The business of advice

2012 Financial Planning Benchmarking Report

Macquarie Practice Consulting

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FORWARD thinking

Contents

Executive summary

For half a decade the Macquarie Practice Consulting Benchmarking Survey has established industry benchmarks for financial planning practices.

While the report initially focused solely on boutique firms, the gradual inclusion of smaller firms aligned to dealer groups has broadened our sample and enabled us to provide you with a more complete industry picture and further benchmarks for you to compare your business against.

The key takeaways from this year's results are:

Boutiques show signs of improvement

During the past two years, the performance of firms which hold their own Australian Financial Services Licence appears to have strengthened. We expect this result is influenced by a combination of factors. Firstly, this year's sample includes a greater number of larger sized firms, but there are also indications that hard work, careful management of costs and increased adviser productivity have helped to drive these improvements.

Client numbers neutral

Client numbers have been stable during the past few years, which is a credit to the way firms managed themselves through the financial crisis. It is an area to keep a close eye on, as the limited growth may suggest firms are now struggling to attract and service more clients. A new approach to client acquisition may be required; insights from our recent *Mood, Life and Money* survey may offer you a different perspective.

Profit expected to grow

With general trends heading in the right direction, there is still concern about fundamental issues – including legislation changes, profitability and attracting new clients. These are not new concerns, but they highlight the need for firms to ensure they devote time and energy to appropriately tackling these challenges.

Despite these concerns, healthy signs of growth have buoyed adviser sentiment, with the majority of advisers feeling optimistic about the future and seven out of 10 advisers expecting to increase their profit during the next 12 months.

Fiona Mackenzie
Associate Director, Macquarie Practice Consulting

Survey snapshot

The survey

304
respondents

Almost three times as many respondents as 2011

Five years of results

Broader than boutiques

Last year the Financial Planning Practices Benchmarking Survey was expanded to include small firms which operate under a dealer group's licence. Unless otherwise indicated, the 2011/2012 results provided in this year's report are an aggregate of the results for these small firms and boutiques (those firms which hold their own Australian Financial Services Licence). As we have five years of data for boutiques, where appropriate, we have highlighted relevant trends for this group in the Spotlight on Boutiques sections.

Average number of employees

5.5

Type of licence holder

Three out of 10

respondents hold their own Australian Financial Services Licence (AFSL)

Seven out of 10

respondents are small firms operating under a dealer group's AFSL

29%

participation by this group up 29 per cent on the prior year

Who responded?

Age of business

27%	35%	38%
1–5 years	6–15 years	16+ years

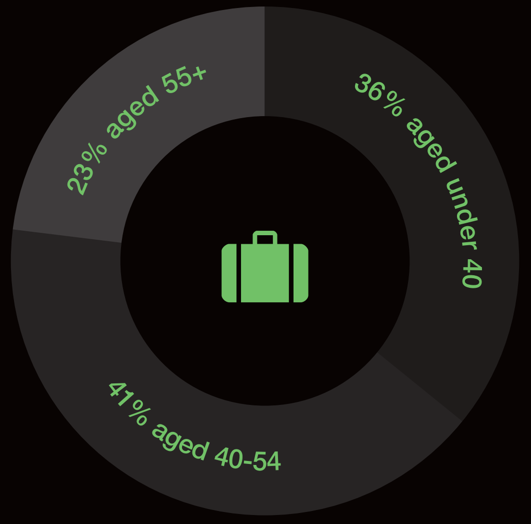
77% were principals

88% were male

Spotlight on boutiques

Boutiques have an average of eight employees and average FUA is significantly higher at $162 million.

Average respondent



78% have one office only

13.2 Average practice is 13.2 years old

$93m Average FUA

Your performance

Despite a softening in revenue, profit is up as firms have been able to carefully manage expenses and overheads.

Revenues WHY?

Revenues have softened since last year.

