



Media Release

The Imperative for Financial Advice Scale Continues to Gain Momentum

Monday April 22, 2013. Seaview Consulting Directors Bob Neill and David Fotheringham believe that financial planning businesses face a decision about the type of business that they are going to be in the future. This will be a deliberated decision and one that cannot be taken lightly.

“It is inevitable that financial services is moving into an environment in which much closer attention will be paid to the price that clients pay for the services that are delivered,” said Bob Neill.

“If a financial services practice cannot ensure that it can economically deliver those services it will struggle to maintain a sustainable future. By building scale and taking advantage of the economies available through scale, practices will be able to meet the client expectations of value for money.”

David Fotheringham added that the professional advice business of the future will deliver to clients as many of their advice needs as it is capable of in a cohesive and consistent manner.

Taking the view that these advice needs will encompass, investment, risk management and debt advice, together with accounting services and estate planning then it will be a challenge for business owners to deliver this in an efficient manner.

Looking at the accounting practice experience, Seaview’s Neill and Fotheringham have observed a number of parallels and implications for financial advice practices.

Not so long ago the majority of accounting services were delivered by ‘suburban partnerships’ consisting of sole practitioners or two or three partner practices run by ‘general practitioners’.

There was an evolutionary change driven by the tax and legislative amendments of the early and mid eighties that introduced a raft of complexities for business owners at the same time that they were growing their expectations of the advice that was being offered to them by their accountants.

This gave rise to the emergence of the ‘second tier’ of accounting practices which consisted of firms large enough to deliver a depth of capability in each of the areas that their clients required advice, this being tax, audit, corporate advisory, insolvency, business services and related activity.

The need for scale was evident in this drive to deliver the full range of services to clients with a high level of expertise in each advice channel.

This emergence is now well and truly complete and this sector dominates the accounting market to the detriment of the small general practitioner who faces a constant battle to remain relevant to their client base.

“It is our view that financial advisory businesses will go the same way and in fact it has already commenced with the emergence of a number of ‘merged’ accounting and financial planning practices delivering their clients a ‘one stop shop’ experience,” said David Fotheringham.

“This is only in its formative stages but will gather momentum quickly and the choice will be forced on business owners to adopt this scale push or prepare to compete against it.”

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Neill and Fotheringham see the corporatization of businesses continue in this sector and the need for specialist management skills has come to the fore, often in the guise of a 'General Manager' with broader operational skills in technology, process design, training and supplier management including outsourcing.

"It is recognition that the core skills on which many of these businesses were built, namely sales and relationship or technical competence will not be sufficient to steer the business to its next stage of evolution. It is a sound business decision but one that carries an economic risk if not carefully planned," said Bob Neill.

"Quite simply the management role will generally be the first time a 'non revenue generating' senior person will be employed. The business must be robust enough to cover the cost of this management level and that can only be achieved by investing in the staff, integrated processes and infrastructure to make it work, in other words build economic scale."

So what are the consequences of not adopting this scale view of the future?

Neill and Fotheringham maintain that in the immediate term probably little consequence as activity will continue as it has for a period of time, however as the momentum gathers pace clients will be offered a greater range of services at perhaps a lower cost with the advantage of cohesive delivery by the competitors of financial advisers.

That will be the true test of whether a financial services advice business is sustainable.

David Fotheringham concluded, "Staff, who are difficult to attract and retain will see more opportunity in larger businesses and the 'war for talent' will see one clear winner emerge and we don't think it will be small one dimensional advice business."

"Financial services practice owners must consider very carefully today, what they want their business to look like five years out!"

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