



Practice Management **By the numbers**

7 Key Takeouts

Financial Advisory Industry 2023

Introduction from the FAAA

We believe the future is bright for the business of advice, and many of the findings of this report bear this out.

At the same time, there is no doubt that operating a successful practice has become increasingly challenging in recent years, with advisers forced to balance sustainable profitability against regulatory red tape and the cost of providing advice.

The challenge for advisers in 2024 will be in maintaining a client-centred, ethical and sustainable, and profitable financial advisory practice. This paper, with its industry-wide findings, provides some useful reference points for advisers, and will support our members as they navigate the business of advice.

Sarah Abood
CEO, FAAA

Introduction from Business Health

Turning data into insight, then action

Business Health remains totally committed to helping Australian advice practices position themselves for sustained success in a fast changing and increasingly commoditised marketplace. We are also acutely aware that building strategies in a vacuum is fraught with danger and understanding how your key metrics compare to your industry peers can add enormous value to any planning process.

To help address the lack of credible marketplace data in this critical area, we are delighted to partner with the FAAA to provide this paper. We hope that the following insights will allow you to make fully informed decisions as you review your business model and build out your strategic plans for 2024 and beyond.

Rod Bertino
Principal, Business Health

7 key marketplace metrics

for the financial advice profession

“You can’t manage what you can’t measure”

This has been a key message since Business Health was launched in 2000. And while a lot has happened since then, the message hasn’t changed: it is incredibly difficult to make truly informed business decisions without knowing your key metrics, how they are tracking over time and how you compare in the marketplace.

The first ‘By the numbers’ was published by Business Health back in 2020. This year, the Financial Advice Association Australia (FAAA) and Business Health are delighted to share with you the 2023 figures and an analysis of the key quantitative metrics drawn from over 300 Australian practices.

We hope this report will help guide you towards a more profitable and sustainable business.

Please note:

1. The metrics have been derived from 300+ Australian advice practices who have completed either our Benchmark, HealthCheck or CATScan business diagnostics over the last two years. As such they represent a broad cross section of the market and range from institutionally aligned firms through to self-licensed, holistic to niche, investment to risk focussed.
2. Metrics have been calculated using averages at an individual practice level and then averaging these across the dataset. This approach produces a far more meaningful result in our view.
3. Content is general in nature and does not replace personalized business advice. Factors such as business model, age or stage of development, size and location of business should impact your considerations.



01

Revenue per client

Marketplace average: **revenue per client: \$3,852**

This metric is useful for assessing the relativity of the firms' offer, in comparison to the fees it's charging clients. Perhaps not surprisingly, it's experienced an 8% increase since our 2020 analysis.

It is a very easy metric to calculate, review each year and ultimately allows the business to assess individual client profitability.

Revenue per client

Marketplace average: **revenue per client: \$3,852**

If your number is higher

If you are providing highly technical services/advice to higher net worth clients or offering a high touch “concierge” service for example, it would not be unreasonable to assume a higher level of revenue per client.

Of course, the higher the fees, the greater the client’s expectations. You should be confident that clients are satisfied with the services they’re receiving for the fees they’re paying. If you’re not sure, it’s time to actually ask them.

If your number is lower

While there is nothing necessarily wrong with this, it does beg the question - why are your clients paying on average, less than the marketplace? Perhaps it’s because you are deliberately focussed on a lower net worth clientele. As long as you’re delivering your services profitably, then you’re good. But if this isn’t the case:

- It may be time to review your fee structure/level.
- Consider maintaining a minimum fee policy.
- Are you giving away value that others are charging for?
- Are there some clients who are receiving much more from your practice than their fee justifies? They may be taking up a disproportionate amount of your time and resources - review their fees or move them on.

The bottom line

You should be confident that your clients are satisfied that the fee they’re paying you represents value to them and that your pricing model is delivering an acceptable profit return. If you’re not confident;

- Ensure your service offer, CVP and tangible value is being reinforced at every opportunity through your various communications, website, social media and review meetings.
- Calculate your ‘costs to deliver services’, then review your fee schedule on a regular basis (ie. each year) and after any change to services or internal procedures.
- Regularly seek feedback from your clients (confidential, anonymous, benchmarked surveys are best).

02



Clients per adviser

Marketplace median: **number of clients per adviser: 141**

This metric allows you to gauge your productivity and, in turn, your staffing and service levels.

