



IMAP Independent Thought Podcast Episode 28: How to run the best advice practice

Damon Riscalla who is National Head of Practice Development for Betashares discusses his insights about how to run the best advice practice.

- Changing with clients over time.
- Developing your niche/strengths
- Knowing when to let clients go

Moderated by David McDonald, CFA - IMAP

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David McDonald – IMAP (00:16):

Welcome to this podcast in the IMAP independent thought series. Today I'm joined by Damon Riscalla. Damon is the National Head of Practice Development with Betashares. Welcome Damon.

Damon Riscalla - Betashares (00:29):

Hi, David. Thank you. Pleasure to be here with you today.

David McDonald - IMAP (00:32):

And now today we're going to be talking about issues around and running an advice practice.

We'll talk about how to develop a business plan, how to define what your client proposition actually is, segmenting your clients, and the all important one, how to charge clients and what different strategies might be available for advisors there.

So Damon, maybe if we can just start, I know you've talked about how advice businesses need a business strategy.

So what is the aim of the strategy? Why do they need that and, and what sort of are the key components that need to be in that business plan or strategy?

Damon Riscalla - Betashares (01:13):

Yes, sure, David. Look, I think there's a number of components to it, and a number of reasons why you should have one. I think at the heart of every financial planning

business is the fact that it's typically a small to medium type of operation.

And those types of operations need to be nimble and flexible. And a big part of that, when you're putting down your strategies on paper is looking at where you want to be in 12 months time, two years, three years time.

I think it's really important to have a working living document that you can refer back to that can act as a prompt for the goals that you want to achieve.

It can also act as a prompt for reminding you of the resources that you have at your disposal to achieve those goals.

And I think it's also important to be able to have a document that you can share with other members of your team so you can set forth or set down a direction and strategy for the business that everyone understands and is very clear about where things are heading in that particular business.

Damon Riscalla - Betashares (02:13):

Components of this approach haven't changed a great deal you know over a long period of time. I've specifically created for Betashares a range of tools and resources, and I've looked across at industry best practice when I've created those.

So the business planning tool that we've brought to market really is designed to be able to be completed in a short timeframe.

We think that's really important because when we sit down with businesses, we know that they've got huge demands, whether it's clients keeping up with regulations, compliance, dealer group requirements, whatever it might be.

So we know it's not feasible to sit down with people for two days to complete a 30 or 40 page business plan. But we do know that typically people can spend at least two or three hours with us. And if we can get a four or five page business plan, we find that that really becomes a working, living document, which is very crucial.

David McDonald - IMAP (03:12):

So if they come up with this plan, obviously you can help them with that. How do they then check if they're on track? I mean, are the things in the plan where you can tick that you've achieved certain things, or how do you know that you are realising those goals that you've set out the objectives in your plan?

Damon Riscalla - Betashares (03:33):

Yes, that's a great question. As part of our toolkit, we break down the goals into short, medium, and longer term goals.

And then we were able to prioritise those as well. So the key to making sure they get done is course, reflection and looking back.

So typically what I would do when I'm working with businesses is that we'd have check-in points. So, you know, typically 6 or 12 months we'd look back, and assess what got done, what didn't, the reasons why, how we can address those going forward.

But of course, there, there needs to be some self accountability as well, you know, as business owners and heads of financial planning practices, it's always best practice for those people to look back themselves and check in on a regular basis to, to make sure they're achieving the goals that they want to.

David McDonald - IMAP (04:23):

I suppose Damon when you're seeing out your plan, one of the things an advice business needs is to know what's their selling point, as it were, do they have a competitive advantage or how do they work that out? Market targeting and things like that.

Damon Riscalla - Betashares (04:43):

Yes, once again, that's something we look at in the business plan. We look at the characteristics of an ideal client for a business. And it does change business to business.

It's really interesting. I walk into one business and there'll be a big focus on ESG and, and clients that are considered green, and say you walk into another business and there's a specialisation in older, white collar workers, and in other businesses that focus may be on retirees.

It just varies so much. And I think the other point of interest is that quite often what a business owner may think is their key type of client, when they really sit down and assess it, they may find that it's changed. Because when they started out on their journey 10 or 15 years ago they were attracting wealth accumulators.

