PERSPECTIVE

The 5 disciplines to scale your business

Planning for sustainable, scalable growth

MACQUARIE

Most financial advice firms are growing – many at a significant rate. But are they doing it sustainably?

With significant exits from the industry, demand for financial advice is greater than supply. However, there are risks to growing too fast without the right operational model, people, practices and technology in place. Expanding without the right plan in place can burn out your people, create systemic inefficiencies, and lead to poor client experiences.

That being said, there are many advantages to scaling up.

"Scale brings a growth mindset to the whole business," explains Cameron Garrett, Macquarie's Head of Wealth Solutions. "It opens up new opportunities for staff, so they don't outgrow you. It shows clients they're backing a winner and confirms they've made the right choice. And it gives you a competitive advantage in accessing talent, adding new service lines and making acquisitions."

Scaling can also transform the founder's role in the business. Instead of being the person who is responsible for everything, you can build the infrastructure and team to support you.

But the key is to not simply add more advisers and more costs. It's to scale so revenue growth exceeds cost growth.

In this guide, we'll take you through how to do that with the five disciplines you need to plan for sustainable growth.

Understanding the levers for growth

No matter your firm's size, you have four growth levers available – and they are not mutually exclusive.

"You need to look at your business in terms of four dimensions: the clients you serve, the services you offer and the markets and channels you operate in," explains Garrett. "Then you can decide whether you want to do more of what you do now, add new service lines for your clients, or take what you do well today into new segments or markets."

Four strategic options

Step 1 Extend the core	Step 2 Add new service lines	Step 3 Serve new segments	Step 4 Expand distribution footprint
Do more of what you do today for more of the same types of customers	Offer new services that your clients will value	Identify under-served client segments	Enter new markets and /or open new channels

For each lever, there are 'momentum plays' and 'transformation plays'. Momentum plays are relatively straightforward – use your existing skills, resources or capabilities and make moderate changes to your current business model. Transformation plays require significant investment or effort – and may completely change your business.

"Most of our clients are growing quite comfortably at 10 or 15%," comments Garrett. "If you are smaller, you probably want to grow twice that to stay competitive, and that will require a mix of organic and inorganic (acquisition) growth."

He suggests focusing first on what you do well. "Find the market gaps from a client segment, service line or market perspective, and see how you can exploit them to power up the growth."

While many firms may focus on acquisition strategies to turbo-charge that strategy, Garrett says organic growth is still essential.

"You have more control over organic growth. It's more consistent than one or two acquisition windfalls," he says. "It also shows M&A prospects you are out there winning new clients as proof of your value. And it sends an important message to your employees that business development is everyone's responsibility."

The 5 disciplines to scale your business

If you're serious about scaling up your advice firm, waiting for client referrals won't cut it. Here's how to take a more disciplined approach – and maintain control of your growth trajectory.

1. Strategic mergers and acquisitions (M&A)

Australia's financial advice M&A market is competitive right now – and it's accelerating fast. But here's three considerations to keep in mind before you rush to buy a client book to turbo-charge growth.

First, most acquisitions fail. Global studies put the general M&A failure rate at around 70%-90%,[1] and an analysis of 387 Australian M&A transactions in 2019 found 57% were still underperforming their industry benchmark three years later.[2]

Secondly, successful M&A takes time. Your firm's leaders will need to commit time to build your acquisition pipeline, carry out due diligence and negotiations, source funding and integrate new clients, people and processes.

And finally, you cannot wholly focus on M&A at the expense of organic growth – because that slow and steady growth underpins your own business valuation. Jamie Melville, Macquarie Banking and Financial Services group Divisional Director, says M&A experts have told him, "for every dollar of acquisition growth, they'll put $3 of value on organic growth.

"Acquisition should be the cherry on top, not the main event," he says. "Many firms don't have any problems finding new clients. The challenge is having capacity to take them on."

1. Don't Make This Common M&A Mistake, Graham Kenny, Harvard Business Review, March 2020
2. How do you maximise value from mergers and acquisitions? M&A Performance in Australia Report, 2020

Of course, acquisition can also be a talent strategy. "People are really after quality advisers as much as they are about the business," Garrett explains. "We are seeing this in the US, where businesses are adding new service lines by acquiring businesses with strengths in things like philanthropy or trust advice."

Before you start investing time in chasing potential deals, work out why acquisition makes sense for your business. If it's because you see everyone else doing it and don't want to miss out, or because business growth has plateaued, it's unlikely to get you the results you need.

