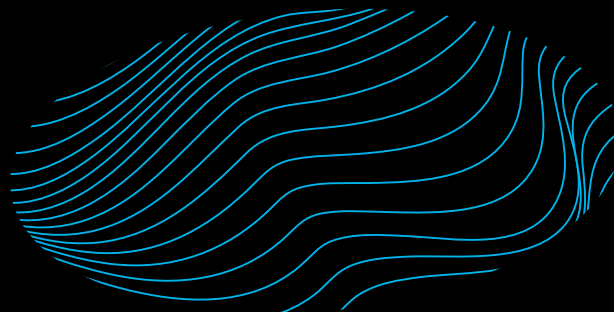
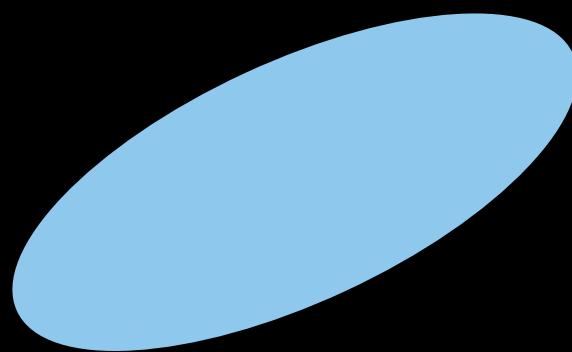
# Delivering tangible value

Financial advice  
benchmarking report



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# Foreword

After a challenging period implementing recommendations from the Royal Commission, compounded by COVID-19 restrictions through 2020 and 2021, a new financial advice landscape is emerging with clearer criteria for success.

As business costs rise, scale becomes increasingly important, yet scale alone won't drive value for business owners.

Analysis of 312 advice firms shows that high performing firms generally have size and scale, operate at a higher level of discipline and focus, and support their advisers to service clients' needs.

Advisers are empowered to focus on client interactions and deliver advice by providing a higher ratio of support staff to each adviser. They are client-centric, seeking feedback to refine and reinforce their client value proposition. Similarly, they evaluate and tier their clients to ensure effort is focused on value creation for clients and the business.

High performing firms streamline the advice process by enabling advisers with service models alongside systems.

Additionally, these firms can charge more for their services, optimising revenue and delivering outsized profitability over their peer group.

An overarching theme is that high performing firms possess strategic clarity, enabling long-term plans for the business' future, including its leadership succession strategy.

In this report, we've collaborated with financial advice benchmarking practice management and business development specialists, **Business Health**, to provide wide-ranging insights into the factors driving business success today.

