

Practice Management
MANAGING THE BUSINESS

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By

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1. Introduction

People who manage financial planning businesses typically look at regular financial information to understand trends within the business affecting cash flow, production (of income), liquidity and profitability. However, this does not tell us about productivity, efficiency and the relative activity of different people within the business. You can design simple management reports to give you information that will help you to make decisions that will make your business more efficient and profitable. These reports will also identify the strengths and weaknesses of your key employees and allow you to address their needs uniquely to encourage their best contribution to the business.

I have designed a simple management information reporting system that will assist a practice owner in managing the business. Then I have examined how that information could be consolidated by the Licensee to look at trends within businesses in your group. This would place Licensee in a position to give you feedback on how your business is performing versus the average of businesses in the group. It would also place the Licensee in a position to identify where a particular business is over or underperforming and use that knowledge to assist others as well as correct unfavourable trends.

2. Adviser Activity

Measuring the activity of your advisers (including yourself) is essential to give you information that will show you objectively where they need help and where they excel. You will also find that their trends in activity will identify their strengths and weaknesses. This management information is the basis of employee Key Performance Indicators (KPIs) to determine the degree to which each employee has qualified for an incentive bonus. Here is an example of an activity report for a financial planner.

Monthly Activity Report By Adviser	Adviser 1	Adviser 2	Adviser 3
No. of referrals	1	0	2
No. of 1 st appointments	3	4	2
No. of plans contracted	3	0	2
No. of implementations	2	1	2
Implementation \$FUM	750,000	150,000	500,000
Implementation \$recurring income	7,500	1,500	5,000
Implementation \$initial income	15,000	3,000	10,000
No. of review meetings	6	1	4
No. of clients	250	142	201

The way the business can grow is by acquiring new clients. To acquire a client you must have a first appointment so measuring the number first appointments is a critical element in a financial planner's contribution to growth. Measuring the ratio of 1st appointments to implementations provides a measure of the ability of the financial planner to convert prospects to clients. Comparing this ratio between different planners becomes interesting. You will discover that some planners are better than others at closing (converting). You need to take remedial action with those that are not good at closing because they are costing you money.

Measuring the number of referrals is also important. Last year 42% of new clients to financial planning businesses in Australia came from client referrals. You will be able to identify any planner that is not generating referrals and change their process.

By measuring the funds under management (FUM), recurring and initial income introduced at each implementation, you are measuring the planner's contribution to new income of the business. While introduction of new business is important, it is equally important to maintain a high level of service to existing clients. This is why we have measured the number of

review meetings. When you are designing your bonus system for planners, be careful to place a high weighting on reviews and ongoing service. Don't just reward new business.

By comparing these figures between different planners you will build a picture of who is being productive and who may need support or counselling. This report will be an invaluable aid in managing a financial planning team.

3. Financial

You clearly need to record income by type of income and then you can calculate some interesting ratios to help you understand what is happening in the business. Here is an example of a report that I use.

Income	Month	Budget	YTD (12)	Variance %
Plan & initial advice fees			60,000	
Implementation fees - investment			385,000	
Implementation fees – risk			5,000	
Implementation fees – other				
Recurring fees – investment			400,000	
Recurring fees – risk			50,000	
Recurring fees – other				
Gross income			900,000	
Expenses				
Adviser remuneration			450,000	
Non adviser remuneration			180,000	
Interest				
Other expenses			180,000	
Total expenses			810,000	
Net Profit			90,000	
Number of clients	593	Number of advisers	3	
Number of support staff	4	\$ FUM	40 million	

4. Analysis

The above two reports can be produced simply with minimal effort on spreadsheets. Now the analysis can be done within the business or it can be done centrally by the Licensee if the spreadsheets are emailed to it each month.

By doing the analysis internally, you will have information that is important in managing the key drivers of your business and over time you will detect trends that need to be corrected or reinforced.

However, by allowing the Licensee to do the analysis you will have the benefit of an external person analysing your business and looking for trends, you will still receive the same analysis as if you did it yourself plus you will receive reports that will compare your figures with the average of other businesses in the group. The Licensee will also be placed in a position where they will be able to advise you on practice management issues within your business. I see this as a very positive way for the Licensee to help you manage your business into greater profitability and value.

