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"Choosing a platform in future will irrefutably be more of a strategic business decision than a tactical investment solution."

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This paper examines some of the factors that can impact a planning practice's business model, including general barriers to innovation and collaboration and will outline why platform choice will be more of a strategic business decision in the future, rather than just an investment transaction.

** Earn CPD Points by answering the short quiz at the end of this article.*

ASSESSING THE IMPACT YOUR BUSINESS MODEL & TECHNOLOGY PARTNER HAS ON PROFIT

Martin Morris, Praemium

Introduction

Financial planning principles are continuously faced with legislative changes and there is very little air-time between articles referencing the royal commission, Financial Adviser Standards and Ethics Authority (FASEA) and other regulatory changes. These factors all have the ability to significantly impact profit, which can trigger advice firms to analyse and re-evaluate what's important to their planning practice, their client base and ultimately their future business success.

This paper examines some of the factors that can impact a planning practice's business model, including general barriers to innovation and collaboration and will outline why platform choice will be more of a strategic business decision in the future, rather than just an investment transaction. This paper will also review the impact that choice of business model can have on profit, utilising independent research on practices embracing managed accounts, as well as considerations for selecting the most suitable technology and insights to those looking to innovate and transform their business.

The innovation and collaboration conundrum

In an environment of high-profile legislation, requiring stringent compliance oversight, business owners and practice managers can place a large amount of emphasis on this as a barrier to success. However, the contingent continuing to grow their businesses are faced with the same legislative pressures, access to resources and available investor communities. Whilst it is impossible to not sympathise with those feeling the pressure, the main difference between growth and stagnation is often the mindset of the principle or business manager.

The Small-to-Medium Enterprise (SME) sector covers micro-businesses (1–4 employees), small businesses (5–19), medium businesses (20–199) and makes up 98% of all Australian businesses, producing one-third of the total Gross Domestic Product (GDP). The majority of the financial planning fraternity sit firmly within the micro and small business component of this sector, with some larger practices entering into the medium business category. There would therefore be many correlations between financial planning practices in Australia and the wider business community and one concerning theme is the challenge of innovation and/or collaboration.

According to the Global Innovation Index, Australia ranks 22nd in the 2019 list, behind much smaller economies. We need to seriously consider why that is the case. In the instance of the SME sector, and relevant financial services business owners, it could be suggested that often, when a business owner or individual considers innovation it is at a transformational level and due to the enormity of activity that needs to take place, it often stymies any action at all. The requirement to focus on day-to day activity just adds to this pressure and business owners find themselves putting off commencing change to a later date.

Many technology reviews take place after the 'successful' visit of a platform or technology representative who has managed to disturb the status quo and alert the interest of a decision maker. Thereby any further review is based on what a piece of technology can do rather than what a business owner needs it to do. Furthermore, without foresight how can you review something without a clear set of parameters and controls with which to benchmark it? Ricoh, a workplace technology specialist, have researched and commented that 60% of Australian organisations do not have a detailed enough level of clarity around required systems and processes and this is holding back increases in production efficiency.

According to the Australian Bureau of Statistics (ABS), Australia's slow move towards innovation is clearly demonstrated by the fact that;

- only 31% of microbusinesses and 50% of small businesses have actually introduced innovation, and
- only 13% of microbusinesses and 22% of small businesses introduced new or significantly improved operational processes during 2016-17.

With no clear parameters around business needs or a defined client engagement model it is not surprising that this is the result. What often occurs when practices move to a managed account solution is that they do so with a small set of internalised tactical objectives, such as removal of Record of Advice (RoA) obligations to relieve the compliance burden, rather than an overall enduring strategic vision for the practice and its clients.

The managed account industry has dramatically changed the technology landscape in recent times. Innovations in Application Programming Interface (API) access, machine learning and new technology are excitingly driving daily change to solutions and services offered by incumbents and new entrants. This is driving the need for practice owners and managers to partner with providers that can offer insight into best practice principles, help navigate the strategic landscape and assist in managing new legislative hurdles.

However, despite this opportunity there are some startling statistics that show;

- only 18% of innovative business owners collaborate with others around innovation
- only 5.5% of overall microbusinesses collaborate outside their business, and
- only 9% of small business owners collaborate outside their business

This is a surprising outcome and demonstrates that business owners face a real challenge, to not only embrace change, but to source IP from alternate sources.

When you consider the isolation of many micro or small business owners and their often-limited access to, or lack of resources to invest in infrastructure, and particularly people, it would make intuitive sense to source Intellectual Property (IP) from external sources. Yet businesses that are rated as innovative, by the ABS, stated that of all the factors preventing or limiting collaboration 10% stated that it was partly due to them seeing no value in collaboration and 20% said it was partly due to a lack of time and funds. Unsurprisingly 56% stated that there were no factors affecting collaboration, other than personal choice!

So, what does this mean for the financial services sector and the SME's within it? There are three main considerations.