Damon Riscalla - Betashares (05:34):

But over time that cohort of clients has transitioned into being pre-retirees. So quite often we find that the business owner can get a bit of a surprise when they look and sit down and really assess it. They can go... oh yes.. my client set has actually changed, and this is where they sit.

So once you've identified where the basis of your client base is in terms of demographics, psychographics, age inclinations in terms of investing, (there's a whole range of factors there that you can look at). But that does then start to allow you, (once you've got that data to help you) to provide your client value proposition or give you something to work off, right? So from where I sit, we've built our tools to operate sequentially.

Damon Riscalla - Betashares (06:27):

I often liken it to building a house. You know, very tough to put the roof on before you've got the walls up, and your foundation. So once you can identify your core clients, that helps you identify your client value proposition, and that is the thing that you are really unique at in the market.

And once again, every business is a little bit different when it comes to that. But, you need to look at the intersection between the things that you are particularly unique at, but also those things that you're particularly good at. And when you get the intersection of those two points, that really starts to help formulate your client value proposition. And we think that a client value proposition (CVP) should be really no longer than a paragraph or two.

Damon Riscalla - Betashares (07:14):

Think of it as an elevator pitch, or you are at a party and, and someone asks you what do you do? What type of clients do you deal with? It should roll off the tongue, right? Should be three or four sentences. Yes. This is who we help, this is how we help them. And this is the value that we bring to that partnership with our clients. You

know, once again, we really encourage businesses to think about plenty of things that each business is unique at, but they're not great at all of those.

And as I mentioned before, you want to find the intersection of the things that people are great at that are also unique. And I use the analogy that you might be picking a portfolio of direct international equities, which in our marketplace would be somewhat unique. But if your 10 year performance or track record, is that your 300 basis points below benchmark over that period, that's not really what you want to build yourself

David McDonald - IMAP (08:10):

No, that's for sure.

Damon Riscalla - Betashares (08:12):

Yes. So these are the things that, as I said, we like to take it sequentially, and we'll work with businesses to massage these things out, to help them formulate it provide clarity in their own minds, and do some analysis into the client base and the resulting client value proposition.

I think the key thing also is once you've established what your CVP is, whilst that is the majority of the work, there still is work to be done.

And that is in promoting that CVP, and making sure that referral partners out in the marketplace are aware of it. Once again, that certainly helps you, say if you've got a mortgage broker or insurance broker that's referring clients in, then if they can articulate your CVP and if they know the types of clients that you help, that results in better quality referrals. So there's a lot of flow on effect, David,

David McDonald - IMAP (09:05):

That makes sense. And I guess that sort of leads onto one thing I was thinking about, Damon when we were talking earlier about. People start off as accumulators and then before they look around their business as pre-retirees, and presumably it keeps going if you're not careful, your clients are sort of literally dying on you eventually. So getting the new people in the door is obviously a part of the business plan, isn't that, I mean, even just to maintain the business, let alone grow. Yes. So that's presumably part of the business plan. How you're going to get new clients?

Damon Riscalla - Betashares (09:42):

Oh, absolutely. And that leads us into another resource paper that we've produced on referral generation. And how do you make sure that you are continually working at capacity and bringing new clients in.

That topic in itself is quite broad because we know that to get good quality organic referrals from existing clients, it's a tough business. And the reason it's so tough is there's a lot at stake. You know, there's a number of good books out there in the market on this topic. But when you dig into it, what you find is that when you go up in terms of when you escalate what's at stake, referrals become a lot tougher.

And if I can once again just put forward a little analogy, David, if I asked you for a referral say I was in your area and, and gave you a call and said, Hey, I've got a spare 15 minutes and I want to grab a coffee, can you recommend somewhere?

You'll probably give me three or four places that I could go to, and you'll do that quite willingly. And the reason is the worst outcome is that I get a bad cup of coffee, right?

David McDonald - IMAP (10:54):

Yes

Damon Riscalla - Betashares (10:54):

It's not going to kill me. It's going to cost me \$4 or maybe \$5 an hour with cost of living. But you know that's not going to damage our relationship. On the flip side, if I called you and said, David, I need heart surgery, can you recommend a surgeon? You're going to be far more reticent to do that for me because you know how much it means to me and what's at stake.

So yes, there is a lot to consider when it comes to referrals and, and how you grow businesses organically. And then you also need to consider the digital marketing side of things.