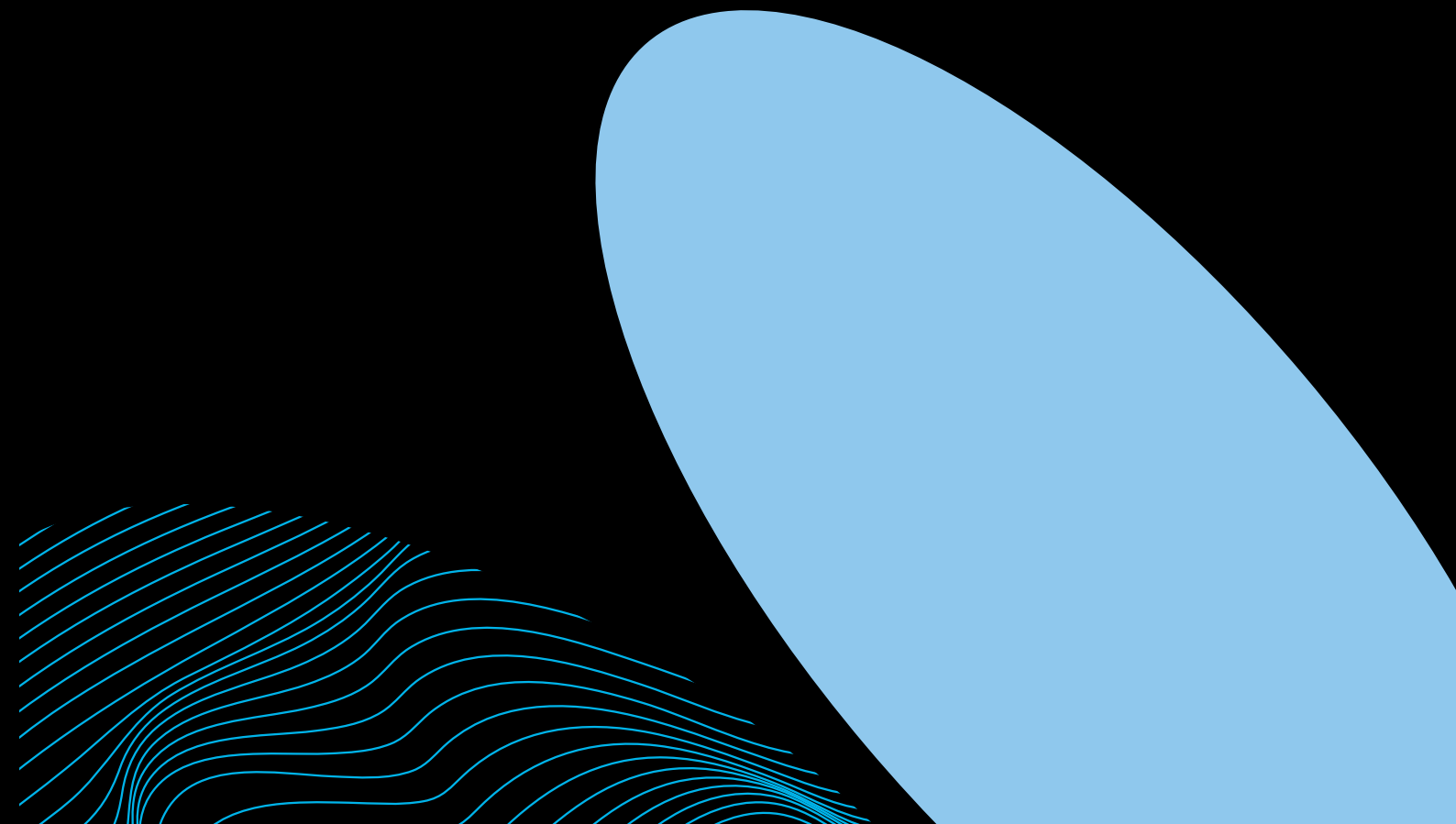
We hope you find this report beneficial. If there is anything that we can do to support your next step, please get in touch with us, or our team.

**Olivia Ellis**

Head of Accounting and Financial Services,  
Macquarie Business Banking

**Michael Scanlan**

Associate Director, Professional Services,  
Macquarie Business Banking





## About the research

This report is based on research conducted by Business Health, a practice management business, aggregating the financial and operational data from 312 financial advice practice principals.


The data was drawn from advice practices across Australia, and they included a diverse mix of Australian Financial Services Licence (AFSL) holders ranging from large institutionally aligned groups through to boutique, self-licensed practices.

The data considers only advice activities; the non-advice functions of multi-disciplinary firms have been stripped out. We believe the firms sampled are representative of the market. Most firms sampled offer a holistic financial advice service. A few are investment or insurance specialists.

This research makes no assumption of owners' salaries and profit distributions, attributing them as \$0 in analysis; therefore expense calculations exclude owners' salaries.

# Defining high performance

High performance has been defined as the top quartile of firms, based on gross profit per owner.

 Higher annual return for business owners

Achieved a profit per owner of  
**\$809,163**

**\$252,969**


for other firms

 Focus on client service


Appointments per adviser per week  
**10.9**

**5.2**

in other firms

 Larger advice businesses have achieved scale advantages


Average gross practice revenue of  
**\$2,159,203 p.a.**

 Advisers are supported to spend more time with clients

Full time equivalent (FTE) support staff per adviser  
**1.8**

**1.5**

in other firms

 Higher profit per client

















Achieved a profit per client of  
**\$2,675**

**\$1,613**

for other firms

# Key metrics

High performing financial advice firms are more profitable because their structures allow their advisers to focus on providing financial advice to clients; not because they service larger or more affluent clients.