While current thinking suggests that the maximum number of clients an adviser can effectively manage is around 100 to 125, we believe that this metric is very much dependent on the specifics of your offer and business model.

Clients per adviser

Marketplace median: **number of clients per adviser: 141**

If your number is higher

It could be that your practice is being efficiently managed through the effective use of technology, having the right people doing the right jobs, and being supported by clearly defined job descriptions, objectives and goals and a clearly set out training/development program. All leading to clearly focused roles and responsibilities, with no duplication or wasted efforts. In which case – nice work!

Sometimes this metric can indicate strong growth, with staff numbers not keeping up and a possible under-servicing issue. Or, it can be a pointer to having too many of the wrong type of clients.

Make sure tasks aren't falling between the cracks and the work that needs to be done is actually happening. Indicators to pay attention to:

- An increase in the number of client complaints
- A decrease in client satisfaction levels
- Mistakes being made by usually competent staff
- A decline in staff morale
- Compliance audit results

If your number is lower

Perhaps it's because your business model requires you to deliver a higher touch, technical or specialist service to your clients who have a complex set of needs. In which case, serving a smaller number of clients needn't be of concern as long as you're doing it profitably.

However, if this doesn't apply to you, then you need to ask why you are operating below the benchmark of your colleagues:

- Is there a capability or skilling issue in play?
- If non-advisory tasks are diverting the adviser's attention, ask why – it may simply be the adviser's choice or preference ('I actually like doing the admin') or it may be due to a lack of necessary resources or inefficient systems and processes.

The bottom line

A firm's greatest strength lies with its relationships with clients. However, building and maintaining meaningful client relationships takes time and effort. A balance is required to ensure advisers have the right level of support and admin staff, to ensure the adviser's attention and energy is not diverted from the tasks they should be focussing on.

03



Salaries as % of revenue

Marketplace average: **44.9%**

While your people are undoubtedly one of your firm's greatest assets, they are also its biggest expense. This situation is unlikely to change much in the foreseeable future as the race to hire, retain & develop staff heats up.

In our recent Staff Salaries & Benefits Survey, two in three practice owners indicated they will be looking to hire in the coming 12 months. Good people are simply hard to find and very much in demand.

Salaries as % revenue

Marketplace average: **44.9%**

If your number is higher

if your total salary spend is higher to market, it could be a factor of your local market conditions. Sydney, Melbourne and Brisbane based businesses for example, need to pay significantly more than other capital cities or regional areas. Or maybe a highly technical or niche skill set is required to implement your client offer and/or you've consciously built excess capacity to cater for planned future growth - in a competitive marketplace, where the war for talent is definitely raging, this is not unusual.

But if this isn't the case, then you'll need to consider:

- If you are overpaying your staff. It's best practice to regularly check in with the market to make sure your remuneration package is fair, reasonable and competitive. P/BDMs, HR firms and colleagues should all have a sense of the latest trends.
- Can you move some fixed salary components to 'at risk'?
- Could it simply be that you're now overstaffed for your current business model? Has technology, for example, provided the opportunity for cost savings, which you perhaps haven't yet fully leveraged?
- Is there a productivity or capability issue with some of your people, so much so that you need to cover this deficiency through additional resources? Have you developed training and ongoing development programs for your key people?
- Have you set and agreed performance objectives for every staff member?

If your number is lower

This could suggest that you have efficient systems and processes in place, so much so that you don't need as many people on your payroll. Or maybe you're leveraging an outsourcing model which lowers your headcount? In which case, no problems.

On the other hand, it could mean that you're remunerating below market rates and/or you're understaffed. Hopefully not both! In either case, it's likely that your staff are feeling overworked or unappreciated. This could result in some functions being overlooked or at best, being implemented less than optimally.

- When did you last review staff salaries?
- Have you checked recently as to the competitiveness of your salaries to the market?
- How would you rate the morale of your firm? How would your staff rate it?
- Have you recently surveyed your staff as to their satisfaction levels (confidential and independent is best)?

The bottom line

With 92% of Australian practices catering for 'work from home', competition for talent is being tested even further. The biggest business investment you will ever make is ensuring that you have the right people, doing the right job, at the right time. Up-to-date, clearly defined job descriptions and goals, regular team communication supported through competitive remuneration will all help.



04

Support staff per adviser

Marketplace average: **1.5:1**

This metric helps to focus a firm's operating model and reflects the accountabilities, functions and interactions between adviser and support staff.