David McDonald - IMAP (11:27):

I was thinking Damon earlier when you were talking about how some of these businesses, when they go through this process, they discover that the clients they thought were their core, or maybe not, or presumably they might find they're making more money from a group of clients they hadn't focused on, and so on. I know when you presented a conference last year you gave a great presentation talking about segmenting your clients.

Now one thing I'm curious from that is when you put them into these little groups and find out who's really making you the money and so on. Does that mean they might look at getting rid of some clients? Is that part of the business strategy potentially?

Damon Riscalla - Betashares (12:10):

Yes, absolutely. And God bless our industry, I think for the most part in fact, I will say for everyone out there, advisors genuinely want to do the right thing by clients.

And what typically happens is when a business first establishes itself, there's a tendency to take on every single client in the market. And you do that because you're a fledgling business.

You're looking to grow, and no business is bad business, but what tends to happen over time, you do gravitate towards a certain client set.

They gravitate towards you as you build your business, and you establish levels of mastery in what you do, but it's all based around a certain client segment.

So that's why I quite often see, we'll have aged care specialists, we'll have people that specialise in self-managed super. We'll have all these breakout groups if you like because they're building their business around what their core clientele is, and the things that they enjoy doing.

Damon Riscalla - Betashares (13:12):

But what tends to happen is that over time, advisors become very reticent to move clients on. And the reason is because they feel they owe them something.

You know, those clients stuck with them from day one. They want to do the right thing by them, and return the loyalty that was shown. And that's hugely admirable.

The issue though that occurs with that is over time, your skill sets deviate away from what the client needs. The client's probably not getting the service, that they deserve.

The relationship is becoming less enjoyable for both parties. And the profitability for those clients is probably petering out.

So I would never suggest you know that someone should just brutally cut a client , but I think there are very nice ways that you can find an another advisor out in the market that perhaps better suits that client.

Damon Riscalla - Betashares (14:10):

I think if you do it in the right way then it's certainly a healthy thing for a business, if it doesn't fit within your ideal client type.

And because what it does do is it then frees you up to see more of those ideal clients that are more profitable for you.

And, it means once again that you're finding the right clients that are getting the right levels of service. And the last thing I'll say is that over time, if you do hang onto those clients, the probability of something going wrong increases.

And the reason is that you're probably not servicing those clients as well as others could in the market. You're probably not seeing them as often as you should. And those clients will become less forgiving of you if a mistake's made as the relation relationship sort of peters out.

Damon Riscalla - Betashares (15:02):

So I, I think there's, there's some risk attached to hanging onto those clients. There's profitability problems that that comes with, you know, continuing to, to hang onto those clients. There's the fact that the client and yourself are not going to enjoy the relationship as much.

So there's three pretty compelling reasons why you should consider you know, in the right circumstances, moving a client on in the right way. You may also have other clients as part of your client base that you know, where fees haven't been increased for a period of time, and that's a different conversation.

Again, I think you should always give those people the opportunity you know, to, to continue the relationship with you. But by the same token, a firm can't continue to charge clients the same as they were 15 or 20 years ago. That's, that's just not a healthy operation.

So move those clients up with you in terms of increasing the service to them, but increase the, the fees the fee loadings for those clients to make sure that your business is still healthy and profitable.

David McDonald - IMAP (16:09):

Yes, I guess we've seen a good example of that strategy recently, haven't we? With a certain large institution that decided to want to only do very big clients but move to smaller clients to someone else that was probably happy to deal with them. So yes, that's interesting.

Damon Riscalla - Betashares (16:27):

Yes, if you do it in the right way, there's nothing to say that at some point you may not get those clients or some of those clients back, you know when they better fit the capabilities that you have as a firm. But I think if it's done in the right way, it will leave a good impression and a lasting impression on those clients and it's healthy for all parties involved.

David McDonald - IMAP (16:50):

Now you talked about fees, and so on there, Damon, and not getting enough out of some clients, and I guess that leads us onto pricing.

I mean we could probably do a whole podcast on that, but you know, as part of the business plan, presumably the firm's going to work out how they charge clients and lots of different ways of doing that. You know, percent of funds at dollars per hour, et cetera. So how do you look at that? I mean, how does a firm decide what's the best pricing for them?