Key performance measure	Metric	High performers	Others
 <b>Revenue</b>	Gross practice revenue	\$2,159,203 	\$856,127
 <b>Expenditure</b>	High performance		
	Others		
		<small>■ Non-owner salaries (as % of expenses) ■ Rent and premises ■ Marketing ■ All other expenses</small>	
 <b>Profit</b>	Profit per owner	\$809,163 	\$252,969
	Profit, before owners' salaries (assumed to be \$0)	56.1% 	44.1%
 <b>Client service</b>	% of firms with a client value proposition	90% 	76%
	Appointments per adviser per week	10.9 	5.2
 <b>People</b>	% of firms with documented position descriptions for >75% of staff	81% 	60%
	Support staff per adviser	1.8 	1.5
 <b>Business planning</b>	Firms with fully documented, frequently reviewed strategic and operational plans	17% 	4%

## Five steps to high performance



### **Define and document your firm's value proposition.**

Ensure that your business places the client at the centre of the firm's strategy, with client needs reflected in, and balanced against, your firm's competencies.



### **Put strategies in place to attract and retain great people.**

Surround yourself with talented people, and talk with them regularly about their longer-term ambitions.



### **Ensure your client facing people are doing the most valuable work.**

Consider remuneration models rewarding work that delivers profitable outcomes.



### **Charge appropriately.**

Reinforce the value that your firm delivers, documented in a client value proposition, plus be consistent with client communication and service model.



### **Have a clear strategic direction.**

Document a long term strategic plan, an operational business plan and a succession plan for transitioning ownership of the business.

## Driving genuine scale

Australian financial advice firms have navigated significant change, structuring their business to sustain a new economic environment. Within this context, data from this study demonstrates that there is greater risk, with lower financial reward, for owners of smaller advice businesses.

Economies of scale enable firms to achieve lower cost-to-serve per client and higher profit margins. For high performing firms, documenting and implementing processes to support their advisers allows these revenue-generating staff to focus more time and energy on client engagement and higher value interactions.

These high performing firms have invested the time to review their cost-to-serve and likely educate clients on their fee structure going hand in hand with their client value proposition.

They have reviewed and documented their operational model, planned rigorously, and charge higher fees than their peers. This paves the way to higher profitability per owner.

For firms who have frequently reviewed strategic (3-5 year) plans inclusive of mapping out client review processes, their profit per partner is significantly higher than firms who follow a less formal review process.

Similarly, for those firms with fully documented annual plans, profit per partner is **\$664,446**, in sharp contrast to those without any documented operational plan, at **\$294,154**.



## Succession planning

Profit per owner is significantly higher for firms when the owner has an effective succession plan in place; **\$684,148** profit per owner v **\$355,446** in those firms with no documented succession plan.

An effective succession plan is reviewed annually and typically covers four trigger events:



Additionally, an effective succession plan has a documented agreement in place between the owner(s) and successor(s) lending itself to a structured funding arrangement.

We suggest that these behaviours increase profitability as businesses have aligned their employee and owner incentives. Current principals are incentivised to put processes and plans in place because they want to grow profitably and set the firm up to operate without them, maximising value on transfer. Successors are also incentivised to develop practices that set the firm up for long-term growth.

## Structured planning and process documentation are markers of high performance, and higher profit per owner

	High performing firms	Others
Firms with documented 3-5 year strategic plan reviewed 6 monthly	42%	20%
Firms with 12-month operational business planning reviewed 6 monthly	17%	4%
Firms with documented transition/succession planning	4%	3%

	Profit per owner for firms who do	Profit per owner for firms who don't
Firms with documented 3-5 year strategic plan reviewed 6 monthly	\$534,662	\$333,140
Firms with 12-month operational business planning reviewed 6 monthly	\$664,446	\$294,154
Firms with documented transition/succession planning	\$684,148	\$355,446

