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**“The fatal assumption made by all technicians who go into business for themselves is:
If you understand the technical work of a business, you understand a business that does that
technical work”**

Michael E Gerber, Author of The E Myth

Introduction

This chapter proposes the structure and skills required of a modern advisory business and how that differs from many current models.

This chapter will consider:

- the changes to the roles, knowledge and skills within an advisory firm
- the pros and cons for using out-sourced services
- the future roles for Networks / Service & Product Providers
- what may need to change around staff remuneration structures

Changing roles, knowledge & skills

A significant number of advisory firms are moving to a model based on delivering a quality financial planning or investment management service to a defined number of clients via a narrower range of routes to market. The operational impact of this move can be significant and can be examined in relation to a range of roles within a practice.

Administration

The traditional administrator’s role was to:

- package up applications, fact finds and supporting documentation to send to Providers
- phone / chase Providers for progress and conclusion of cases
- update back office systems as cases were progressing / concluded
- obtain and collate valuations from different sources
- establish what would be required by different firms to exercise different options on their products
- file paperwork
- reconcile commissions from different providers to each client and adviser

Under the new model, the range of activities alters in many ways:

- the frequency of having to administer a paper based application reduces significantly be it a new application or a portfolio change and the associated chasing of these applications through the system
- the work associated with collating valuations from a variety of sources radically reduces – less calls, chasing and putting into a centralised format and having to re-do altogether as one valuation comes in a week after the others.

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- portfolio changes can be managed on line or maybe outsourced altogether to DFM's or multi-managers
- top ups and withdrawals can all be done in less time
- as the routes to market diminish so does the reconciliation work
- as the routes to market diminish there are fewer variables that the administrator has to know about and they become more and more proficient with those that they use.
- filing work diminishes as more and more is held on line with fewer providers and fewer client files themselves
- client enquiries may reduce as they can access more information on line but in any event more of their queries can be answered in a one and done fashion

Utilising Increased Administration Capacity

Many firms paying for back office systems, financial planning tools fail to use them to the best effect because staff do not have time to apply them as fully and proficiently as they might and / or they haven't invested sufficiently in their training to use them.

The knock on effect of this is that Management Information is often unreliable, there are greater risks of things getting missed and certain client benefits of using some of the tools are not being realised.

Some firms have begun to re-deploy administration time to:

- ensure that their back office systems collate all relevant information accurately whereas before the time constraints led to short cuts
- help collate the information required and populate cash-flow planning tools
- sit in on certain elements of client meetings, particularly initial meetings to hear first-hand the clients requirements, take notes to populate the back office system properly and be able to commence follow up client work more quickly
- undertake client relationship management work – calling clients pro-actively more often between meetings to establish if they need anything, diarise and confirm service meetings and check in advance if there are any specific issues they want the adviser to be prepared to discuss.
- do more budget based work – maybe researching cheaper insurance quotes, utility rates etc.

Para-planner

Rationalising the routes to market through preferred platforms and alternative products, means research and recommendation work is made more straight forward. The focus is more on a client's strategy, establishing the right tax wrappers, trusts and investment strategy, rather than researching a wide market of products from a variety of providers as well as funds.

There is far more value to be added by getting the macro strategy right than worrying about the micro savings between one product or another, or one fund or another. This argument was highlighted in a previous chapter.

Para-planners therefore may become more involved in the strategy and if using a cash-flow modeller, creating illustrative examples of alternative approaches for the adviser to discuss.

Engagement of para-planners can be on an employed or out-sourced basis. The decision as to which route is most appropriate depends on many factors. One such factor would be the rate of new client growth the business model requires. The most significant work of a para-planner may well be carried out when a client joins the business. If the rate of new client acquisition is slow or moderate, it may

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prove more effective to utilise external resources. However, each individual business model would need to think carefully about the route it takes on this aspect

Role of the adviser

As firms approach the optimum numbers of clients per adviser, marketing activity may reduce. Many advisers will therefore be focussed on client servicing rather than the need to find many new clients. Moderate replenishment of a client bank can be catered for by an effective personal introduction strategy through existing clients and professional connections.

A growing number of advisers now focus efforts on a finite number of clients be it 200, 120 or even 50 and deliver a quality service. This may require polishing up a number of skills / competencies, some of which are not natural attributes of out and out sales people such as:

- Personal Business Management - the ability to plan, work to a schedule, be on time, maintain management information
- Maintain a focus on the desired target market and saying “no” when a client does not fit the profile or want the services as described
- Deliver a consistent message and work to prescribed processes and frameworks
- Collect all relevant information in a comprehensive and timely way, that’s a good one I hear the administrator say!!
- Good questioning and listening skills, being able to demonstrate a greater degree of empathy, help clients discover and articulate their goals, fears and feelings.
- Apply some commercial sense – ensure they do not over commit company resources to undermine the profitability of the client they are working with and cause variability within the business.