Damon Riscalla - Betashares (17:24):

Yes, once again, we do work with clients on this, and it is a big question, and it depends on so many things.

There are so many variables when it comes to pricing. But I can mention a few that might stand out and there'll probably be people in our audience that would be listening to this and nodding their heads going "Yes I completely agree that's happened in my business".

I think one of the things that you need to look at is, first of all, do you have cross-subsidisation in your client base?

And we find that most businesses do, and that's a situation where you've got potentially higher net worth clients that are paying a higher level of fees, and are maybe not getting as many services they should.

Damon Riscalla - Betashares (18:08):

And you've got some clients that are lower revenue generating clients that are getting over serviced, and sometimes that's at the bequest of the client.

I'm sure every advisor out there has had that client who is on the phone to them, you every second week, who needs to talk to them about something.

And you look back at the end of the year and you go, oh my gosh, I've spent 2 or 3 or 6 hours a month every month on that client, and they're only on my bronze package. Or, they're are a lower revenue generating client.

And of course, every time that you are servicing that client, that's taking away from someone else, and taking from their service.

Damon Riscalla - Betashares (18:51):

So you're getting this concept of cross-subsidisation, which is quite dangerous in a business.

I think the other thing you need to look at is your value proposition and what you're doing.

You know, if you are a business that runs its own MDA, or bespoke SMA or you are a direct stock picker, what might be appropriate to charge a percentage based FUM fee, because then you're linking your performance, and what you consider to be your strength.

You're linking that to the amount of fees that are being charged. So the client feels that your money's where your mouth is, so to speak. Yes.

Something else to consider when looking at your client base. What is the age and risk profile of your clients?

Damon Riscalla - Betashares (19:37):

If your clients are all conservative and they're all 70 or 75 years of age in pension stage, drawing down, well clearly a percentage based a FUM fee is going to have your levels of income dropping away even though you're servicing the same amount of clients.

So that's something else to consider ... look at the composition of your client base. I think also your capacity if you're a startup business, maybe it does make sense to take on some clients at lower level fee points, just because that's better than sitting around twiddling your thumbs, doing nothing.

As I said, it may result that 5 or 10 years down the track you have to move some of those clients up or potentially move them out of your business. But, when you're a startup, these are things that you need to consider, such as the flat hourly fee that's another interesting concept or way of doing it.

Damon Riscalla - Betashares (20:33):

You know, it means that the price that you're charging your client one hundred percent accurately reflects the amount of effort that's gone into complete that financial plan and the servicing.

But are your clients accepting of that?

Well if you're attached to an accounting firm, those clients may be already trained to accept flat hourly fees as being the way that you pay for a service.

So once again, where are your clients coming from? The referrals, where are they being generated from?

We've got some resources on our website that will help advisors work through that. And there is a really easy framework, if memory serves me correctly, I think it may have been a US based model, but the 2 5 3, which is looking at what your objectives are, which is clearly maximising profit and at what point can you get client agreement, the factors that you need to look at the cost, the client value that you bring.

What's your competition like? Have you got 6 planners down the street within a hundred meter walk?

Your capacity, the connection that you've got with clients, and then the decisions, around structure level, and how you communicate that to clients.

Damon Riscalla - Betashares (21:50):

So that's a really easy framework, which I think people could look at if they're a little bit confused. But I'd certainly encourage anyone in our audience there who may be re-looking at their pricing, check out our website <https://www.betashares.com.au/> and find some tools on there.

David McDonald - IMAP (22:05):

That's great. Thanks Damon. It's been a very enlightening discussion, and obviously a lot of areas there that are essential for having a successful advice practice. So a lot of good points there for our listeners. I think.

It just remains for me to thank Damon Riscalla from Betashares for joining us today. And before we leave, just a reminder that the IMAP Portfolio Management conference is coming up in Melbourne on the 18th of March and Sydney on the 21st of March 2024.

This conference showcases investment managers and looks at the key things impacting portfolios in the year ahead. You can find out more about that on the IMAP website, and there's also registration links there. Thank you, Damon. Thank

Damon Riscalla - Betashares (22:52):

Thank you David and IMAP for having me today. It's been a pleasure.

You can get more information on the conference on the IMAP website.

Please visit the IMAP website <https://imap.asn.au> for all the details. Thank you.

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