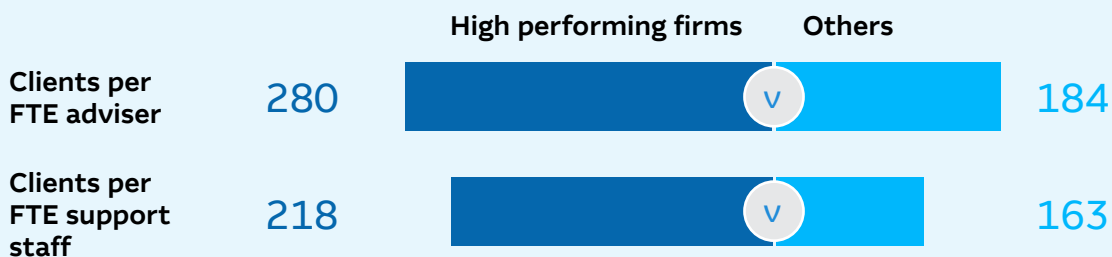
But what about the challenge of effective scale? Smaller advice businesses realise how crucial scale is for their success, so they are acting now. They are merging with or buying businesses, and they are setting up partner buy-ins to enable succession, reduce key person risk and align incentives with key staff.

Incorporating the drivers of higher performance and profitability can create a more resilient business, which, in an active mergers and acquisitions environment, provides more options for owners.

## Client service, experience, and value proposition

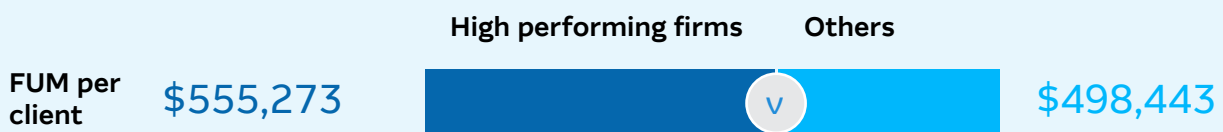
High performers focus on the metrics that deliver great outcomes for clients, staff and business owners. Owners invest in high-capability advisers and make sure these advisers are supported to drive higher revenue per client. They collect actionable feedback from both their clients and their staff, and use these insights to improve their offer. They tier the service they provide to their clients and charge appropriately for advice across the respective tiers.

High performing firms service more clients per FTE employee

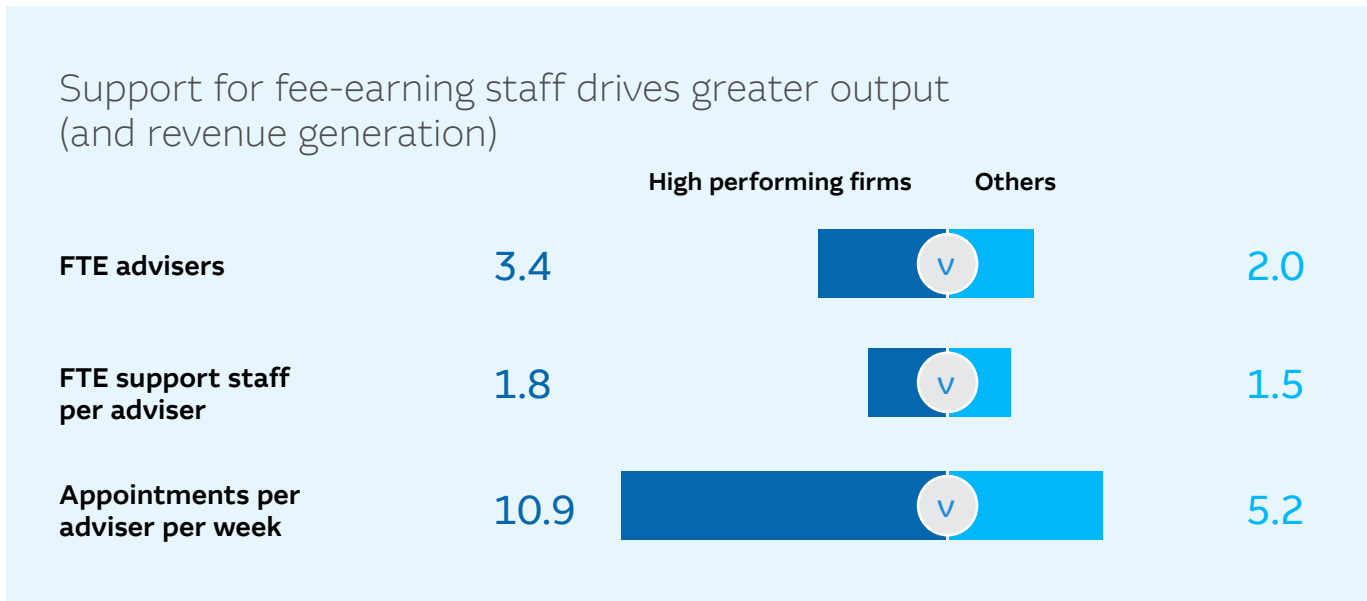


High performing firms deliver higher client outputs, advising significantly more clients than other firms, but funds under management (FUM) for each client is relatively similar.