There are hundreds of ratios and combinations that you can apply to the data in these reports. Here is my view of some important numbers that deliver value in understanding your business.

4.1 Adviser Analysis

Annualised Activity Analysis By Adviser	Adviser 1	Adviser 2	Adviser 3	Group Average
No. of referrals/client	0.06	0.01	0.06	0.05
No. of plans/1 st appointment	0.95	0.65	0.90	0.87
No. of implementations/plan	0.96	0.75	0.92	0.90
\$FUM/month	750,000	150,000	500,000	480,000
New \$recurring income/month	7,500	1,500	5,000	4,800
New \$initial income/month	15,000	3,000	10,000	9,600
No. of review meetings/month	12	6	9	15

The monthly analysis of activity in 2 above tells you what people are doing on a monthly basis. By accumulating this data and looking at monthly averages you are able to confidently budget and model where your business is going. The patterns of differences between advisers also becomes clearer. If you are a sole trader, then the pattern of your activity against the benchmark will be interesting.

4.2 Financial Analysis & Key Ratios

Financial Analysis & Key Ratios	Your Business Monthly	Group Average Monthly	Your Business per annum	Group Average per annum
EBIT as % of gross income			10	20
EBIT/Adviser \$			30,000	40,000
EBIT/Support staff \$			22,500	20,000
EBIT/Client \$				
\$FUM/Adviser			13.3m	16.0m
Advisers as % of expenses			55.6	46.0
Support staff as % of expenses			22.2	20.0
no. of support staff/ No. advisers			1.3	2.0
Recurring inc. as % of GI			50	60
Valuation by CME (EBITx5)	450,000	Value/adviser	150,000	190,000

I like to measure EBIT as a % of gross income because it gives a ratio that can be used to compare profitability with other businesses. The average profitability of financial planning businesses in Australia is poor. In 2003, businesses with less than 21 representatives averaged EBIT of 15% of gross income. My view is that this figure should be 30%.

The figures for EBIT per planner, support staff and client are figures that have most value when you look at their trends over time. However, they can also have immediate use. For example, if you employ an additional support staff, you will expect that EBIT/support staff will immediately decline. As the new support staff becomes productive, you would expect that the increased productivity will move the ratio back towards or past its former number. If this does not happen, you must question why you engaged an additional person.

Valuation by CME is a simple way to keep in touch with the value of your business by capitalising maintainable earnings. To calculate this figure, I apply a multiple to EBIT. There is more to valuing a business than this simple sum, however, this gives us a broad view of the business value. The average, well run financial services business will be capitalised at 5 times maintainable earnings so I apply a figure of 5 to EBIT.

It is important to measure recurring income as this is your most valuable source of income.

The other figures and ratios are fairly self explanatory although using them in management requires a little application. For example, if you find that the ratio of NPAT/support staff is declining but the ratio of NPAT/financial planner is steady, then look for the solution to the ratio of no. of support staff/no. of planners.

4.3 Client Analysis

Your business is delivering service to clients. Consequently you need good information about the financial and other dynamics of your clients. Here is an example of a report that I use.

Client Analysis	Your Business Monthly	Group Average Monthly	Your Business per annum	Group Average per annum
EBIT/Client \$			151	200
Gross income/client \$			1,518	1,700
Impl. fees invest./new clients \$			2,416	2,500
Impl. fees risk/new clients \$			50	175
Recurring fees invest./client \$			674	1,100
Recurring fees risk/client			50	190
\$FUM/client			67,453	110,000
No. clients/adviser			198	200
No. clients/support staff			148	100

5. Summary

By keeping these statistics over time you will know, on average, what new income you can expect from the employment of an additional planner or the acquisition of an additional client. This is essential in modelling your business going forward. If you are preparing your budget for next year and you are planning on acquiring a certain number of clients or to employ an additional planner, you will be able to reasonably estimate the value to the business.

All of these reports can be generated using spreadsheets with a small number of variables that you can update periodically. There are hundreds of ratios and statistics that you can generate for a business and some people will want to expand on the reports that I have used. The list goes on and you can spend all day looking at interesting ratios. Ultimately you must decide what information is useful in managing your business and design a set of management reports to accommodate your need.

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