Finance / accounts

One of the big drains on resource here traditionally was reconciliation of commissions. The workload in this area significantly reduces, but is replaced by ensuring that fees are appropriately invoiced and collected. Many will still collect their fees from their clients’ investments via a platform, which gives greater control over revenue and cash-flow.

Outsourcing

We have seen a steady growth in businesses seeking to offer outsourced services to advisory firms and this trend is likely to continue. There have been a growing number of opportunities for firms to outsource some of its workload, risks and responsibilities. These include:

- Compliance to Networks, Service Providers or smaller Compliance advisory firms
- Investment Management to centralised teams, discretionary managers, multi-managers or portfolio construction companies (OBSR, Russell Investments etc)
- Platforms for portfolio admin & management
- Para-planning services
- Marketing companies
- Telephone services
- HR & Legal Services
- Consultancy / Performance management

Inevitably they all come at a cost, but these need to be evaluated against the opportunity benefit of the time created for staff to focus on other added value activities or the chance to reduce costs.

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Pros and cons of outsourcing

Some of the reasons for out-sourcing are that it can provide:

- Elements of cover when staff are off sick or on holiday
- Passes on day to day staff management responsibilities to others – time and liabilities
- Reduces exposure to staff absenteeism / turnover – time and expense to recruit and train
- Could reduce capital adequacy requirements
- Can hire / fire suppliers more easily than staff and therefore react more quickly to fluctuating demand

Key benefits are:

- cost savings, invariably cheaper than employing
- quality is often better as people trained and focussed on that particular service and their on-going contract depends on it
- access to specialist skills – reducing the need to invest considerable time in own skills that may only be deployed occasionally
- contractual obligations less than with own employees
- capacity management – can smooth peaks and troughs
- risk mitigation – spread the management responsibility, have more heads on the case.

This approach is typically used for tasks that are non-core or skills which do not exist within the business.

Some of the draw-backs to outsourcing may be:

- Less control of “how” things are delivered but many providers, especially for larger firms will have a vested interest in tailoring their approach to their clients wants
- If using overseas sources then there can be some language barriers
- Culture / brand – can the provider deliver in line with desired brand / style
- Company knowledge – to what degree does the outsource provider know the firm, i.e. is it the same one or two people supporting the firm or is the work spread around a wide team?

New compliance related roles and services

Many firms have moved towards:

- the delivery of a defined service proposition to a narrow range of clients
- managing the core tax wrappers on a preferred platform of choice or two
- standardised investment propositions and processes using outsourced solutions

This means the majority of advice relates to on-going monitoring and maintenance of a pre-agreed strategy that only from time to time requires advice on new products and services.

If they use outsourced investment management services then the need to seek fund selection advice and gain approval for any changes also diminishes.

With this model comes a reduced complexity of business and less risk, that may have different requirements from its compliance resources.

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The Network / Service Provider Model

The future for these organisations probably lies in being a hub for the out-sourced services charged on a pick and mix basis, or offering a clearly defined “restricted or franchised” structure for firms to buy into. They may seek to provide services such as Training & Development, Business Consultancy, Marketing, HR, Legal, Accounting and more Technical / Specialist Product Advice and Support.

Remuneration impact

With all these changes:

- A focus on fewer clients
- Clearly defined services
- New methods of client charging
- New roles and responsibilities within the business
- Greater emphasis on a team to deliver than on the main man to sell

... it makes sense to re-visit how staff get paid, after all remuneration schemes do tend to drive behaviours. What you pay for determines what you get.

The old fashioned payments based on turnover have for some time become more and more inappropriate in the market as costs have escalated and rates of commission fallen. Fifteen years ago one could be pretty confident most business would be profitable, but now, without proper focus and controls, more could be unprofitable than profitable.

Any review of this area needs to consider:

- The changing emphasis towards a team effort and so some team bonuses may be worthy of consideration
- Adviser rewards should perhaps consider proportionate rewards for “profitable income” rather than purely turnover. This focuses advisers on selecting the right clients, following the preferred processes and not over-promising on resources.
- Loyalty bonus schemes to retain staff
- It may also distinguish between remuneration for hunting and for farming

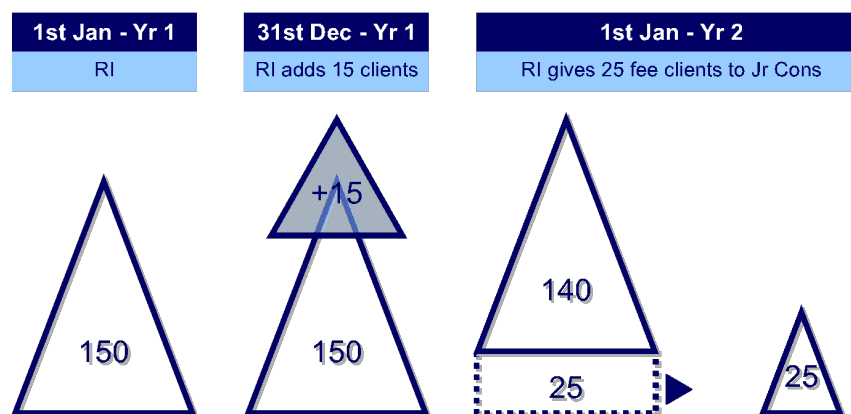
Firm foundations leading to new growth

In the “old world” the focus was on having to sell products month in month out to earn an income within a self-employed commission model that lent itself to considerable adviser turnover of and cost to a business.