High performing firms serve a similar profile of clients to other firms







Advisers in high performing firms are seeing more than twice as many clients per week as advisers at other businesses, hence client engagement is driving the firm's performance.







This data tells us that adequate resourcing enables frontline people to focus on client service and outcomes, which strengthens the business' value proposition. Having intentional, documented procedures at every stage of the client engagement cycle supports advisers to maintain this focus.

Profit per owner is **\$137,298** higher for firms who formally seek client feedback. What's more, profit per owner is **\$128,401** higher for firms whose clients' fees are tiered or segmented. For those firms who invest time and resources into documentation that drives action and accountability, the benefits are significant.

## Structured processes drive higher profitability per owner

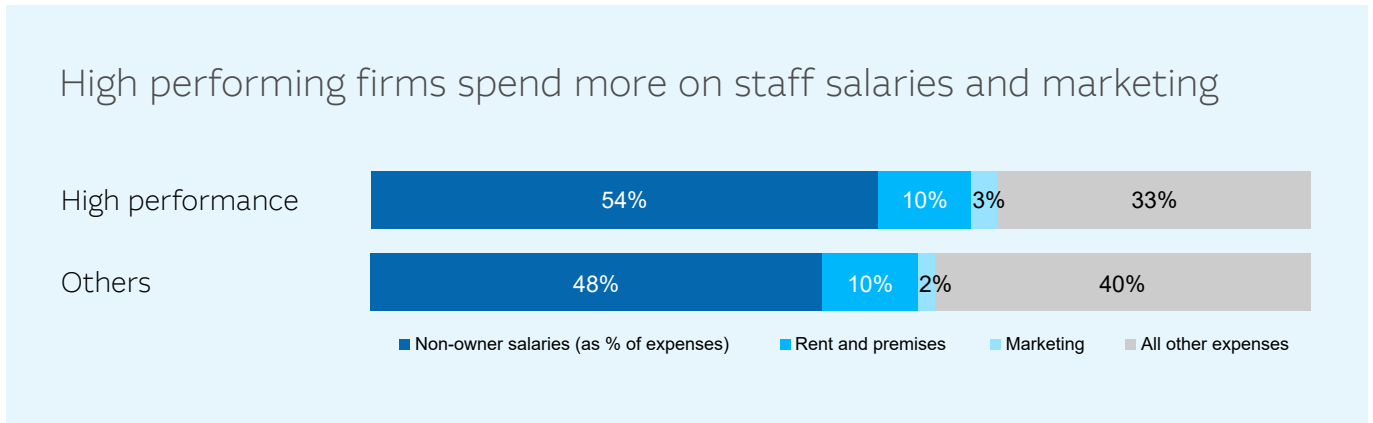
Documented processes for		High performing firms	Others
Client segmentation	46%		30%
Client feedback	35%		23%
Client value proposition	90%		76%
Fully documented succession plan	4%		3%

		Profit per owner for firms who do	Profit per owner for firms who don't
Client segmentation	\$439,659		\$311,258
Client feedback	\$474,635		\$337,337
Client value proposition	\$390,805		\$306,721
Fully documented succession plan	\$684,148		\$355,446

## Expenses

High performers spend more on salaries to attract and retain quality staff.



