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“The narrower the hosepipe, the more powerful the jet”

If you own, manage or work in a business where the days when things run like a well-oiled machine are outnumbered by days when the “machine” either idles, stalls or overheats, this chapter may hold the key to swinging the balance back in your favour.

Where the principles described in this chapter have been embraced and adopted in advisory businesses, the benefits derived include:

- people in the business pursuing activities which enable delivery of the right value to the right clients at the right time at the right price
- greater day to day predictability of work required around the business
- clients with great trust and confidence in their advisers’ ability to deliver promises made
- effectiveness and efficiencies which accelerate cash-flow

These benefits arise from understanding and improving the relationship between effectively focused effort, efficiency in creating output and timely delivery to customers – i.e. productivity. Productivity is not as easy to monitor in a financial advisory business as it is in a manufacturing process employing an assembly line. Production of reports and letters can be observed, but it is not easy at first sight to know whether these outputs are being produced to the right quality, in the right order, for the “right” clients or in the most efficient way to include all essential and added value components.

Applying the core principles of productivity improvement can combat two “viruses” which often combine to introduce unprofitable work as well as peaks and troughs of activity. We’ll call these viruses Variability and Inconsistency.

My colleagues and I run a highly illuminating workshop which illustrates the cumulative and compound cost of variability and inconsistency. It is an incredibly powerful exercise for firms of all sizes. Many attendees realise their firms are falling somewhere in the region of 30% short of their potential productivity and turnover, with a consequent impact on their profit and brand potential. There really is no substitute for participation on the workshop we run. However, by the end of this chapter, you will be able to recognise whether the twin viruses are present in your business and along with reading the future chapters in this series become equipped with an effective remedy and means of preventing future infection.

Motorway road-works as a model for business productivity!

The advent of motorways focused the flow of traffic more directly and efficiently from one major population centre to another. In time, the motorway planners had to find a way of controlling the flow of traffic through inevitable upgrading and repair works along several miles of motorway and accommodate the volume of traffic entering or exiting the affected zone.

Historically, the mechanism of speed cameras in road works would be triggered by cars travelling past the camera above the usual limit of 50mph. Drivers slowing down on sight of a camera would cause a ripple effect, limiting drivers further back to speeds of sometimes little more than 10mph. Drivers hopping lanes looking for faster progress created a similar effect in their new lane.

Fuel consumption was inefficient and engines had to work hard to cope with the speed variations. Time travelling through road-works often worked out quite a lot more than one hour per 50 miles i.e. slower than the speed limit would allow. Drivers would feel tired and frustrated by having to micro-manage progress. The risk of bumper to bumper collisions was ever present and these often "minor" shunts would result in expensive repairs, and interrupted, diverted or cancelled journeys for those directly and indirectly involved.

The introduction of "average speed cameras" improved travel times through road-works with a consequential improvement in fuel economy and driver morale (maybe I'm exaggerating the effect on morale here). Why? Drivers travel at a more consistent speed as they realise the penalty-point consequences of a stop-start approach. The temptation to lane-hop to gain an advantage is reduced. Also, at peak times the use of the hard shoulder is permitted for cars exiting and entering the motorway to enable smoother traffic flow.

In business, it is important to replicate these twin effects by having

- a clear focus on the type and volume of work for which a business aims to cater
- an efficient process for getting work to flow smoothly on a day to day basis.

Businesses need to determine whether they are suffering the unnecessary, cumulative and compound cost of failing to focus on the:

- kind of "traffic" (client work) best suited for the services they offer
- most direct route for the journey a piece of work needs to take through their business
- smooth flow of work as it passes through their business.

In many businesses, the number of advisers is often a good indication of how many different ways the firm "tolerates" as a means of acquiring new clients or servicing those already engaged. Differences can stretch across many aspects of work:

- clients from disparate and different target markets are engaged according to each adviser's preference or experience - the "liquorice allsorts" approach to segmentation
- a variety of ways being used to explain value on offer to clients
- completion of fact finds to different breadth and depth
- wanting reports done in different ways,
- duplication of research tools, risk profilers, different views on investment strategy and products and platforms used!

In effect, there is no "Highway Code" to guide the way the business should be operating.
Although people in the business may be very busy, there is a risk that no traffic gets to its destination very quickly or along the same focused, well managed route. The cost of getting different pieces of work to their destinations may well have eaten into what could have otherwise been a fair and healthy profit margin. Some work reaches its destination without making any profit!