Support staff per adviser

Marketplace average: **1.5:1**

If your ratio is higher

This could be due to the intrinsic nature of your offer (complex, technical or high-touch for example), in which case it warrants a higher number of support staff. Or perhaps there is a focus on specialist skills and development. Either way, no problem.

But if this isn't your situation:

- Are your systems and processes delivering the efficiencies you're looking for (and others are achieving)?
- Is there a clear enough understanding and appreciation of the role of each person in your practice? Are responsibilities and accountabilities understood, agreed and being adhered to by each staff member? How is this covered when new staff come onboard?
- Could there possibly be a productivity or capability issue with some of your people, including advisers? Are they fully trained and supported with the tools they need to serve their clients?

If your ratio is lower

This could point to an efficiently run practice, which has perhaps successfully integrated technology into its operations. Or maybe the staff are very experienced and extremely capable at their job. Either way – a good place to be!

But if this isn't you:

- Are your staff having to work too many extra hours to keep up with the workload?
- Is the adviser perhaps doing some of the admin work that would normally fall to a staff member (not necessarily the best use of the adviser's time)?
- Are admin tasks taking time away from the adviser's all important client facing activities?
- Are there some tasks falling between the cracks and which aren't effectively attended to because everyone is too busy?

The bottom line

This is a key ratio which will help your practice get closer to its optimal performance level. Clearly defined roles, objectives and expectations, supported by regular communication all have important roles to play.

05



Client satisfaction ratings

Marketplace average: **Top quartile 4.23/5***

Without clients, you don't have a business and, without satisfied clients your business is at risk. As such, it's simply 'best practice' to regularly seek feedback from your clients in an objective, independent way so you know how satisfied they are with you and your services.

If you haven't undertaken a client satisfaction survey within the last 24 months, we strongly suggest that you do so.

*Average overall satisfaction as rated by clients of Australian advisers, Business Health's CATScan client survey database, 50,000+ clients as at January 2023.

Client satisfaction ratings

Marketplace average: **Top quartile 4.23/5***

If your client survey results are top quartile

Assuming you are benchmarking yourself against a relevant, high integrity dataset of peer practices, well done! Enjoy that warm inner glow of success, and then:

- Look closely at the comments made by clients. Even with a highly satisfied clientele, there are usually a few comments that will merit further investigation/consideration.
- Fully leverage outstanding results by sharing them with clients, staff and centres of influence.
- Positive client feedback is great marketing collateral to include on your website and LinkedIn page etc.

If your client survey results are not top quartile

Accept that your clients' feedback is your reality;

- Share both positive and negative feedback with your staff (they have played an integral role in the results after all). What ideas and suggestions can they offer as to why you're not top quartile?
- Pay particular attention to the comments made by clients, not just the ratings - very often this is where the real insights are.
- 'Communication' and 'Review Process' are consistently the poorest performing KPIs - how did your clients rate yours?
- Ensure client satisfaction surveys become a permanent feature of your practice's DNA. It is important that you regularly 'take the pulse' of your most valuable asset (your clients).

The bottom line

The overwhelmingly positive feedback tells us that on the whole, clients of Australian advice firms are truly happy with their adviser and, they appreciate the opportunity to provide feedback. Seeking feedback from clients is simply "best practice", giving clients the respect they deserve. Accept what clients tell you and be prepared to take action when required.

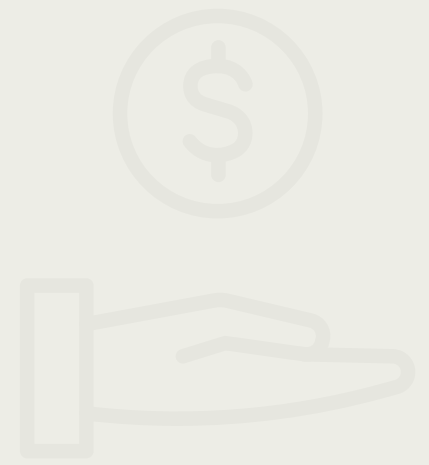
06

Practice profitability

Marketplace average: **28.4%**

This is the ultimate measure in our view. What is an acceptable level of profit, to repay the amount of effort, time and risk invested by its owners? An acceptable level of profit in one practice may not be so in another.

This result is very much in line with our previous research and suggests that, notwithstanding the turmoil and uncertainties of the last two years, Australian practices have, on the whole, weathered the storm quite well.



Practice profitability

Marketplace average: **28.4%**

If your number is higher

A somewhat comforting position to be in for sure, but it shouldn't signal that you can afford to take the foot off the accelerator... in a marketplace as challenged and disrupted as ours, things won't stay the same forever. And there will remain threats and opportunities.

- Are you continuing to invest in your business, setting aside some funds for 'r + d' perhaps?
- With many predictions of an economic downturn into early next year, have you created a surplus fund to perhaps buffer you against any potential downside?
- How about funding for your future plans? As our recent Future Ready IX analysis shows:- succession remains a major industry wide issue, and with external financing not always available, perhaps funds should be set aside for vendor financing or employee share acquisition programs.

If your number is lower

There could be good reason for this. Perhaps you're in start-up mode or, while well-established, you've recently been through significant change. Or maybe you're scaling up with an eye to the future?

Once you've decided on where your business is positioned (a good dose of realism and objectivity is required), if there are no mitigating factors and you're not satisfied with your notional profitability %, you may need to:

- Review your current business model. Some of the key metrics mentioned in previous issues will provide a few clues – start with staffing, efficiency and productivity.
- Review your revenue flows over the past three or so years. Has it been steadily growing, remaining static or declining? What have been the drivers?
- The biggest expense items for most practices are; salaries, licensee fee, technology and rent. When was the last time you thought about the cost:benefit of each? Does outsourcing provide another option?

The bottom line

This is the one metric that every business owner focuses on, and rightly so. As to what the 'right' figure is for your business will depend on; your business model, at what stage of development it's at and your own expectations. Nevertheless, surely it's important to have an understanding of what others in the marketplace are achieving? .

07



Technology* as % of revenue

Marketplace average: **7.3%**

There is no doubt that technology, when employed intelligently and pragmatically, is enabling practices to meet the needs (and expectations) of clients, staff and owners alike in an efficient and productive manner.

The fact that this level of spend has remained reasonably static over the past few years (averaging \$10,413 per FTE) further suggests that practices are becoming more experienced/nuanced in their approach to technology and how it can best be utilised by them.

**Incorporates hardware, software, security, training and support.*

Technology* as % of revenue

Marketplace average: **7.3%**

85% of firms report that they are now able to remotely access all applications (e.g. client data, calendar/diary, email, planning/modelling tools, financial/account management, etc).

Irrespective of the amount of the technology spend, the main point to keep in mind is the return being achieved from that investment. While the race to be more efficient is ever present, it is not the only game in town. The role technology plays in delivering the client experience is also an important factor to consider.

If your number is higher

Not a problem per se, as long as your technology (tech stack) is enabling you to do the things you purchased it to do - efficiently and effectively. Bringing enhanced capacity, scalability and insight into your practice for example.

Dollar wasters include:

- Incomplete integration across applications (resulting in duplicated effort)
- Not leveraging the features and benefits of your chosen software
- Lack of emphasis on training and ongoing support of staff and
- Considering the needs of the business in isolation, without analysing the experience of the client
- Not investing the time necessary upfront to introduce and induct new technology into the existing.

If your number is lower

While somewhat dependent on your underlying business model and the development stage you're currently at, but if your 'gut' tells you that you're under invested in this area or you simply want to learn more, talk to similarly placed businesses to understand how they're employing their technology.

What's working well for them and what could be better?

Importantly - before you make any further investment in your technology, determine up front – what you want it to achieve! Apart from functionality, you need to be confident in the ongoing training and support being offered.

The bottom line

Your investment in technology is one of those important business drivers which demand to be monitored and assessed on a regular basis (perhaps as part of your annual business planning). Consider its effectiveness in terms of freeing up your resources, increasing your capacity, enhancing your clients' experience and its contribution to your overall viability and profitability.

While keeping abreast of latest developments is 'best practice 101', it doesn't mean that you have to action them – build your case first as to what you want the technology to do and how it will impact your bottom line.

*Incorporates hardware, software, security, training and support.

About Business Health

Business Health is an independent organisation specialising in providing solution-based services to small businesses, predominantly in the financial services industry. Since its establishment in 2000, Business Health has evolved to become one of the leading international practice management groups and now offer the most comprehensive range of business development solutions in the marketplace.

Our experience in the Australian financial services environment, enhanced by an extensive up-to-date knowledge of international factors and trends, positions us to offer significant expertise in the area of practice management and advisory business benchmarking.

If you would like to discuss how we could possibly add value to your business, please contact us at service@businesshealth.com.au or 02 9518 6966.