1. inertia to change and innovation will continue to restrict profit growth, increase business valuation risk and limit the ability of business owners to keep pace with changing client demands.
2. business owners and practice managers need to have a very clear sense of strategic direction and short-term tactical priorities in order to ensure that processes and services remain relevant.
3. collaboration is being ignored by many. There is an opportunity to engage with suppliers, clients and peers and in order to navigate the short to medium term it is pertinent to ask if you should be doing this alone.

Choosing a technology partner that is not only right for a business today but in the future has never been more important. Tapping into the innovation insights, technology and market expertise the right technology partner can offer can provide true business transformation.

Australia's platform industry competes furiously to be a firm's partner of choice with many adopting pricing strategies as a means of attracting and retaining clients. If choice was based solely on price then we would have a far simpler industry, but it is not that simple. Of course, cost needs to be reasonable and competitive pressure is important, but we are far away from platforms being truly commoditised and as such value comes in many guises.

Planning firms need to have a clearing understanding of not only their current needs but also their future requirements and select a platform partner that can support them in achieving their objectives, which is why platform choice in the future needs to become a strategic decision for practices.

Why choosing a platform in future will be more of a strategic business decision

Adviser business models have stayed fairly consistent in the last decade. This doesn't mean there haven't been significant changes to business processes, but the change

The quote

Only 31% of microbusinesses and 50% of small businesses have actually introduced innovation.

has mainly been forced upon practices by legislation as firms worked through the Future of Financial Advice (FoFA) and the royal commission.

However, we continue to see a seismic shift in client needs and the expectations they have of their advisers that could equally impact a firm's bottom line. With information at their fingertips and the ability to complete their own research before embarking on their investment journey, investors can now access robo-advice solutions, providing low entry levels to those wishing to start investing. With 75% of consumers preferring to self-solve their own customer service issue, providing a digital solution as part of their value proposition is becoming increasingly important for advice firms in servicing this changing client profile.

An exciting opportunity is the well documented fact that in the next three decades, $3 trillion in assets will move from one generation to the next in Australia. In the US, the transfer is estimated to be well over $30 trillion, and worldwide the figures are staggering. However just how well placed are practice owners to take advantage of this wealth shift, given statistics show 90% of inheritors typically change advisers upon receiving their inheritance? Retaining the next generation of clients is a significant challenge for the advice industry, to ensure profit and business valuations are maintained.

Managed accounts and importantly the technology platform partner chosen can help practices on both these fronts but not all managed accounts platforms are the same, and as such when business owners and practice managers research the market, they need to be very clear on the differences.

The platform landscape has changed significantly over the past 25 years. In the early 1990s we saw the development of master trusts as the first platform structure to consolidate investment execution and reporting and simplify the investment experience for investors and their advisers. Next came wrap platforms, which facilitated broader investment choice (for example, listed securities), broader overarching reporting across super and ordinary investment savings, lower investor costs, greater advice fee collection functionality and the introduction of adviser- and dealer-level model portfolio functionality. Many wrap platforms have, with varying degrees of success, attempted to add on SMAs and associated functionality. This has been a difficult undertaking for some since the technology requirements for running non-unitised, actively managed investment portfolios are fundamentally different to wraps, which are essentially investment administration services.

The way is paved for groups, such as Praemium, and those innovating at a fast pace to deliver the next-gen integrated managed accounts platform (see figure 1), which can offer a deeper solution catering for all versions of managed accounts on a single platform. Delivering more efficiency and client engagement than ever before.

A next-gen integrated managed accounts platform includes simple and consolidated reporting of all investment assets (including custody and non-custody); broad investment choice with ease and flexibility to make changes; tailored solutions for every kind of investor; administrative accuracy and efficiency; and the benefit of platform scale in the form of very competitive fees at all levels.

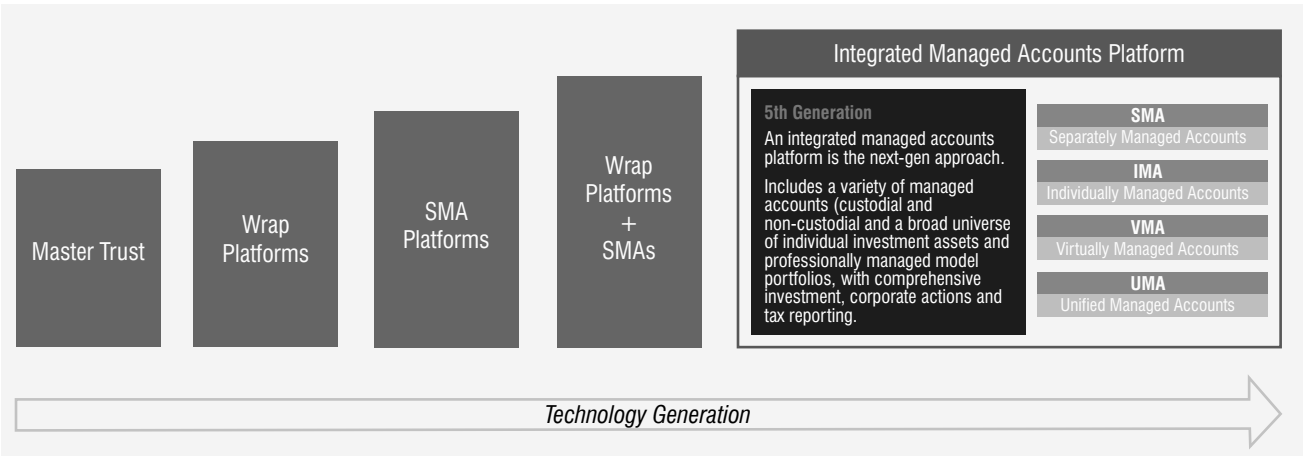
This change has happened extremely quickly as more planning practices seek greater efficiency, legislation drives change and client demands put pressure on existing business models. The need to understand the complexity of each generation of platform and understand how new and legacy systems will assist in increasing profits, drive client engagement and minimise risk is imperative for planning practices. This is especially prevalent as institutionally restricted practices opened up their Approved Product List (APL) opportunities and move to self or independent licensing environments and need to compare and assess next-gen solutions with their wrap counterparts.