> **"If you don't align acquisition with your strategy, it leads to unnecessary complexity, wasted management time, and systems that don't talk to each other."**
>
> **Cameron Garrett, Macquarie**

Avoid growing for growth's sake

Ben Norval, Director and Financial Adviser with Prime Advisory, says his firm has a big hairy audacious goal (BHAG): 1,000 clients by 2030. But that goal's not just for the sake of growth – it has a very human purpose.

"We looked at everyone's goals," he says. "Our staff want to work somewhere amazing, have good career progression and earn good money. The business owners want profitability and a challenging environment with success beyond financial metrics. And our clients need a business that can support them as they grow, with top quality services like our investment solutions. You can't provide that as a small business."

He knows this approach to growth will also suit the next generation of owners as they come into the business. And that's what makes it a sustainable way to scale.

A smart foundation for growth

Before you begin implementing the 5 disciplines below to developing your sustainable growth strategy, it's important to have the building blocks in place:

1. A robust strategy with agreed 'growth-risk-control' parameters

Read our guide to strategy:
From entrepreneur to enterprise: Why a robust strategy is key to every successful business

2. A clearly articulated ideal client and value proposition

Read our guide to client experience:
Delivering on your client promise: 5 steps to success

8 good reasons to make acquisition part of your growth strategy

1. Access to new clients, markets, and/or expertise
2. Remove excess capacity from the market
3. Pick winners early and develop them
4. Expedite growth in line with your business strategy
5. Increase economies of scale
6. Increase financial leverage
7. Succession or exit strategy
8. Diversify revenue streams.

Three steps to a successful acquisition

1. Find the deal
2. Do the deal
3. Integration and reflection

1. Find the deal	2. Do the deal	3. Integration and reflection
Sourcing targets	Funding	
Pipeline management	Negotiation & terms	Clients & operations
Target rating criteria	Due diligence	People & culture

Post implementation review

Continuous review and improvement

Step 1. Find the deal

Look at business acquisition through the same lens as client acquisition: who is your ideal target, and what makes you the right buyer for them? This is your target value proposition (TVP).

"Often, we see a business sold to someone who was not the highest bidder. And the difference is the target value proposition: the owner wants to know their business, clients and staff are going to the right place. It's their legacy," says Garrett.

You also need to be clear on how you'll evaluate targets. This could include:

- Are they the right business fit – will they help you achieve your strategy and growth goals?
- Are they the right cultural fit – will their talent thrive in your business? Do they have aligned values and behaviours?
- Is their client base a good match for your ideal client? Will they accept your fee structure and see value in your services?
- Is there an opportunity to lift revenue per client?
- What systems and processes do they have that you could leverage? How easily will these integrate with your structures?

"These are critical questions to ensure an acquisition is realistic and achievable. If you have any issues or bottlenecks in your own processes, an acquisition will be like putting a log on the fire," observes Tom Reddacliff, Director with Encore Advisory Group. "And if you're acquiring systems and processes that are fundamentally different, it will be like acquiring a jungle. You don't want that."

Step 2. Do the deal

Due diligence often means knowing when to walk away. For example, once you get through the fine print, you may realise the client book will cost you more to manage with little upside.

"You're buying a transfer of trust," explains Melville. "You might not see the true state of things until it's too late." He recommends scrutinising compliance documents and carrying out anonymous client surveys. "You'll never get it 100% accurate, but you can start seeing some themes and trends."

In negotiations, Melville says it can be worth trading terms for value.

Good terms might mean paying 60% now, 20% in 12 months and the balance in two years. And it can be worth paying a bit more for extra protection – for example, if the founder decides to leave and take clients, there's contractual remuneration."

Funding the deal comes down to choosing between debt and equity. Melville says smaller firms will tend to lean more on debt, using the business as a security. "Make sure your bank has a strong policy in this space," he says. "Banks don't take on equity risk, only debt risk."

Equity funding may mean releasing some of the equity you've built up in the firm, or going out to private equity investors. "If you're bringing someone onto your balance sheet, be very clear on why – what is their role beyond providing capital?" he says.

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Jamie Melville, Macquarie

Step 3. Integration and reflection

EJM Financial Services has successfully executed three M&As in four years. CEO Peter Monahan says he has learned trying to make everyone happy in the early integration ultimately won't work.

"You can't be too consultative about it. You just need to be clear about what is expected and roll it out. Change is inevitably going to be disruptive, so get through it as quickly as possible," he says.

EJM also has a rigorous strategic review cycle that ensures any acquisition fits with the business plan and holds everyone to account. "At our six- and 12-month reviews, we check what we learned from each acquisition," he says.