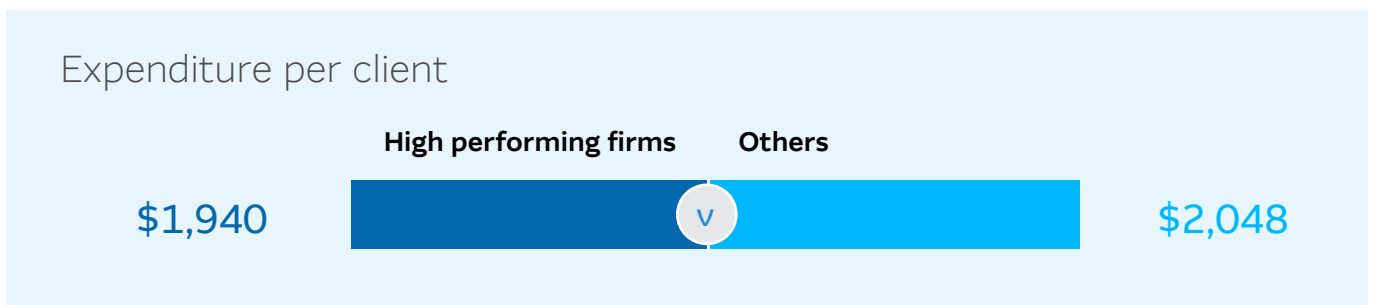
Expenditure figures show that high performers spend proportionately more on salaries and marketing and less on rent and premises costs. We suggest that these firms view the cost of salaries and marketing as an investment, necessary for business development and sustainable value creation.

Salaries are the largest expense item regardless of practice size or profitability. However, high performing firms empower their staff to focus on client interactions, delivering stronger revenue and a higher return on investment. In this environment, staff may also feel more engaged and motivated, which in turn improves both client and business outcomes.

### The cost of doing business

Observing the differences between high performing firms and their peers, high performing firms had lower expenditure per client. This may be because larger client numbers have enabled high performers to achieve greater service efficiency from a lower spend.

### High performing firms leverage their scale to achieve expenditure efficiencies



There are underlying operational costs to run an advice firm that are independent of revenue size and client numbers. Operational running expenses accounted for 32% of the average financial advice firm’s expenditure<sup>1</sup>. Greater scale and efficiency can offset these costs to serve, spreading operational costs across more clients.

Scale also enables greater role specialisation – advisers focus on giving advice and optimising client experience, with assistance from specialist support staff. This then empowers principals to step into strategic and planning roles. This cycle of role specialisation then develops skills and drives efficiencies.

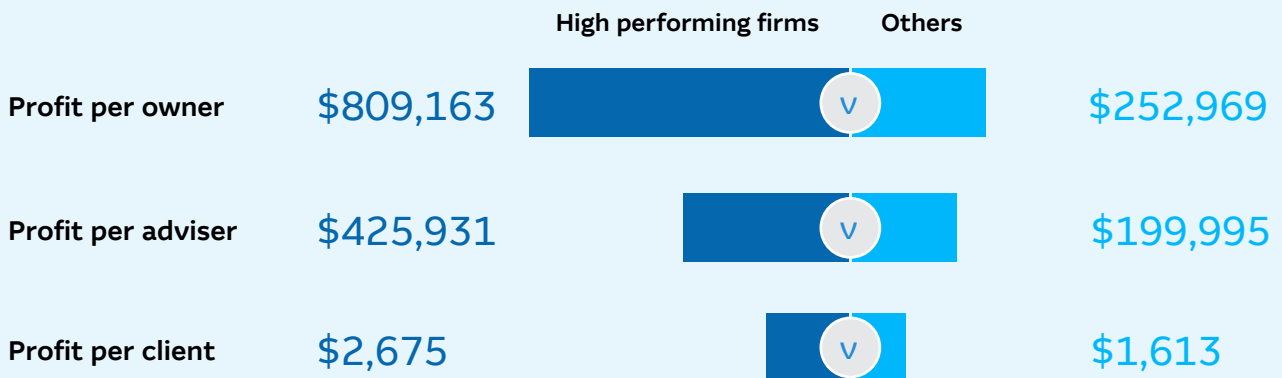
1. Business Health, Future Read IX: Insights into the Australian Financial Advice Profession, January 2022.

## Profit

Advisers at high performing businesses are more likely to concentrate on revenue-generating activities, contributing to higher profitability.

High performing businesses have a profit margin of 56% before owner salaries, compared to 44% in other firms. This also translates into materially higher profit per adviser and profit per client, likely due to role specialisation and strategic focus.




The profitability of high performing firms is significantly higher across a range of metrics



## People

High performing firms invest in talented people, offering an employee value proposition beyond remuneration.