A Pathway to Improved Productivity

One of the most influential organisations in relation to the effective management of Business Processes and Improving Productivity is The Goldratt Institute. Eli Goldratt's "Theory of Constraints" illustrates the importance of reducing variability of performance within a process and why a more streamlined, focussed and "corporatized" model with strong and consistently deployed processes is critical.

Two of the key principles Goldratt emphasises deal with the:

- fallacy of trusting that the "law of averages" will ensure that over a prolonged period of working days, outputs from several stages of a process will equate to the average output calculated in advance
- notion that tinkering with stages of a process in isolation to "fix the weakest link" will make the whole engine run like clockwork

Reality bites the law of averages

In financial services, a typical advice process comprises several stages of activity, each with its own process or procedure. The productivity of a team handling a particular stage is not only impacted by its own performance but also by the performance of teams at each preceding stage.

How often does someone perform a bit or a lot short of their optimum levels when there was more than enough work to get on with? This may be particularly the case when people are fatigued, towards the end of the week or after an extended period of pressure. On top form they may be able to produce say 6 units of output, but how often are they able to perform at their optimum even though the work was there to be done?

Alternatively, someone may feel ready to have a great day, but various things conspire to stop them achieving optimum output. Systems run slow or crash, meetings are postponed, information is not available when it should be etc. They would have produced 6 units of output but this time the work wasn't there to do.

Regardless of reasons why optimum productivity is not achieved, the time lost cannot be recovered.
Therefore, the law of averages doesn't work when it comes to a string of processes because of the dependency between each stage of the process.

It is the combination of dependencies and fluctuations in performance that need to be better understood and managed within a business. For example, if Stage 1 produces only 4 units of output on Day 1, then on Day 2, the potential for the Stage 2 team to operate at its maximum capacity even if on top form, is already limited and this has a knock-on effect on the Stage 3 team and ultimately cash flow from the units of work delayed during Stage 1

The workshop I referred to earlier illustrates the need for ruthless eradication of any unjustified causes of fluctuations in the ability of a process to work at its optimum capacity as often as possible.

Variability is caused by allowing a variety of personal preferences to dictate how a particular stage in the process is performed. It will make performance at that stage prone to fluctuation with a ripple effect on people waiting to carry out subsequent stages i.e. creating a bottle-beck.

The implications of this can be extremely expensive:
- slow progress of cases / clients creates risk of clients abandoning their commitment
- business will have incurred costs without recovering potential income
- clients who abandon ship are not likely to refer the firm in the future and may even talk negatively about the firm.
- cash-flow implications
- inefficient working practices breed complacency in staff who want an easy life
- ineffective processes demoralise staff who believe in continuous improvement
- demoralised staff more likely to seek new pastures, leaving behind staff who prefer the status quo

Over the last 2 decades, many firms have:
- seen their client banks grow, but their profitability stagnate / fall?
- found themselves pedalling faster and faster to stand still and staff having less and less time to do the work they need to?
- found they have less time to work on the business and their own skills as they are just trying to keep up with the workloads within the business?

A contributory factor to this scenario has often been a reluctance to instil greater uniformity in the type of client work sought and the way in which services are delivered and processed within an increasing complex world of regulation and market demands.

Tinkering doesn't improve productivity

Goldratt also illustrates that improving one stage of a process will have no material impact on the end result.

How often has a firm introduced some new IT to its business hoping it would dramatically improve things and been sorely disappointed, be it a back office system or a Wrap Platform? How often has a business introduced a Para-planner to support demand from its advisers to find profitability fall? Just changing one aspect of how a firm operates will not make a significant difference.

Changing how you charge for what you do, will not make a material difference unless you change a whole series of things within the business to make it a price worth paying. In fact changing one stage of the process requires a fundamental review of the impact on all the other stages and establishing what needs to be different about all the stages to make this change effective.

If you make a change to a stage of the process and it enables one or two stages to be taken out of the process that will help to a degree as it reduces the number of opportunities for variability to take place (money to slip between the cracks), but other than that you need to be realistic. This is where some IT has helped but still not as much as often anticipated unless at the same time, a number of other changes will have been made to the business model and processes.