Therefore, choosing a platform in future will irrefutably be more of a strategic business decision than a tactical investment solution. Should business owners and practice managers get it right though the effect on profits can be significant.

Driving profit through managed accounts solutions

Each planning practice has its own unique business needs, appropriate Key Performance Indicator (KPIs) and 'ideal' client profile. Geographical location and business model will drive an equally different set of influences on client engagement models. However, delivering

Figure1. Platform market journey and generational change



greater efficiencies, driving greater profit, retaining clients and increasing client acquisition is consistent across every SME.

Business Health, a leading practice management provider in Australia, utilise their proprietary diagnostic tool, the Business HealthCheck, to assist practice owners to benchmark their business against industry peers and their competitive universe and drive business success. Of those practices that have utilised the HealthCheck, Business Health have been able to analyse practices utilising managed accounts and benchmark against those that don't to determine the impact using this solution has on their business. Their analysis shows that;

- 47% of practices have access to SMAs on their APL,
- 37% have access to MDA solutions, a significant growth in this sector,
- 27% of diagnostic participants utilising managed accounts use the solution for all their clients,
- 45% utilise them for larger clients over $200k, and
- 33% use managed accounts as a replacement for traditional direct equity solutions.

With a sizeable percentage utilising managed account technology it is interesting to understand the impact that embracing managed accounts in some form has on various factors and the uplift this delivers relative to firms that do not use managed accounts at all.

Table 1. Managed accounts and the impact on business profits

Factor	Uplift
Revenue per FTE adviser	22.6%
Notional practice profit	21.3%
Notional profit per client	28.8%
Clients per adviser	12.4%
Client appointments per adviser per week	-6.5%
20+ new clients added in the past 12 months	7.7%

In table 1, it clearly demonstrates that the rhetoric around the use of managed account technology and its impact on business profit is accurate. As the industry harnesses enhanced best practice models through increased experience in this sector, it is likely that we will see these divergences between users and non-users increase.

Interestingly, previous practice management methodology talked about reducing numbers of clients, through ideal client profiling techniques, to focus on more profitable clients. The analysis above is showing that the number of clients can increase whilst still maintaining profit levels by taking advantage of scalable technology solutions to drive engagement to a wider audience. This was very difficult until recently and managed accounts coupled with next-gen platforms are definitely making this a real business benefit and strategy.

Finally, the analysis also highlights an increase in client acquisition. This could be argued as an outcome of a business having more time for marketing and prospecting activities. What will be interesting to see as more practices harness next-gen platforms with their enhanced client centric value propositions, is if client acquisitions increase. Clients refer experiences, not things. The simple connection that a better digital experience offers can be a driver of client referrals and should be a criteria for deciding which technology provider to partner with.

Business owners and practice managers can harness managed accounts and next-gen platforms to truly transform their business or at the very least solve a number of key business barriers and priorities. To do so they should;

- Embrace an innovative culture,
- Understand your business strategy and value proposition,
- Ensure you understand the generational version of platform you are using, and
- Collaborate and partner as much as possible. **FS**

CPD Questions

1. Why is innovation not being embraced by financial service business owners?
a) The requirement to focus on day-to-day activity leaves no time for innovation
b) No clear parameters around business needs
c) No clear defined client engagement model
d) All of the above

2. The majority of the financial planning businesses sit within the micro and small business sector.
a) True b) False

3. What percentages of inheritors change advisers upon receiving an inheritance?
a) 75% b) 90%
c) 30% d) 65%

4. For businesses that are rated as innovative by the ABS, what factors are preventing or limiting further collaboration?
a) Seeing no value in collaboration
b) Due to a lack of time and funds
c) Due to personal choice
d) All of the above

5. What percentage of customers are looking to self-service their customer service issues?
a) 75% b) 3%
c) 50% d) 5%

6. Only 9% of small business owners collaborate on innovation outside of their business.
a) True b) False

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