### Employee staff breakdown

		High performing firms	Others
Total business headcount (including owners)	9.0		4.8
FTE advisers	3.4		2.0
FTE support staff	5.6		2.7

Given that financial advice is a relationship-based business, it's not surprising that effective people management drives high performance. What's more, in the same way that successful advisers have long-term plans for their clients, firms will also derive value from long-term people-planning, especially succession planning.

Succession planning delivers per owner profitability of \$684,148 versus \$355,446 profit per owner in firms with no documented succession plan.

Interestingly, only 4% of high performing firms had detailed documentation of succession plans; an opportunity to explore, particularly in a tightly contested talent market where succession planning can be key to motivate and retain high performing staff. For advice businesses looking to the future, motivating talented people to perform well for clients, the business, and for their own prosperity, is key. Bringing these talented people into business ownership may provide a stable foundation for the future.

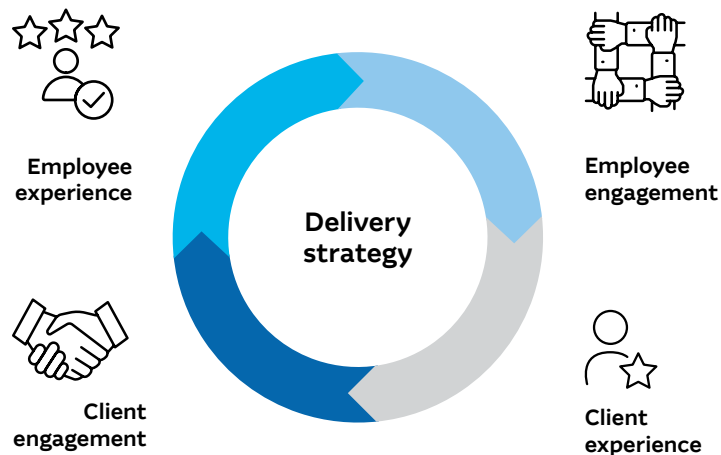
Succession planning is never considered too early, yet is often discussed too late.



## The employee value proposition

Across high performing firms, non-owner salaries represent 54% of total costs, compared to 48% for other firms. The performance of these firms infers the value of rewarding and remunerating talented people.







### The virtuous cycle of employee and client experience: employee engagement can improve customer experience and engagement








Among high performing firms, we see a virtuous cycle where firms can reward advisers with bonus and incentive programs because they're more profitable. They implement intentional and measurable people strategies that maximise value from salary spend such as position descriptions, appraisals and performance objectives.

A well organised firm with stronger employee value propositions can attract talented people. Additionally, staff who feel empowered and rewarded offer greater discretionary effort, which translates into better client experiences, and frequently, better business outcomes. Studies show that employees who are highly engaged deliver more valued services and experiences to clients, and those clients become highly engaged and more loyal.

## Employee engagement and retention activities

		High performing firms	Others
Over 75% of staff have documented position descriptions	81%		60%
Over 75% have individual performance objectives	65%		48%
Staff performance reviews/appraisals were conducted less than 6 months prior	56%		49%
Has a bonus/incentive program	65%		45%
Over 75% of staff are aware of business goals	69%		49%
Seek staff feedback (using external provider)	15%		3%

		Profit per owner for firms who do	Profit per owner for firms who don't
Over 75% of staff have documented position descriptions	\$426,682		\$245,627
Over 75% have individual performance objectives	\$439,135		\$296,581
Staff performance reviews/appraisals were conducted less than 6 months prior	\$399,827		\$289,388
Has a bonus/incentive program	\$445,937		\$304,686
Seek staff feedback (using external provider)	\$751,618		\$320,253

## How Macquarie can help

Wherever you are on your business growth pathway, the Macquarie Business Banking team can help you to take the next step. Here are some of the ways we can support you and your business.

- Guidance on growth strategies and options, drawing on our deep financial advice experience and our extensive dataset of business performance benchmarks.
- Funding for growth and to support succession and partner buy-ins.
- Connections to a community of experts, both within Macquarie and from the broader financial advice community.
- Support for your broader financial and lifestyle goals, including personal banking.

## Ready to learn more?

If you'd like to learn more about putting our best practice insights to work in your firm, please get in touch. Contact your Macquarie Relationship Manager, call **1800 442 370** or visit <https://www.macquarie.com.au/business-banking/accounting-financial-services-industry>

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