M&A governance

- To align M&A activity with strategy, make sure you have these in place:
- M&A roles and responsibilities – allocate time and resources, like any other project
- OKRs or KPIs – allow at least 6-18 months to convert a deal
- Strategy alignment
- Target value proposition.

Due diligence checklist

- Strategy and commercials
- Accounting and financials
- Risk, compliance and legal
- Culture and employees
- Clients and prospects.

Case study: Structured for growth

EJM Financial Services has a strong sense of purpose to 'create happiness' – and the growing advice firm is also on a mission to have 15,000 happy clients by 2033.

"That growth aspiration means we could positively impact over 100,000 Australians – because every client impacts at least six people in their family or community," says CEO Peter Monahan. "For me, that's what makes it all worth it."

M&A is a key component of that growth trajectory, and leads are coming into the business now that it has momentum.

"We know now to ask the important questions very early in the process," he says. "The most obvious deal-breaker is valuation, but other questions relate to culture and processes. You need people to buy into how you work and what you're about."

By building adviser capability, as well as a business-to-business referral network of lawyers, accountants and brokers, Peter expects to maintain steady organic growth of around 15% per year – with M&A filling the gap to reach EJM's target client growth.

"We have restructured the team to provide internal coaching. There's also consistency now: all our processes, pricing, experience and timeframes are uniform across our offices. This lets us realise the benefits of scale."

Ultimately, Peter sees his role as getting results for his team, his clients, and the business.

"If we get the team and clients right, the business outcome will follow."

Peter Monahan, EJM Financial Services

2. Risk management

As your business grows, its risk landscape evolves. Risk can involve opportunities as well as threats, and managing risks means having a clear understanding of uncertain events or conditions that could impact your objectives – and a plan to mitigate them. This helps you make better decisions and identify continuous opportunities for improvement.

No matter how small your business is, you need a risk management process. Financial advisers have a responsibility to provide assurance for clients – from day-to-day controls to protect their wealth to a robust risk culture that protects your business.

A more mature governance model will typically have three lines of defence:

- a board that defines the risk appetite and ensures a sound risk culture
- the senior leadership team, and
- a risk management committee which might oversee day-to-day risks such as investment risks or specific project risks.

This level of risk diligence should not be seen as a constraint on growth. Rather, it enables it.

Garrett recommends starting with clarity between all decision makers before you chart a course for growth. "Use the Growth-Risk-Control (GRC) matrix to agree what's acceptable from a growth perspective, and what you're prepared to do – your appetite for risk and how much control you need to have," he says. "Be conscious about your risk appetite, but don't feel constrained by your licensee or the regulators."

Once you have that alignment, you can create a risk appetite statement to articulate how you assign roles and responsibilities, and how you will manage the main material risks which could impact your growth strategy. Document the likelihood and consequences of each risk occurring, and rate the inherent risk impact and control. This will allow you to prioritise decisions.

For example, your Head of Advice may be allocated ownership for regulatory and compliance risk. This has a relatively high likelihood (as it is core to business processes) and consequence (as failure can risk business reputation and continuity). But with the right controls in place the residual risk can be moderated.

You can use this framework to analyse the risks associated with various business growth strategies – including M&A or transitioning clients to an SMA (separately managed accounts) platform.

Prime Advisory has a clear rhythm for continuously checking in on its plans to scale – including risk reviews.

"We have rituals, from daily huddles to weekly team highlights and quarterly 'rocks' where we check on business improvements, to make sure we're focused on the right things," Norval explains. "These roll up into our annual strategy reviews and BHAG. It ensures we are always measuring and improving, but also gives our staff sight of what we are trying to achieve."

He says staff education is a big part of managing specific risks. "For financial advice, a small breach is a very big deal. We need to feel total comfort that our exposure and consideration is very well mapped out, recorded and implemented, and staff are always picking up on potential risks."

During a Virtual Adviser Network (VAN) Build for the Future webinar on his growth learnings, Charlie Viola, Partner with Pitcher Partners, described the value of systemising as much as possible. "Create freedoms, but make sure those freedoms are within a framework that can reviewed, tested and checked. From a regulatory point of view, I feel like our business is safer than it ever has been – and we've never grown faster."

"Try to make sure your business is one way/same way as much as possible."

Charlie Viola, Pitcher Partners

Case study: Open to change

Sydney-based Prime Advisory is evenly split between accounting and wealth services – which has unlocked more proactive opportunities for cross-business referrals.

Over a quarter of new clients come through referrals from the accounting side of the business. “A lot of clients who use both accounting and wealth say they love being fully serviced,” says Ben Norval, Director and Financial Adviser. “We feel responsible for growing a great business with great outcomes for clients.”