This year's average is influenced by greater participation of smaller firms just starting out (aged between 1–5 years old) and trying to establish themselves in difficult markets, and firms which have been in business for more than 16 years and for whom revenue growth can sometimes be more challenging.

Direct expenses WHY?

Direct expenses have increased as a percentage of revenue over the past year.

The increase is a due to softer revenues rather than an increase in direct expenses. Costs such as salaries and bonuses have been carefully managed during the past year.

Overhead expenses WHY?

Overheads have reduced considerably this year, which is positively impacting profitability.

There has been a notable decrease in overhead expenses. Our clients tell us they are making savings where they can by re-negotiating rents and other fixed costs, while carefully managing discretionary costs.

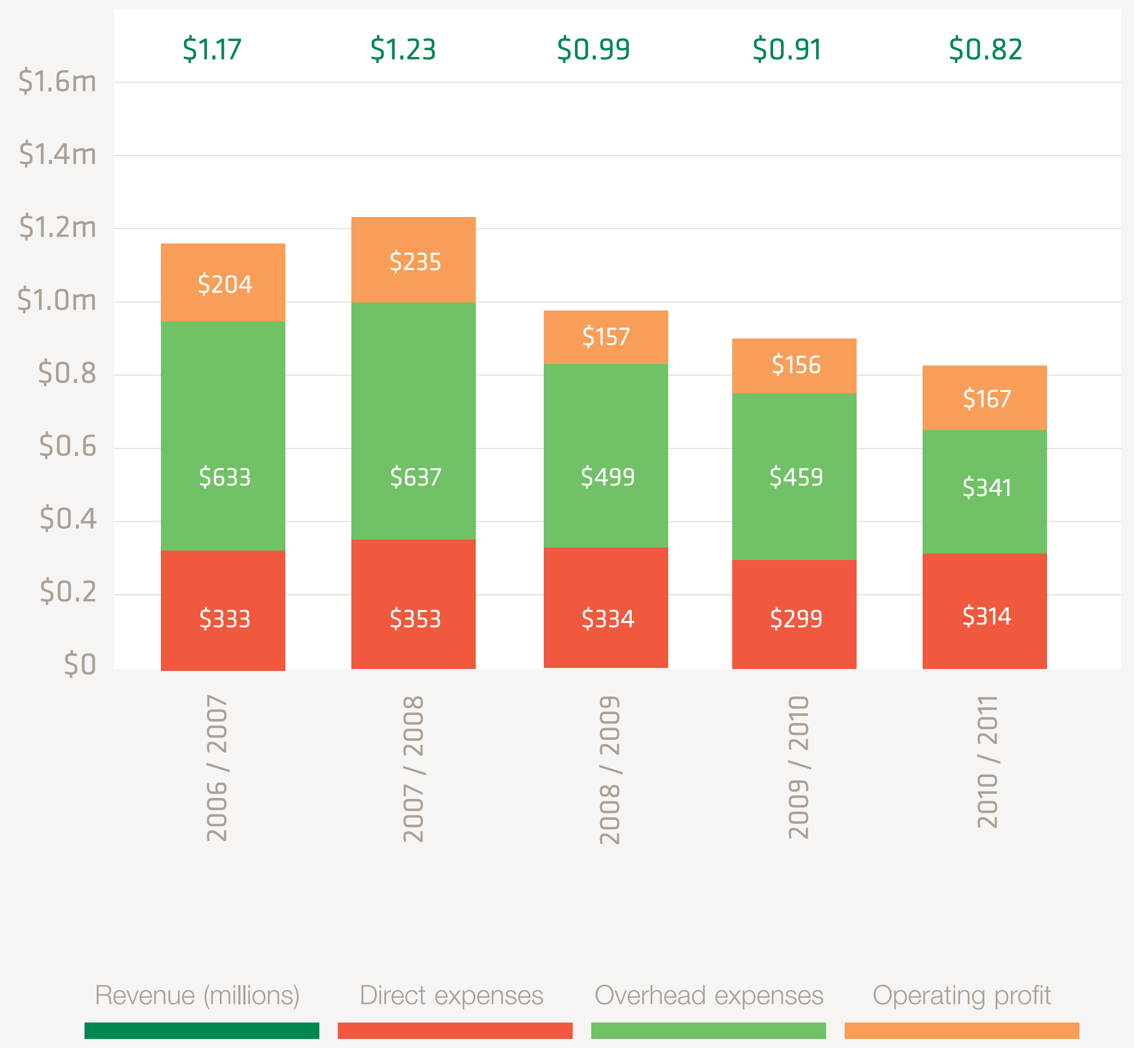
Operating profit WHY?

