



Media Release

Consolidation, Institutional Ownership & Client Focus to Dominate Future of Advice

Wednesday October 24, 2012. Seaview Consulting's Bob Neill has reviewed the raft of changes that are going to unfold across the financial services sector and concludes that none of the participants will be unaffected. The ultimate consequence of the changes will be to drive further consolidation and position the major institutional based groups with an even stronger influence in the provision of advice.

However, regardless of institutional ownership, one of the major challenges confronting advice businesses will be to define the appropriate business model needed to sustain growth in the new paradigm.

"Seaview Consulting's view is that it will be a client centric advice model having regard to client's expectations of the "professional adviser" of the future," said Bob Neill. "This to us embodies meeting a client's preference to address all of their advice needs in as cohesive a manner as possible and being consumer directed."

Seaview Consulting's expectation is that clients will see the following as their "advice needs":

- Investment advice
- Accounting services
- Risk insurance advice
- Superannuation advice
- Estate planning
- Debt advice

Bob Neill continued, "It is our view that this demand for an integrated approach to delivery of services will lend itself to the emergence of larger financial services businesses with the capability of delivering all or a majority of the services outlined above."

"The observation of the number of merger discussions between accounting and financial planning businesses over the past year is an indicator that this is an avenue that will be pursued more regularly in the near future by both segments."

With the regulatory impacts of removing the exemptions around accountants providing advice in relation to SMSF and the potential requirement for financial planners to have tax agents licenses to deliver tax advice supporting their investment advice it is a logical rationale for the professions to move more closely together.

"Businesses that do not adapt to this change will run the risk of becoming non-competitive in a market dominated by the larger scale and effective operators," added Bob Neill.

"The position of niche businesses will be sustainable only for the life of the current operator and will have little transitional value as they will struggle to offer the breadth of services at a fee level that will be in line with market expectations. The relationship strength of the incumbent business owners will ensure some continuity for these businesses in the short term but we doubt that they will be able to offer longer term value for any successor."

Seaview Consulting believes the characteristics of those that will prevail are:

- Scale and effective enterprises utilising technology efficiently;
- Businesses with diverse income streams;
- Those with robust decision making procedures and strong management;
- Those in control of their revenue sources;
- Profitable and well capitalised;

- Those with a clear and deliverable value proposition; and
- Those with a defined route to market.

In addition there will be significant and permanent change occurring in the advice business space both in investment and superannuation. It will occur in an environment of continuing growth and complexity that will escalate the value of and demand for quality advice.

It will impel a number of significant changes for those wishing to continue to prosper in the environment.

- Scale and effective use of technology will be required which will advantage institution backed businesses and this will see a continuance of the consolidation in the market place.
- Advice businesses will need to offer a clearly articulated client value proposition at a price that reflects “value for money’ in a manner that reflects a clear service relationship endorsed by the client directly.
- Business participants will need to ensure their businesses are run on sound fundamentals with clear control over their revenue sources.
- Diversity of revenue streams will be a major risk inhibitor in the future which will drive a convergence of accounting, financial planning and debt advice businesses. Expect an increase in merger and acquisitions activity as a result.
- The access to capital will be critical for those businesses seeking to grow or acquire and the funding market is limited at present. This presents an opportunity for mature and well-resourced participants to selectively grow their participation in the market.

The collective impacts of the GFC, the regulatory change, the consolidated muscle of institutions and the fragmented positioning of the advice industry have permanently changed the landscape and those businesses that are not already operating in line with sound fundamentals or that can adapt quickly will find it increasingly difficult to compete.

An obvious consequence of this scenario is that the number of business assets coming to the transaction market will escalate dramatically in the outlook period and will be one of a number of factors weighing on the values and transaction prices for these assets.

“An inevitable trend resulting from the changes in our view is a significant downward movement in valuations over the next two years or so and then plateauing at a lower level than that experienced by comparable businesses over the past five to seven years.”

“We consider that the methodology utilised by potential acquirers to value businesses will be more focused on profit or future cash flow models rather than the asset based approach adopted by many parts of the sector. Colloquially this will see values predicated more on capitalisation of profit as opposed to capitalisation of recurrent revenue.”

“A choice facing business owners is whether they accept this change and work towards a means of participating or alternately position themselves to be an effective competitor of this model. Either way it impels a decision, to quote a legendary AFL football coach, John Kennedy, just do something!” concluded Bob Neill.

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