The wealth practice has grown from three advisers to five in three years. Prime draws on the principles of Verne Harnish’s Scaling Up,[3] which includes whole-of-team rituals to focus on the right priorities for growth. “We have a clear rhythm to ensure we’re doing the right things and measure progress on a regular basis – it can include daily or weekly team huddles, quarterly rocks to track business improvements and annual strategy reviews.”

Achieving a growth target of 1,000 clients by 2030 will take more than organic growth, so Prime is currently gearing up for acquisition. It’s also in the process of implementing a tailored Salesforce Platform CRM. “This is going to be a real strength, a system we can grow into. It’s an investment into absolute improvements in automation and client reporting, and will provide power to helps us scale up,” says Norval.

“Financial advice has gone through a lot of change, from tech to the provision of advice to compliance. I think we are really open to change as a firm.”

Ben Norval, Prime Advisory

3. https://scalingup.com

3. Business improvement and innovation

The concept of freedom within boundaries can unshackle ideas to improve business processes and experiences and create entirely new solutions. To do this successfully, it is essential to start with the people whose problems you're solving – a process known as Human Centred Design.

"At Macquarie, we employ the Human Centred Design methodology when we're thinking about the employee experience as well as the client experience," says Ros Coffey, Head of People, Culture and Customer Experience with Macquarie Banking and Financial Services. "Essentially what we're talking about is human behaviour and what matters most to different people in different circumstances –things that influence engagement."

Too often, an initiative emerges as an idea driven by the business need (or, worse, what competitors are doing) rather than a genuine customer problem. For example, you might want to create a client portal to save time communicating with clients securely. But if there's little value to the client in logging on, that portal will wallow in disuse.

Before allocating resources to a tech project like this, discuss the idea with a few clients.

"Ask them what they'd like to see on a portal like this, and how they would like to access it," suggests Garrett. "Human Centred Design starts with research into your user's needs."

He gives the example of a fast-growing firm that added more staff, but wasn't getting the increased output expected.

"Instead of assuming they'd hired the wrong people, or that they needed even more people, they installed a time tracker on everyone's laptops to see how much time they spent on each application. It turned out they were spending an enormous amount of time on Microsoft Outlook. So the team agreed to new email use protocols, implemented Slack, and unleashed great waves of productivity."

Prime Advisory used Human Centred Design to establish team roles and responsibilities – resulting in better employee engagement, growth and retention. "We asked our Servicing Associates, what do you not like about your role? What can we push to our outsourcing team?" explains Norval. "This allows us to make their roles more challenging and interesting, and they love it."

5 steps to Human Centred Design

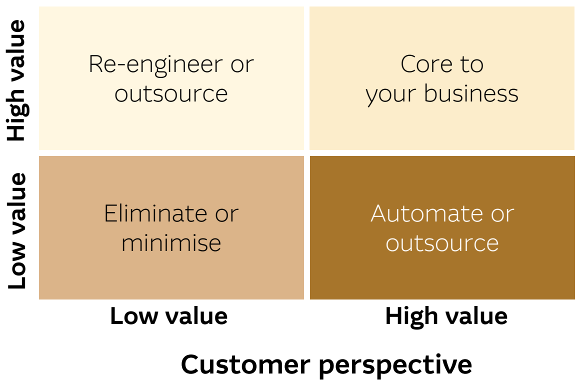
1. **Empathise –** research user needs
2. **Define –** articulate a problem statement* to focus on the opportunity for improvement
3. **Ideate –** challenge assumptions to prioritise ideas for how you might solve this problem
4. **Prototype –** visualise the solution using mock-ups or storyboards
5. **Test –** roll out a pilot or role play the solution, learn and improve.

4. Outsourcing

As businesses scale, they realise not everything can be, or needs to be, done in-house. That could be because you lack some specialist capabilities within the firm – such as social media marketing, SMSF implementation or product research and portfolio management. Or you may identify cost efficiencies by offshoring routine administration – such as client onboarding and Statement of Advice Generation.

There are of course risks with delegating core business functions, and it takes time to set up long-term relationships that will continue to add value back into your firm. So it's a good idea to first identify what you could outsource using a decision matrix.

What might we outsource?



Courtesy of Limebridge consuming

If there is significant risk attached to the task, such as advice compliance, make sure your outsourced provider can adequately manage that risk on your behalf. You also need to be confident you can maintain the client experience – especially for tasks customers perceive as high value, such as client reporting, satisfaction surveys, or life-stage specific advice such as aged care or estate planning.