While profit results were quite mixed across the respondents, the overall average is up.

Where firms have increased their profit, they attribute the increased profits to:

1. advisers are working harder
2. capturing more share of wallet and increased fees
3. clients are spreading the word and referring more new clients.

FIVE YEAR TRENDS – PRACTICE FINANCIALS

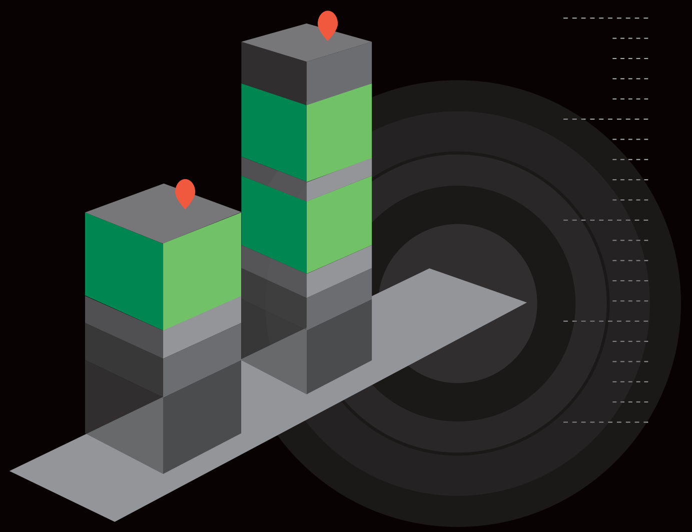


RESULTS FOR FY11

FY11 key financial benchmarks		
	2009/2010	2010/2011
Revenue	$913,679	$822,457
Direct expenses	$298,659	$313,818
Overhead expenses	$458,620	$340,704
Operating profit	$156,400	$167,934

Spotlight on boutique

During the past two years, the performance of firms which hold their own Australian Financial Services Licence appears to have strengthened. Profit margin has increased from 17 per cent in 2006/2007 to 36 per cent this year. This year's result may be influenced by a greater number of larger sized boutiques, who are able to achieve greater economies of scale, taking part in this year's survey.



Your clients

Client numbers have been stable in recent years, but the limited growth also suggests firms struggle to attract and service more clients.

How do your client numbers compare to the average practice?

$93m	FUA
481	Clients
185	Clients per adviser
69%	Active clients (contact at least once per year)
$1,710	Revenue per client

55

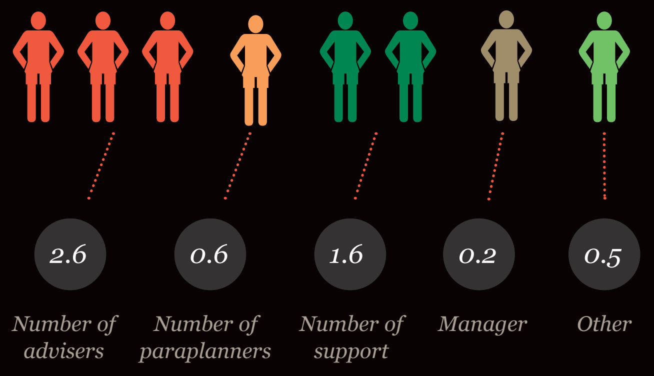
Beyond the baby boomers

The average client age is 55. For decades this pre-retirement stage has been the heartland for many financial advisers.