Typically, in a commission only world, advisers would carry 3 to 4 times that number of clients (450 to 600). They relied on an unwritten law of averages to generate income. This law dictated that from a large enough pool of clients, sufficient numbers will require the kind of advice that will generate the adviser’s target income for that year. Along with this went a lot more administration, phone calls, mental energy, perhaps valuations and service meetings.

The new world can bring opportunities for more profitable and sustainable growth.

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Let's examine a business where optimum client capacity is established as being around 150 per adviser. This allows time to add around 15 new clients a year, meaning 15 or more clients could be passed onto another or new adviser.

If the average value of the 15 new clients engaged by the senior adviser is significantly more than his existing lower tier of clients, it means he can afford to work with fewer than 150 clients and increase the rate at which he passes on lower value clients to the newer adviser

This means the Senior Adviser may be able to reduce his client bank to 140 and actually pass on 25 quality clients to a new or Junior Consultant. The more Senior Consultants there are in the firm working on this basis means the new recruit or trainee can reach his or her capacity quicker.

If there were 3 senior advisers working on this basis, then after one year, the new adviser would have 75 clients to service. After 2 years, he/she would be looking after 150 clients.

Clearly, I have painted a perfect world scenario here. However, the principles involved stand the test of time. The more focused a firm becomes on its core clients and the proposition it delivers at a clear, fair and profitable price, the more predictable its operating model will become for the benefit of all concerned.

Structural changes - Costing & pricing implications

As firms move towards more efficient methods of looking after clients they need to consider how they will redeploy or reduce resources to either add more value or hold prices at competitive levels.

If a firm has been making insufficient profit, savings may be needed to enable the business to invest in its ability to look after clients.

Too often the assumption of the media and regulator is that the use of platforms should lead to a fall in adviser fees. This fails to account for all the aspects of running an advisory firm that have risen over the last ten years or more:

- Professional indemnity costs
- FSCS costs
- FCA fees
- Print and stationary costs as more produced in-house than supplied by Providers
- General office costs – rent, rates, heating, lighting etc.
- Fuel costs to and from client meetings
- Capital adequacy requirements

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... to name but a few. They have been tempered by some reductions in other areas but not sufficient to counter-balance with the increases.

A firm therefore needs to take the processes it has outlined from the previous chapter and:

- establish what is to be done in-house and what is to be out-sourced.
- who is the most appropriate person to fulfil the in-house tasks
- measure how long these tasks and the processes take to fulfil their delivery

This will then inform how many staff members are needed in the various roles to deliver the relevant propositions to the existing and targeted numbers of clients.

A firm may need to establish a different charge for different segments of clients according to the complexity of work with each segment.

The actual cost associated with these activities can then be established for pricing purposes. We will look at this again in chapter 13.

Summary

Many commentators suggest scale is required to survive. However, I believe the advent of greater use of outsourcing and a tighter focus on servicing a finite number of clients means small can be beautiful. The efficiencies and value of the operating model are more influential than pure economies of scale.

For those who do want to grow a bigger business, if they get the foundations right then the potential to develop a consistent and steadily growing operation is better than ever.

There will be more organic growth of advisors within advisory businesses in the future as they can come through the ranks of administrator, para-planner etc. Support staff need to be far more technology savvy these days, to ensure firms can optimise the benefits of the systems available.

The changing needs of the market may mean some firms have to re-consider their structures, the skill sets and roles they need and have as a result some tricky but necessary decisions to make.

There may be a distinction to be made between what is paid to someone who provides an on-going service and advice and service to those who prospect and sell financial planning & service contracts.

The role of Compliance and the services offered by Networks & Service Providers will change markedly as it becomes more about the delivery of a Proposition than the sale of a product.

Whilst technical competence is still very important, when it comes to effective financial planning there needs to be a marked improvement in the skill sets of the market to deliver an effective financial planning service and trusted client relationships.

There has been a huge focus on technical qualifications over recent years, there needs to be a real emphasis now on the questioning and listening skills of the market. An adviser's ability to show empathy and open up client's willingness to explore and share their goals, fears & concerns needs polishing up.

A lot to think about. Then there is the question of whether to do all this as an "Independent" firm or a "Restricted" firm, which is our next thorny topic for debate.

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