Garrett says it's important to spend time upfront reviewing and documenting any process you are looking to outsource. "Otherwise you're just exporting your inefficiency to a lower-cost environment, and that's going to set you up for problems later down the track," he observes.

Norval describes Prime Advisory's outsourced team in the Philippines as an incredible part of his business. His business now has two dedicated adviser assistants, a business analyst, and a paraplanner who can produce up to 90% of a Statement of Advice for review by Prime's Head of Compliance and Servicing Associates.

"The more you make your outsourced team part of your normal rhythm, including training, one-on-ones and social activities, the more loyalty and the better results you get from them," he says.

Monahan agrees. "We do the knowledge work onshore, but document production is done offshore in the Philippines. From day one, our offshore support team has been part of the EJM team and culture. They're in our Monday team meetings and our daily huddles. So everyone in our Victorian offices is seeing that team in Sabu five days a week."

With this type of owner-operator model, it's important to remember your business is responsible for managing the offshore provider – so you need to be prepared to commit the time and resources to strengthening a remote working arrangement. It is also possible to offshore for ad hoc or seasonal piecework, but you won't benefit from a dedicated team who really understand your firm.

"The more you make your outsourced team part of your normal rhythm, the more loyalty and the better results you get from them."

Ben Norval, Prime Advisory

5. Ideal tech stack

Automation is another way to create task efficiency – but choosing the right solution and managing that change isn't always easy, with so many options available for every conceivable step. That's why your tech stack is core to scalable growth: effectively, it comprises all your backend systems and digital capabilities.

Macquarie VAN members have told us integration is their biggest technology challenge right now – making sure all the different systems and service lines work together to avoid duplicate work.

Garrett describes this issue as 'hamsterware'. "Too often, businesses try solving an immediate dilemma by plugging in a small solution, and then realise it actually adds more time over the longer term because it doesn't connect," he says.

Luis Uguina, Macquarie Bank's Chief Digital Officer, says technology is an essential part of every company today – because it's the only way to operate at the speed customers and employees expect. "You have to think how technology can enable everything you need to do to keep up – and serve your customers at the speed of now," he says.

Unfortunately, Uguina cannot offer a magic solution to the integration challenge – because it's a global problem. "My recommendation is if you are considering a new platform, make sure it is SaaS – software as a service. This is usually designed to share data more effectively. But you will probably need a bespoke integration."

"Machine learning will be a massive disruptor in advice and I expect to how this transform how firms work."

Luis Uguina, Macquarie Bank

The ideal tech stack checklist

Here are a few things to consider before you start testing new platforms and applications.

- Strategy – how will this tech enable your growth plans - from 12-month plans to 5-year goals? Is it relevant to your ideal clients' needs?
- Connectivity – how is data exchanged with core applications, including Office and XPLAN?
- Cloud-based – avoid the need to manage your own servers.
- Security – two-factor authentication as a minimum, to protect client and business data.
- Simplicity – minimise the amount of non-core business effort required.
- Responsive – real-time visibility and reporting at speed to support compliance and client experience.
- Mobile – make sure advisers can use the systems on the go – working from home or with a client.

You may not be able to find the ideal solution that ticks every due diligence box, so make sure your team agrees on what criteria is a deal breaker. "Stick to your list – don't be distracted by shiny features because they might just be energy drainers, or provide little value," says Uguina.

Uguina believes AI-enabled speed will become mainstream soon. "Advisers will need the capability to react almost in real time to market changes," he says. "The next generation of investors will also expect to see what is happening with their portfolio in real time."

With such significant change on the horizon, investing in managing tech change within your firm is a critical – and too often missed – step in the process.

Building and sustaining capacity for growth

With every decision about growth, it's important to come back to core principles. Know what you are trying to achieve in the business. Who is the client you are serving, and what problems can you solve for them? What do your employees need to feel they have personal opportunities for growth?

Once you are clear on these, set up a strong foundation for scalable growth by embedding more robust risk and governance practices, finding cost- and time-saving efficiencies through outsourcing and automation, identifying opportunities to continually improve your service – and build an acquisition pipeline.

If you'd like support as you work through this journey, please speak with your Macquarie representative or email wealthsales@macquarie.com.

Macquarie Virtual Adviser Network (VAN) Build for the Future program

Making better decisions and executing successfully is just one part of Macquarie VAN Build for the Future, an 18-month program for a select group of 8-15 like-minded financial advice business leaders. Work with your peers and our experts, and be guided through the four core foundations for growth. Programs operate in most state capitals.

The program includes four full-day workshops, a series of coaching calls, and opportunities to build supportive networks that will help you stay accountable via online tools and forums.

To find out more, go to macquarie.com.au/van