This begs the question: *how will firms ensure their practices continue to thrive and grow when the majority of their clients are moving past the sweet spot in their offering?*

Your people

What does the average practice look like?



128

The natural limit

On average advisers have 128 active clients. While client numbers are an important driver of revenue per adviser, they are not the only driver. Also important are the services on offer and the type of client base.

How many clients do advisers manage?

$316	Revenue per adviser (,000)
185	Clients per adviser
128	Active clients per adviser
87	Clients per employee
0.6	Support staff per adviser

It is no coincidence this is the limit

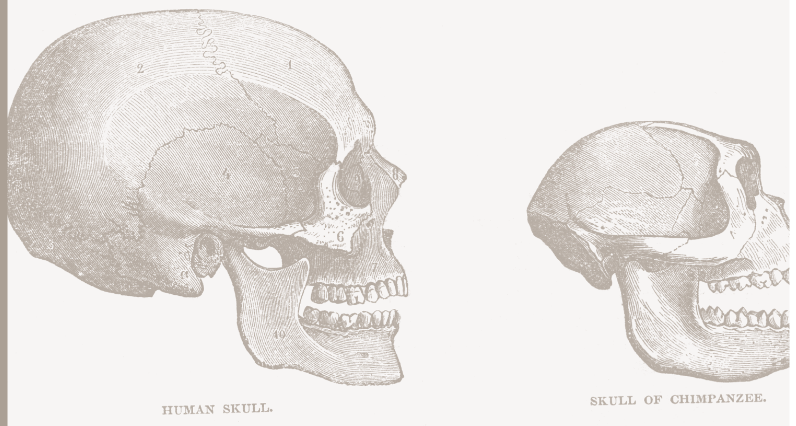
Primates have a cognitive limit on the number of social relationships they can maintain. Robin Dunbar, a British anthropologist, found a link between the size of the cortex in the brains of primates and the number of social relationships each species can maintain. In humans this limit is around 150.
It has been found to exist in all kinds of social settings from hunter gather tribes, where it occurs naturally, to the military where – through trial and error – they found 150 to be the ideal unit size.

Tip!

Enable your advisers to service more clients:

- segmentation
- delegation
- workflows.

150



What do clients want?

Do advisers really understand what is important to their clients?

Macquarie's recent Mood, Life and Money project surveyed 1,600 Australians to explore how the volatility of the past few years has impacted everyday life and financial decision making. The results provide insights into how Australians are feeling, how they make big decisions and what they want from their advice professionals.

What is important to clients?

Trust, respect and reliability are always in vogue

When ranking what is important to clients, being accountable for your actions, respecting your clients and being reliable were all ranked higher by Australians than advisers.

Managing your team

With positive growth signs, people management issues like succession planning and retention are again on the agenda.

Succession planning

43 per cent of firms have a succession plan in place. The most popular style of plan is an equity arrangement (35 per cent) followed by a buy/sell arrangement (31 per cent).

Holding onto your best assets

We find the emphasis firms place on attracting and retaining quality staff seems to wax and wane with the strength of the economic climate. In the long run, this can make it hard to build a high calibre team. We also find many firms only focus on retention once an issue arises. Retention needs to be actively considered on an ongoing basis, otherwise, your response will be rushed and probably ineffective. Generally, it is too late once the horse's head has turned for the gate.

Spotlight on boutiques

During the past year the number of boutiques with a succession plan has grown by 12 per cent, from 44 per cent to 56 per cent, which now exceeds pre-financial crisis levels (53 per cent). Boutiques strongly favour equity arrangements (43 per cent), followed by buy/sell arrangements (25 per cent) and selling to another practice (25 per cent).