Shortening a process does help the productivity of a business and there have been some developments in the market that have helped, but what if anything has happened to processes overall? It is probably fair to say that more stages have been added due to regulation and servicing commitments, exacerbating the problem.

What degree of variability exists in your current operating model?

The left hand column in the following table describes symptoms observable in a range of business aspects infected by the "high variability virus". The right hand column describes what each aspect would be like if low variability exists.

As a high level self-assessment exercise, you can enter a score for where you think your business fits between the extremes of high or low variability. Score yourself anywhere on a scale between

- 1 (low variability) and
- 10 (high variability)

High variability (10)	Score	Low variability (1)
Have an "all things to all people" approach, no clear target market and will see pretty much anyone for an initial discussion in the hope it will generate some flow.		Has a clear understanding of their Target Market and their needs and wants and does quality control on all prospects before proceeding to initial interview. The "narrower the hosepipe" - e.g. Doctors / Dentists; Retired Professionals; Clients with investable assets > £X00,000 etc. As importantly they are confident to highlight to prospective clients where they are not the right firm for them and turn business away
Has no proactive process to control over the volume and/or quality of prospects referred to them - reactive Marketing only		Has a consistent process embedded into their sales and servicing activity for gaining introductions from existing clients and introducers. They know what type of client they are looking for and can confidently describe them to introducers and clients and ask for and get introductions when needed.
Has no clearly defined and documented client proposition to promote to their clients. Each client may get a slightly different understanding of what they will get based on who they happen to be talking to		Has a clearly documented Client Proposition with 1, 2 or a maximum of 3 service options within it. The clients understand that they are buying into a longer term relationship with the adviser and the long term relationship and service is of greater importance than any product solution today.
Focus value add on Independence and delivering best performance being able to offer the best product and funds		The focus of their value add is on effective financial planning and a strong service and relationship. Product selection and fund picking are moderate value adds by comparison

High variability (10)	Score	Low variability (1)
The pricing model is flexible and open to negotiation or is applied with different rigour by different advisers causing certain types of client and work to have very varied impact on profits		Pricing is carefully constructed based on known cost and value of service delivery and is only flexible under pre-prescribed parameters and therefore consistently deployed
Fact finds are completed to differing degrees depending on the client and adviser preference. In fact they are seen more as a hindrance / necessary evil than an integral value add for the client		Depending on the proposition that is of interest determines the scope of the fact finding that is done and this is done in as comprehensive and consistent fashion as it needs to be. Clients are sold on the value of having the detail
A variety of risk profilers are used according to the provider/solution the adviser tends to select and / or different advisers use different ones as they have their own preferences		Uses one preferred risk profiler that suits the Investment Philosophy that the adviser / firm believes is right and the strategy that it deploys
As has a variety of routes to market, this firm finds it hard to operate a consistent investment strategy as different products / supermarkets & platforms have different fund & investment options etc		Where the appropriate tax wrapper to meet the client's financial strategy is available on the firms preferred platform to help deliver the preferred service option selected by the client they will mostly use this. If the right tax wrapper / product solution is not available on the preferred platform, they select from a refined panel of relevant products centrally researched. They try to restrict the routes to market as much as possible.
Either, believes that every client should have their own portfolio as they are unique or has no clear investment beliefs such that from one month to the next they may recommend new clients to a different set of actions to those that previous clients have, who also have a variety of portfolio types as views have changed		Has a clear Investment Philosophy / Belief that is well documented and a process that aligns the outcomes of the risk profiler to the appropriate asset allocation and fund choice, which can effectively be delivered by their chosen routes to market. The investment solutions are often either outsourced models or multi-manager, or where the adviser believes they add value as a fund picker, managed on a platform in a consistent way using their own models. Only in exceptional circumstances at an additional fee are they likely to run truly bespoke portfolios.

