

BARRIERS TO
GROWTH IN
FINANCIAL
PLANNING FIRMS

AN INFORMATION PAPER BY
MODE**FP**



QUALITY
FINANCIAL PLANNING FIRMS

Most quality financial planning firms are boutiques, that is they are small businesses run by one or two owners. Most are turning over less than £1M pa and there are many in the £250,000 to £750,000 range.

Often these firms were created when the principle left employment at a larger IFA or private bank, unimpressed with the way clients were treated and the philosophy of the firm. Heading out on their own gave the fleeing financial planner control over the way things would be done.

This works well in many regards and some nice businesses exist in this space. Moving beyond this level of business performance would be nice but for many there seem to be some barriers to growth.

BARRIERS
TO GROWTH



The core skill of the business owner in these boutique firms is their technical financial planning knowledge and their ability to manage client relationships. This also provides the biggest buzz usually; identifying a problem that other lesser advisers can't resolve, putting forward a quality solution and winning the client as a result.

Literally everything else that has been developed in the firm has been done to facilitate delivery of that core skill. Hiring support staff, investing in systems and technology, premises and the like are all required to allow the adviser to do what they love and are best at.

The 'management stuff' that is now a necessary part of running the firm was fun initially and sometimes aspects of it still are. However, after a few years it has often become a dead weight tied to the owner and the business that just gets lugged around. Sometimes it weighs less and sometimes it feels very heavy but it is always there. In fact some advisers have been lugging this weight around so long they have forgotten what it feels like to be light and free of it. That heavy feeling lives with them constantly but only occasionally are they still aware of it.

THE 'MANAGEMENT STUFF' INCLUDES THINGS THEY DEAL WITH REGULARLY (BUT SHOULDN'T) AS WELL AS A LONG LIST OF THINGS THEY NEVER REALLY GET TO GRIPS WITH (BUT SHOULD).

THINGS LIKE:

Recruiting new staff - Training new staff - Managing staff
- Doing staff salary and performance reviews - Finding premises, negotiating rental terms and leases - Arranging telephone systems - Researching new technology - Training on existing systems (for them and staff) - Creating and using MI systems - FSA reporting - Compliance management - CPD - Personal development - Reading time - Monthly financial reporting - Accounts - Investment management research - Communications (to clients and professional connections) - Website management - Brand development Marketing (external and internal) - Networking - Developing professional connections - Practice management (hiring, outsourcing, or doing it yourself) - Systems and process improvement - Setting business strategy - Business planning - Obtaining insightful client feedback - Identifying acquisitions - Securing adequate funding - Managing the banking relationship - Maintaining adequate capital

TO NAME BUT A FEW

EVERY ADVISER'S

DREAM IS THAT ONE DAY ALL OF THESE THINGS
WILL BE FIXED AND THEN THEY WILL BE ABLE TO
SPEND 60% OF THEIR TIME ON DEALING WITH
CLIENTS (AS OPPOSED TO THE 25% OR LESS
THEY SPEND NOW).

But these things don't get fixed and even as some of them do, all that happens is the firm moves to the next ceiling of complexity and they all need to be looked at again. These ceilings occur at around £300K, £600K, £1M, £2M, £5M of turnover and they are not going to stop.

Typically, at around £600,000 of turnover (for some it's a little lower and some a little higher) hiring a practice manager becomes imperative if you want to grow through to the next ceiling. Yet this is not what is happening in the marketplace.

Firms of this size either can't or won't bite the bullet and create this role. Often there is a financial constraint because the firm isn't really profitable enough to make the hire. There is also a fear that making the investment of time and money to find a suitable person will not achieve the results required to make it pay back. Either way a lot of firms stay stuck at this level.

There are firms that have tried to hire a practice manager and at the end of the process they have realised their recruitment processes aren't up to speed, but only after hiring the wrong person in the practice management role and suffering 9 months of pain until they can get rid of them.

Usually that is enough to swear them off the idea. That's another year gone and they're still stuck.

WOW, SO MANY ISSUES. SO WHAT'S THE SOLUTION?

1.) REMAIN A LIFESTYLE BUSINESS

The vast majority decide to stop fighting and call themselves a lifestyle business. That is, a business that simply produces a nice income for the owner. There is usually little or no profit (typically margins of between 0% and 10% after a market salary is paid) but if the owner can earn £100,000+ pa they are happy.

2.) BECOME AN ENTREPRENEUR

Some advisers accept that they will have to adopt the role of the entrepreneur if they ever want to move forward. This by necessity means dramatically reducing their financial planning work with clients and focusing on the business development and management issues primarily. For some this is the road to happiness while for others it is not. Only you can know if this is something you would really enjoy.

3.) OUTSOURCING

The third option keeps the adviser more focused on giving advice whilst finding outsource partners to 'handle' many of the other things that are necessary to run an effective practice and to grow. In our modern economy some of these outsourced suppliers can deliver a very good service, making the small financial planning firm look very good. However, finding excellent suppliers across all the areas needed can still be quite time consuming and certainly needs a few years of focus to create a result.

4.) PARTNERING

The final option we call partnering; that is, everything that you don't want to do is delivered to you as a fully-fledged service proposition (see chart below) leaving financial planners to do what they love and do best.

WHAT IS
THE END GAME?



WE'D LOVE TO TALK FURTHER



A partnering approach (done well of course) allows you to focus on what you do best but to still retain a strong input into the direction of your business without getting sideswiped by everything that used to go with that. **MODEFP** handles the 'everything else' while you manage client relationships. The business is built around you and grown to a size that provides some benefits of scale, greater profit margins and a profile and recognition in the marketplace for all your hard work.

It is our belief that we can take small boutique firms and grow them into larger profitable boutiques turning over £2M pa with profit margins of over 25%.

IF YOU WOULD LIKE MORE OF THE STRAIGHTFORWARD HELP THAT **MODEFP CAN OFFER, PLEASE FEEL FREE TO GIVE US A CALL ON 07917 152 124 OR EMAIL BRETT DAVIDSON AT **BRETT@MODEFP.COM**.**



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