Articulating your value to your employees

The firms we work with often tell us it is difficult to attract and retain employees who have the right mix of technical ability, client service skills and who'll fit with the culture of the firm.

Questions you may want to consider:

- What is your employment value proposition (EVP) for attracting staff?
- What attributes does an employer of choice need to have in your niche?
- How can you use your client value proposition to communicate your point of difference to prospective staff?

Your practice

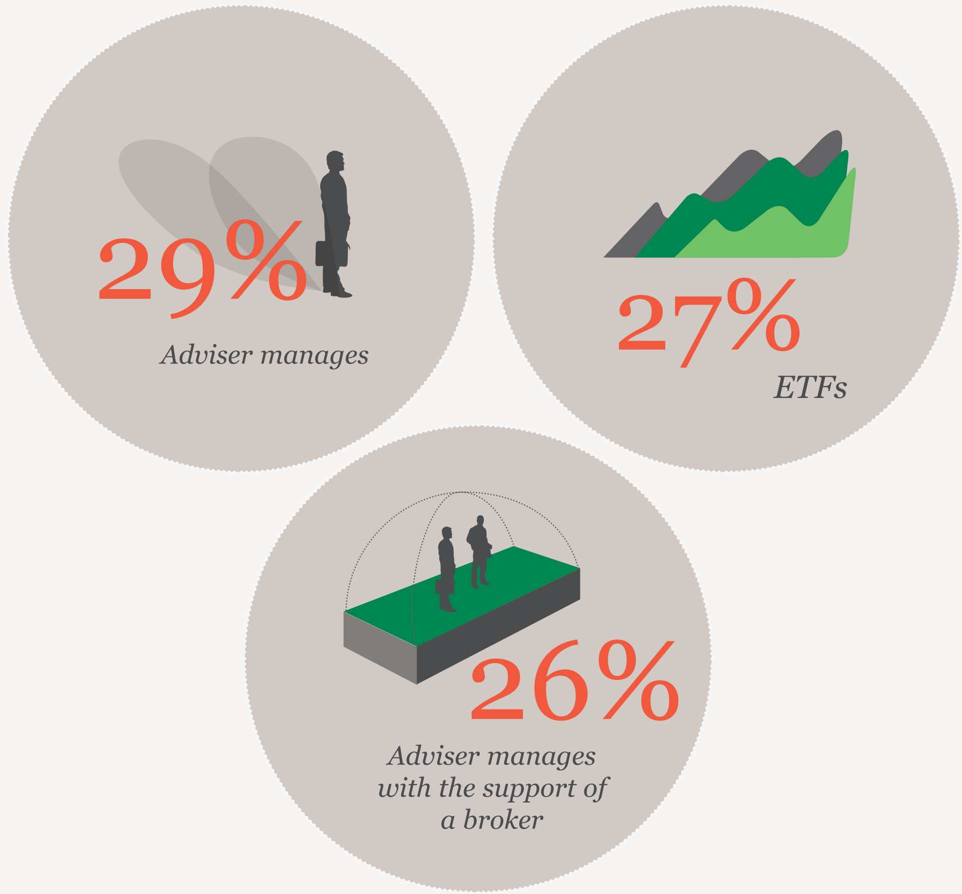
In the past 12 months there have not really been dramatic changes in the way practices are managed. However with new regulation around the corner, continued declining interest in managed funds and the rapid rise of the tablet device, we expect to see more seismic shifts in the year ahead.

Investment trends

During the past five years, the move away from managed funds has continued while the use of direct equities and direct fixed interest is on the rise.

45% Managed funds	↓ 17%	The proportion of FUA invested in managed funds has fallen from 62 per cent in 2008 to 45 per cent.
29% Direct equities	↑ 4%	The proportion of FUA invested directly in equities has grown from 25 per cent in 2008 to 29 per cent.
17% Direct fixed interest (including Cash)	↑ 9%	The proportion of FUA invested in direct fixed interest has grown from eight per cent in 2008 to 17 per cent.
9% Other (eg direct property)	↑ 4%	The proportion of other investments has grown by four per cent from five per cent to nine per cent since 2008.

THE MOST COMMON METHODS ADVISERS USE TO DIRECTLY MANAGE EQUITIES ARE:



In selecting a particular method for managing direct equities, advisers' top three priorities are time efficiency, cost efficiency and greater control.

The growth of Self Managed Super Funds

Currently funds invested through an SMSF trust structure represent about one third of FUA. With nine per cent of Australians surveyed by the *Mood, Life and Money* project already using a SMSF, and more than double that number planning to manage their own super in the future, this represents a great opportunity for advisers to expand their offering to clients.

Spotlight on boutiques

Looking at boutiques, the growing popularity of SMSFs is evident. For this group, the amount of FUA invested through an SMSF trust structure has grown by eight per cent over five years, from 32 per cent in 2008 to 40 per cent.

Pricing

Despite impending regulatory change, pricing structures have not changed significantly since last year.

Fees vs commissions

Between 2008 and 2010, at the expense of commission-based revenue, there was close to 10 per cent growth in revenue generated from fees from 57 per cent to 66 per cent. Since then little has changed with almost 60 per cent of revenue derived from fees.

Essentially asset based

The majority of firms (65 per cent) charge an asset-based fee. Most of these firms also charge additional set dollar fees, commission or hourly rates.

Set dollar fees

Charging set dollar fees only is the pricing method used by just 14 per cent of firms, however this is expected to increase to 19 per cent of firms by July 2012.

Reasonably relaxed about proposed fee regulation

A small minority of firms (16 per cent) said they were very worried about proposed new fee regulations. The rest of respondents said they were not worried or only had minor concern. In particular, areas of concern included whether firms could continue to profitably service C and D clients and if costs would rise in order to comply.

The rise of the tablet

Since their launch just two years ago, ownership of iPads and other tablet devices has grown rapidly.

Is your website compatible with tablet devices?

44%
of advisers own a tablet

24%
of advisers plan to buy one in next 12 months

14%
of Australians own a tablet

27%
of Australians plan to buy one in next 18 months

Your future

Advisers continue to be optimistic about the future and expect profit to grow during the next 12 months. Opportunities also exist for advisers to think differently about client acquisition.

Client acquisition and referrals

In line with previous years' results, referrals from existing clients are the primary source of new business for 36 per cent of firms, and leads from accountants is the primary source for 31 per cent of firms. There has been virtually no growth in referrals from the web, professional associations or other service providers like solicitors and mortgage brokers, suggesting firms may need to look at their client acquisition from a different perspective.

Client confidence is key

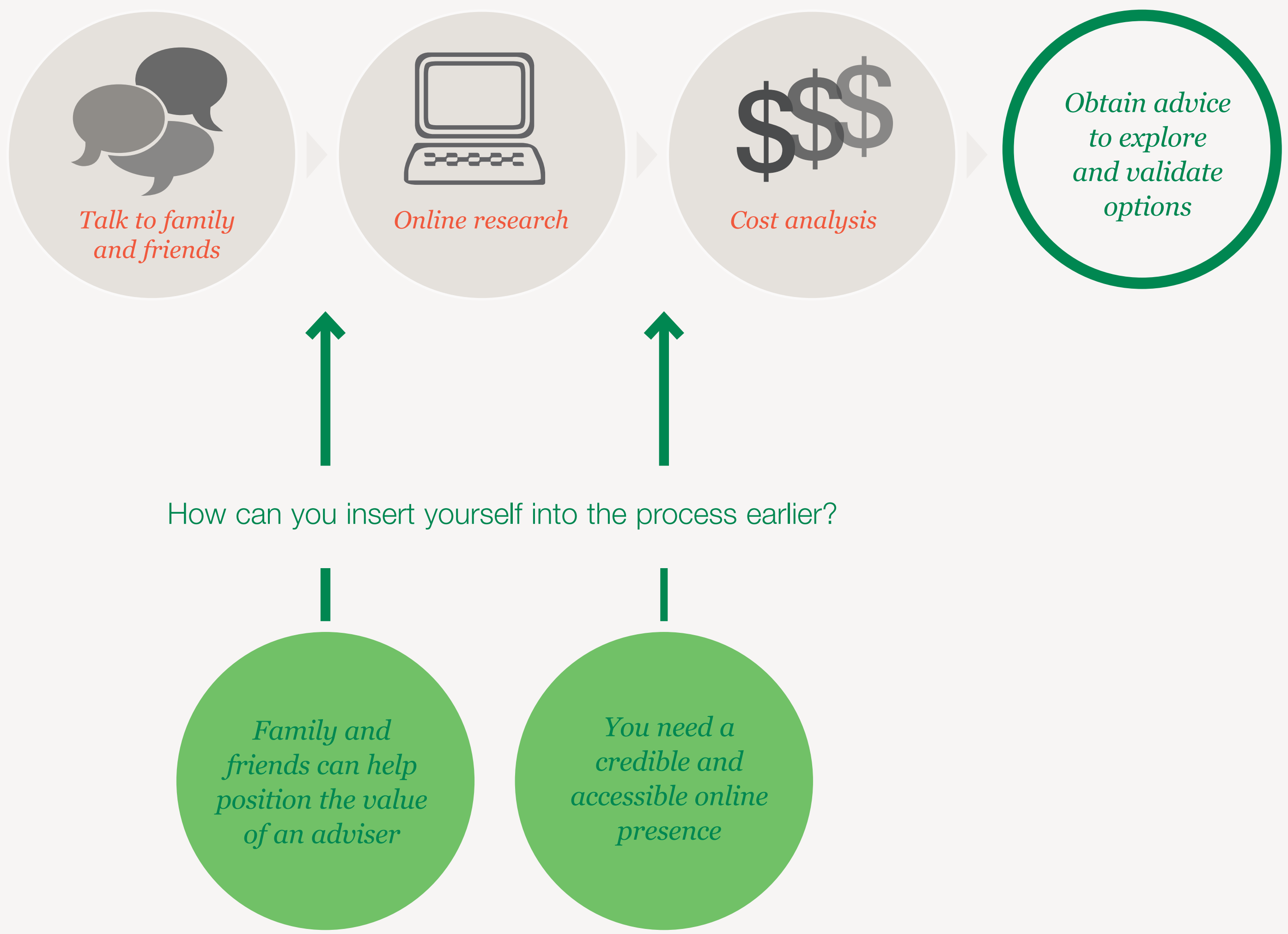
The Mood, Life and Money report highlighted that while the actual advice from financial planners and accountants is more trusted than advice from family and friends, the buying behaviour of Australians is influenced by factors other than advice alone. This creates opportunities for advisers to position themselves as trusted sources in the natural buying process.

Diversification

This year's benchmarking results for both financial planners and mortgage brokers indicate while both groups intend to offer new services, they have actually taken very few steps in this direction. For planners, 91 per cent of their revenue comes from two sources: financial planning and insurance. For mortgage brokers, 85 per cent of their revenue comes from home loans.

Perhaps rather than trying to compete with each other, there may be an opportunity for planners and brokers to be true to their strengths and work together to offer additional services.