High variability (10)	Score	Low variability (1)
Most suitability letters are written in a totally bespoke way as the firm hasn’t created a template or format for aspects which are common to its clients and its proposition(s) and every client is unique by virtue of the product or fund solutions being provided		Each client has bought into a particular service proposition as the basis of their contract with the firm. That means that there are possibly only one, two or three types of Suitability Report that will have a consistent framework and a significant amount of similar content to them that the advisers use. 80% of the content is pretty much standard therefore.
Admin has to maintain a track of a whole number of cases at any point in time, contacting a variety of providers holding on the line, logging in and out of systems or awaiting call back or info to be sent		As most information is held in one, two or three places information can be accessed and produced on a one and done basis.
The variety of options, all with their own quirky requirements quite often means something gets overlooked or mistakes are made requiring a further visit / communication.		As most information is held in one, two or three places there is less risk of missing or overlooking things
Fees may need to collected in different ways from all the various different providers and then reconciled with client accounts and advisers remuneration		As most business is managed through a few routes to market, reconciliation of client fees becomes much easier to check and administer.
There is often only a verbal or loose commitment to the frequency of review meetings /events due to lack of a clear proposition and no systems for logging / diarising future servicing activity and associated preparation work		As most clients are buying into a Service Proposition clients expectations can be managed and the business resources managed.
As a result waves of unplanned activity descend on admin and bottle-necks of client servicing commitments arise, causing a “famine or feast” in scheduling. Typically towards tax and financial year end.		Client servicing meetings can be scheduled evenly throughout the year smoothing the flow of activity and reducing the tax year end implications or peaks in traffic can be better scheduled and extra resource temporarily deployed or holidays not permitted etc (i.e. using the hard shoulder at peak times)

High variability (10)	Score	Low variability (1)
There is no clear segmentation strategy meaning no focus on what the most valuable clients need and as a consequence, they may find what they need elsewhere – hence loss of potential referrals. Trying to be all things to all people means everyone suffers to one degree or another. At best has a mental note of who their top clients are and makes a conscious if not planned effort to maintain priority contact with them.		There is a clear segmentation strategy, driven by clients themselves selecting the appropriate service proposition that has been priced profitably in the first instance.
With portfolios spread across different products the adviser/ administrator has to get valuations and asset allocation data from several sources with different turnaround times, making analysis at best difficult.		With the majority of a client's assets managed centrally through a preferred platform for a given service proposition, attaining accurate and timely valuations and asset allocation is not an issue.
The average adviser retains a sizeable client base of 400 or more "clients", in case of future sales opportunity and / or perceived obligation / loyalty to continue to be available to those clients that got them started in the business many years ago.		The average adviser manages around 120 clients who are each paying a profitable annual fee to cover the cost and the value of the service they are receiving. There is no dependency for new income based on product sales and old clients have been managed politely as out on the basis that the firm can no long provide what they need at a fair price for them.

Now ask yourself whether there is room for improvement in the levels of variability in at least some areas of your business model? In reality, it would be rare to find a business which is infected in all aspects by high variability or is operating exclusively in state of low variability.

However, a high variability business tolerating high variability in a significant range of its processes runs a high risk of error, oversight, delay, and ultimately, complaint. Even without complaints, staff morale may fall, anxiety and absenteeism levels can rise, at first almost imperceptibly, but eventually in a more obvious and contagious fashion.

Future chapters will tackle all of these issues and help you challenge and deal with the impact of variability in your business.

So what can be done about minimising variability?

Minimising variability within processes has a major impact upon profitability itself, but also the sense of achievement felt by the people operating the process. This means minimising opportunities for fluctuations in performance within and between each stage of various business processes.

This equates to avoiding motorway traffic travelling at speeds anywhere between 0 – 70 mph by managing a flow travelling more consistently between 40 – 50 mph. Less haste leads to greater speed and less stress during the journey!

A consistent and streamlined approach minimises volatility and maximises the degree of control, exercised by and within the business. In turn, this reduces the risk of error and stress and enhances potential profitability. The speed merchant may need to calm down a little and compromise, but there are fewer break lights flashing on and off from the jamming of breaks and periods where the business is static and having to re-build momentum.

Business benefits and results of introducing lower variability in processes

A major benefit of a business model characterised by traits listed on the right hand side of the table above is increased levels of work that can be passed on from one stage to the next. Even if work is temporarily held up, the delay is minimised.

In a multi-adviser firm, a key step towards lower levels of variability will be a desire by each adviser to benefit from adjustments to their existing preferred approaches. The main benefit will be to create more time to focus on the things that really add value to their clients in delivering an effective financial planning service.

The impact of introducing the concept of the “average speed camera” generates tangible dividends

- the ability to deliver client promises on time every time and engender trust is enhanced
- trust is a key prerequisite for clients to refer friends/colleagues and family to an adviser
- staff morale and productivity is higher in firms where lower levels of fluctuation prevail
- business owners feel more in control of their firm’s destiny and planning is easier

By minimising the opportunity for extreme fluctuations in productivity, a business creates a much better customer experience, brand reputation and likelihood of being recommended.

