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Good advice pays

Alex Dunnin

Adviser practice owners risk being caught in a pincer movement between having to deliver better services more cost effectively while also having to demonstrate why premium advice is worth paying for.

Concerns are rising that proprietors who misjudge their response could jeopardise their chances to maximise their business' resale potential.

Adding to the pressure, thousands of retiring advisers will soon be in the market to sell their practices. "There are now 5,500 advisory practices in Australia and 2,000–3,000 will be sold in the next few years. This will lead to price contraction and to protect yourself you have to protect your business," Stephen Prendeville, former chief executive of Deloitte Financial Services, told a recent Association of Financial Advisers luncheon club.

Reinforcing the business risks, Steve Davison, national manager for AXA's GROW advisory support network, said, "Practices that don't create a proper value proposition will devalue their advice. Quality advice has a price and the key issue is not to undersell yourself."

Raising just as much concern among corporate advisers involved in helping proprietors sell their practices is that the ways some practices are responding to market changes is ironically making their job even tougher.

"Lots of practices have removed practice management and moved to lowering their costs [and service depth] in response to their clients. But is this the right thing to do?" cautioned Davison.

Another problem is disproportionately reacting to contemporary market debates. "Much of the debate has been about fee for service versus commissions. Big issues, but they really only impact practioners in a small way," he said.

If this downmarket shift is not accompanied by upward elasticity in client volume then practices just lose value, said Graham Peatey, founding partner of the Encore Group. "You are much more likely to lose a high value client before you lose a low value one."

Practices should also not simplistically expect technology itself to deliver a magic bullet, said Peatey. In the US even though their technology is very sophisticated it's primarily only focused on things like paperless offices and web-based seminars rather than actually improving clients' wealth accumulation outcomes.

Peatey said this is why in Australia while technology is driving down costs, it's being accompanied by increasing staff costs due to the shortage of quality advisers, who can account for typically 60 per cent of a practice's total costs.

Davison said with the number of advisers plummeting from 25,000 in the early 1990s to only about 16,000 now, strategies designed to attract and retain good advisers could therefore be central to your business and its succession plan.

The best response, said Prendeville, is practices wanting to ensure their long-term value should develop their value proposition, improve their service delivery efficiency and optimise the quality of their teams because in a few years practices may be harder to sell at their preferred price than many advisers realise.

One sure way to protect your practice's value is also to avoid financial scandals, like being involved with something like a Westpoint. "No one will touch you. Compliance is just good business," he said.

Practices should also diversify their sources of revenue while the choice of platform can significantly affect how easy it would be to integrate your business. "Fee for service businesses can sell for twice the [earnings] multiples as commission-only businesses." ▮

Steve Davison