PRE-ADVICE BUYING BEHAVIOUR



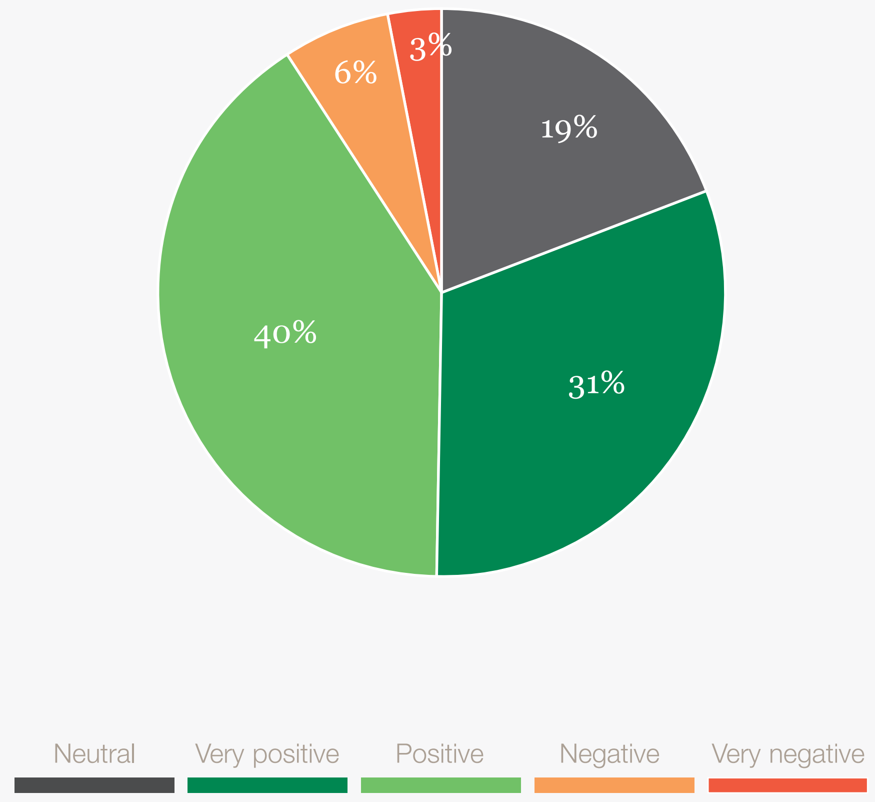
The year ahead

Top of mind issues

Here are the top three issues advisers think will impact their business during the next 12 months. If there is a familiar ring to these issues, it is because they are the same ones advisers were concerned about last year.

Legislative change	56%	With limited understanding of what impact the Future of Financial Advice (FOFA) reforms will have on the industry, it is not surprising legislative change was again a key issue of concern.
Profitability	41%	After a year of successfully driving down operating costs and improving productivity, firms may need to consider revenue diversification strategies more seriously, as neither client numbers nor FUA have been growing in recent years.
Attracting new clients	39%	With an aging client base and firms struggling to attract younger clients, naturally advisers continue to be concerned about this issue.

THE GLASS IS HALF FULL



Advisers are optimistic about the future, with 71 per cent of advisers describing themselves as positive or very positive about the future. More than seven out of 10 firms expect an increase in profit next year (FY12), another strong indicator of positive sentiment.

About Macquarie Practice Consulting

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

The Macquarie Practice Consultants have extensive experience in financial services and small business consulting to financial planning, advice and professional services firms. Macquarie Practice Consulting works with financial planning practices to help define strategic direction and improve business performance.

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

Want to know how your practice stacks up?

Macquarie Practice Consulting can give you deeper insights into how your practice compares, and where some opportunities may exist for improvement. Talk to your BDM or contact Macquarie Practice Consulting about our *Compare your Practice* offering.

Throughout the year, we will be sharing further insights from the survey. In particular, we will be examining the attributes of successful firms and taking a closer look at client management. To register to receive further insights visit macquarie.com.au/practiceconsulting

How is operating profit calculated?

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 (including super) paid for different levels of adviser (including market rates for principals)
- **overhead expenses** – percentage of business expenses multiplied by revenue, less salaries paid to advisers.

Macquarie Practice Consulting

Want to know more about what makes financial practices successful?

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 Macquarie Practice Consulting on macquariepc@macquarie.com or visit macquarie.com.au/practiceconsulting.