The business is much more profitable and able to evolve its service and proposition.

If a firm can do more in less time, it can:

- release its capacity for business owners to work “on” the business rather than within it.
- release the capacity for staff to focus on their development needs and skills to further enhance its services.
- release the resources to focus on adding value in new ways and have time to be reactive and proactive to their customer needs.

Some might say that this “corporatized” or streamlined way of working could be construed as boring. However, we are talking about streamlining routine aspects of work and processes to release the capacity of staff to focus on things that add more value and probably are of more interest to them and their clients.

Most aspects of the process may need to change to deliver a much improved result. Likewise there is likely to be a need for significant changes in the roles, skills and knowledge of the staff as well.

So a key message from this is to SMOOTH THE FLOW and avoid wave making within the business. Waves are typically caused by ad hoc marketing activity, poor planning, stop-start working practices (e.g. storing up lots of reports to be done maybe creating a lean period for the para-planner and then hitting with them a number of cases all at once).

Constraints

In reality most businesses will have one stage of the process that has less capacity / capability than the rest - the weakest link. You are only as good as your weakest link, “the Constraint”.

Resources will be working hard at and in front of the Constraint, but are significantly under-deployed after it and the number of clients / cases stuck in the system will grow rapidly.

It is critical to identify the Constraint in any business.

In many advisory businesses, the obvious constraint that gets blamed is Compliance and / or The Regulator. This is where a backlog might bubble to the surface, but it may not be the root cause.

Root out the cause of a constraint

There are several suspects when it comes to identifying the cause of a Constraint. For example:

- Unnecessarily “bespoke” approaches for every client where a group of advisers each pursues their own version of “appropriate” products and individual portfolio design.
- Lack of a documented investment proposition consistently deployed by all advisers.
- A different approach to how they charge clients which in turn needs to be considered within the Reasons Why Letter.

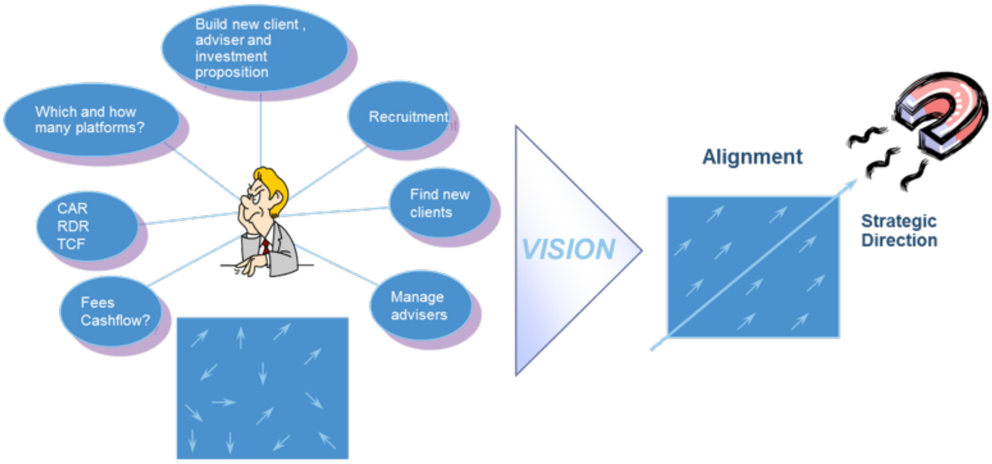
So the real constraint could be the “freestyle” culture of the advisers, lack of leadership, informal organisational structure, an inconsistent pricing strategy or other factors outside the control of the administration or vetting team where the physical backlog arises.

A goal instils and maintains a sense of purpose

Eli Goldratt finds that the fundamental root cause “Constraint” of the majority of businesses lies in a lack of a Goal or understanding of “The Goal”, hence the title the book of which he was joint author.

The goal of a business owner may take some time to crystallise and translate into a personal “financial target”. The more immediate goal of many advisory business owners is to run a credible, effective, relevant and profitable company as a means of securing at least an income to fund their desired lifestyle in the short and medium term and possibly a capital value upon sale of their stake to contribute to whatever lifestyle they desire when they want to leave the business. Whatever terms are used to articulate a goal, it will create sense of purpose to drive the business forward.

It is from a clear and well defined sense of purpose that direction emerges. It provides direction, motivation and a means by which decisions can be made.



Those with a really clear purpose tend to:

- find a way to work within the prevailing environment to achieve their objectives
- make regulation work for them.
- inspire people to follow, rather than allow them to pull in opposing directions.
- maintain a focus on their chosen strategy and adopt flexible tactics along the way.

If the job of a financial planner is to help clients harness their resources in order achieve their goals most effectively, it is only appropriate for the planner to be able to honestly say they have their own goals in focus.

Common constraints

Each business will have its own unique set of constraints. In forthcoming chapters, the constraints listed here will be examined and addressed with a view to helping firms identify and eradicate any which affect their productivity, staff morale, client experience and cash-flow.

The Top 20 constraints:

1	No shared goal, vision, mission or strategy across the business.
2	Too much focus on turnover targets, but not on the costs that affect profitability.
3	No real definition and understanding of target markets.
4	No identification of the specific needs of target clients.
5	Liquorice all-sorts segmentation strategy – advisers get to pick their favourites.
6	Inconsistent approach to systems, processes and agendas owing to a slavish commitment to routines.
7	No formalised strategy to client servicing.
8	Delivering services where cost outweighs the revenue.
9	Owners too busy to work on business improvement.
10	Poor delegation caused by 'indispensable person' mindset.
11	Not developing below-par performers to the required standard
12	No clearly defined processes or scripts.
13	Not challenging mavericks – allowing top performers to create variability and inconsistency.
14	IT systems that are not integrated, leading to a series of manual workarounds.
15	Lack of management information means decisions are based on feelings and assumptions rather than facts.
16	Adviser remuneration is based on personal turnover rather than team or business profitability.
17	A belief that clients won't pay fees. This is often due to: ▪ a lack of understanding of the value an advisor can bring to a client's situation, ▪ no client service proposition to help articulate this value, ▪ a pricing strategy the advisor is not convinced is marketable, ▪ a poor questioning strategy at first meetings with clients.
18	Fund-picking and portfolio construction is done without the necessary expertise and supporting administration protocols.
19	Unthinking commitment to independent status without evaluation of its real requirement in the firms operating market.
20	A mistaken belief that you cannot predominantly use a single platform and remain independent.

The root cause of constraints which tend to have the greatest impact in a business relate to firmly engrained beliefs, attitudes and mind-sets. Changing these aspects can often be the key which unlocks the door to far greater productivity, client satisfaction and profitability.

These things can be changed without affecting the fundamental personal values of any individual who wants to do the best job possible for the clients who can benefit to greatest effect from the expertise, insight and peace of mind they can deliver.

Managing a constraint

Having identified the area where a constraint is affecting productivity the next step is to optimise its capacity. Output at the constrained stage determines the eventual output of the whole process. Therefore, you cannot afford for resource to be idle at the Constraint.

In addition the Constraint should never work on anything that hasn't undertaken the most robust quality control up to that stage. It would be a waste to spend constraint resource on anything that will be thrown out.

Having optimised the constraint, assess what tasks other parts of the process can take on from the constraint to release more of its own capacity.

Also, consider reducing the flow of work entering the first stage of the whole process to a level the constraint can manage on a daily basis. Otherwise, you will cause a backlog of work waiting to be dealt with by the stage identified as the

Constraint. In other words, introduce to the business the right number of the right clients at the right frequency at the right price and potential in order to allow the firm to deliver on its promises of quality and timescales

Conclusion

In running a financial advisory business things can be made as complicated as we like and this complexity might look like a way of justifying client fees.

In fact, the best way to add most value in terms of a client service and relationship is to move in the opposite direction and make things a lot simpler.

Chapters over the coming weeks will tackle how to deal with typical constraints and reduce levels of variability commonly found in advisory business models. Whilst some involve process, most involve mind-sets, beliefs and the need for new skills. That therefore can mean real personal challenges to be made of one self and those around us.

In the next Chapter I will address the biggest and most common constraint defined by Goldratt - a lack of understanding of The Goal and its real importance to personal and business achievement.

If you have any comments or questions relating to this Chapter or the previous one then please drop us a line to teamtalk@12man.co.uk

But remember how key this subject is because: