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Growing a financial planning business in the current environment is a challenging task. A *Professional Planner/MLC* practice management forum finds that at the core of all strong financial planning businesses there is a common element: strong referral relationships. **Simon Hoyle** reports.



JIM STACKPOOL
Founder, Strategic Consulting and Training (SCAT)



JOHN BIRT
Principal,
Radar Results



SCOTT GIRDLESTONE
Director and senior financial adviser,
William Buck

Reference points for successful practices

DUNCAN MCPHERSON
Head of licensee and
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MATTHEW SCHOLTEN
Practice principal,
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MICHAEL FLANAGAN
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Whether a financial planning business is 30 years old or only a year old, success and growth are built on common foundations. High on that list is organic growth from referrals by existing clients. But to succeed, referrals need a deliberate and a well thought-out strategy.

The Melbourne-based financial planning practice Scholten Collins McKissock was established 30 years ago. By any definition, it is a mature business.

“We’ve been active in acquiring businesses over the journey, so we’ve made three acquisitions,” Scholten Collins McKissock practice principal Matthew Scholten says.

“Each of those acquisitions has been profitable for us and we’ve had a good experience; and I think one of the reasons for that is that in each case we were fairly familiar with what we were buying and the personnel that came with them. They were businesses that we had a relationship with.

“We’ve also seen, particularly in the last 12 months, some really strong organic growth in terms of new clients, and from a wide range of sources – two or three referral partners – and this has been said many times, but a lot of new business generated off the back of our existing client bases. So nothing revolutionary in it, but we’ve seen really strong growth.”

Michael Flanagan, a director of Optimise Wealth, says his business enjoys strong referrals, but in the early days that avenue

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did not produce fast enough growth for his liking.

“If I think back to where I was a few years ago, four or five or six years ago, a single planner practice, that was just a lot of hard work and I think organic growth wasn’t going to get me where I wanted to be, so it was through acquisition.

“That’s really where we were able to achieve some scale.

“It did lots of good things for us and it enabled me to put on other financial planners, who have been productive and who have contributed greatly to the business. It allows us to attract and retain better staff.

“There’s a whole lot of opportunities that open up when you get that scale, and I just wouldn’t have got that.

“If I could have got it through organic growth, I think I would have, but it just wasn’t fast enough and we just weren’t getting there.”

MORE TRACTION

Scholten says his firm is “getting more traction with accountants than we ever have before, right now”.

“We’re probably going to have to make some decisions about how many of these people we deal with, and that’s never been the case before,” he says.

“If it’s going to work properly then absolutely, it needs to be two-way. We’ve got one accounting business we’ve referred a lot of business to and it’s taken years and years to start to get anything back. It’s just started now and some of the changes [to accountant licencing] have been a catalyst for that and also some things we’ve done internally to make, I guess, our proposition more attractive to them.”

Accountants are not the only suitable or appropriate referral partners for financial planning businesses, but upcoming changes to accountant licencing arrangements are encouraging more to consider referral arrangements.

“That’s got a few people’s attention and it will probably shake up that industry as well,” Flanagan says.

“So I’m getting some success, and we’re talking to a sort of a three- or four-partner firm at the moment about putting in place some sort of referral arrangement right now. And they’ve also got ideas about bringing in lawyers, solicitors – so they want that sort of, maybe not totally structured, but some sort of loose sort of conglomeration of advice providers.”

FOCUS FROM DAY ONE

At the other end of the spectrum from Scholten Collins McKissock is Andrew Chan’s Phoenix Private Wealth Management, which is barely a year old. Chan says that from day one his focus has been on cultivating referrals.

“You’d be very surprised that my answers are going to be very similar to Matthew’s, except for the lack of the scale and the ability to purchase other businesses,” Chan says.

“So we do have a number of COIs [centres of influence], which we develop, and [we] foster those relationships very strongly. It’s about organic growth, so I’ve been able to obtain a fair amount of referrals very much in that first year, which is really my goal in the first year: to run hard; do a great service; and for that reciprocity of care to be shown back through new business.”

Chartered accounting firm William Buck has been actively pursuing referrals for the past 18 months or so.

“And when I say actively, it’s a conscious thing to remind yourself to keep asking,” says Scott Girdlestone, a director and senior financial adviser at William Buck.

“That’s proved quite good for a couple of reasons. One, you want to work with people that you like working with; and two, you want to work with people that are going to have similar circumstances. So in our space, it’s small- to medium-sized businesses and business owners. Obviously it goes all the way through to retirees and so forth as well, but being part of an accounting firm that tends to be part of the focus.

DEFINING SUCCESS

“Success for me is pretty much about the client and being able to understand that you have made the client’s world a better place. So that’s fundamental to it and secondly, it’s about the people that work in business being able to develop, to grow, to prosper and to enjoy the success of business. So it’s that client experience first and foremost; and secondly it’s your people.”

Matthew Scholten

“I want our business to be a personally and financially rewarding experience – to provide a personally and financially rewarding experience for all our stakeholders: clients number one; staff; and business holders as well. Everyone that’s involved in the business. Success to me is if we can achieve that aim with a set of business practices and ethics that everyone can be proud of, then that’s success.”

Michael Flanagan

“It’s all about the client experience. Our clients would know at the end of the day that they’re secure not only for themselves, but for their family, but also when they’re gone, that that same plan will continue for their family and loved ones. And it’s based on values. You share the same values and you’re prepared to have reciprocal relationships based on care and attention. That is what I determine as success.”

Andrew Chan

“Success is continuing to build a firm of highly-skilled advisers. Attracting clients for strategy, structural advice that makes a positive difference to their lives. From my point of view, I’m looking for an industry change, where advice is paramount and product is second. Product is the tool – that’s really what I’m looking for. I think we’re slowly but surely getting to that point, but we’re still not anywhere near where I’d like it to be.”

Scott Girdlestone

“And it attracts other like-minded small business owners, so that’s been quite good from that perspective. The other thing that we’ve worked pretty hard at doing is with key referral partners – turning them in to advocates. So we’ve actually gone out and provided what I would call a strategy paper to them directly so that they can see how we work. They can see the process. They’re not just referring to a financial adviser because they need some help; they’ve actually been through it. They’ve experienced it, they can take benefit and heart from the fact that they know their clients are being well looked after.”

REFERRALS PLAY A GREATER PART

John Birt, principal of merger and acquisition firm Radar Results, says the environment for financial planning businesses has changed since the global financial crisis, and referrals now play a far greater part in business growth.

“Pre-global financial crisis (GFC), things were just growing through the roof,” Birt says.

“My experience is that since the GFC it’s been very hard to attract new clients. You do have to focus on centres of influence in the referrals from existing partners.”

Birt, himself a former financial planner, says the key to establishing a strong referral relationship is to be honest about motivations.

“Just be yourself. Present yourself, be natural, be honest,” he says.

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“Tell them that you need their help to grow your own business. There’s a firm called McGregor and McGregor. They’ve been Newcastle accountants for 100 years and they’ve been through three father generations. I just sat down there and spoke to the partners and one said to his partner, ‘I don’t really like Mr Birt’. The other two said, ‘He looks pretty good to me’, and bang – they started referring business. We had all the top clients in Newcastle. High-net-worth clients. I don’t know what it was. They just did trust me at the time.”

Jim Stackpool, founder of Strategic Consulting and Training, says the financial planning and accounting professions are moving closer together, which presents both opportunities and challenges for working together. And it also means that referrals go both ways: inbound, from partners who lack financial planning expertise themselves; and outbound, to firms that have specialist skills.

“The context for firms like Scott’s – in their views towards growth – is that they see the professions merging,” Stackpool says.

“What we have traditionally seen as technically disciplined professions or industries, around your ability to do tax or property or law or lending, I would say that the groups like Scott’s are considering the bigger dynamic going on and have positioned themselves for that.”



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BROADER CONVERSATIONS

Stackpool says a consequence of a broader world view is that the scope of conversations with clients also broadens out. And this may expose areas where a firm has to find a referral partner to plug a gap in the service. But broadening the conversation means clients often end up doing more business with the firm.

“With a broader conversation, considering a broadening of this and merging of these professions, [we see] 40 per cent of existing clients having significant uplifts [in business done with the firm],” Stackpool says.

“Because the firm is presenting itself as having a broader proposition, they’re getting growth by taking the conversation away from being financial planners or being investment advisers.

“And it’s removing those [descriptors] from cards and titles and websites, and talking more about, what are your complexities? And [firms like Scott’s] get this.

“The old model was, you get your upfront first year and then it tends to go off to a trail after year two or three when you’re talking quite singularly-dimensioned advice around specific aspects of the clients or events in the client’s life.”

Firms like the one Stackpool describes call themselves “advisory houses” and behave like project managers, he says. But there are some parts of the client relationship that must remain in-house.

“It’s like the builder, when she or he turns up at your house and says, ‘What are we trying to build here, and what are the complexities that we have to overcome?’

“And they may not have the expertise internally, but as Scott was saying, he’s got the centre of influence, employers and the networks, that they can call upon...just like a builder’s got the chippies and the landscapers, but I don’t think – Scott’s better to answer this than me – they’d ever delegate in project management or for the hand-in-hand client management or strategic management – the overall plan.”

ASSESSING A PARTNER

Girdlestone says assessing a referral partner is an important task.

“I’ll give you an example of estate planning,” he says.

“We would ask for some Wills, without names, just to see how they’d handle certain situations. We would also sit down with them and talk to them about real life cases that we’ve got on at the moment and we would ask them, ‘What would you do in this circumstance? What would your advice be?’, and test them out that way. And then at the end of the day, of course, you have to test them with live clients. But hopefully by that stage you’ve got a fair bit of confidence in their abilities, and they in ours, because at the end of the day...we’re talking about growth. What’s won us our clients is strategic advice – it’s got nothing to do with product. So from our perspective, the lawyers, the other accountants that we work with externally to William Buck, get to understand us as well and our processes.”

THE MASS AFFLUENT MARKET IS ONE OF THE MOST REWARDING MARKETS IN AUSTRALIA. THEY ARE PEOPLE...WHO HAVE GOT REAL CHALLENGES

Duncan McPherson, head of licensee and productivity for MLC Advice Partnerships, says it is clear there’s more than one business model that will succeed in financial planning, but the common element in that is that the model is focused on delivering excellent service to clients – and where that service can’t be provided in-house, it has to be sourced externally.

“As long as you’re focusing on the customer, there are many models that work,” he says.

“There are some that are going to be really profitable, some that aren’t; and the market forces will deal with that, as economic forces have done for centuries. But the challenge, I think, of this industry is to make advice accessible; and there are people who want different sorts of advisers for different reasons, and if they go and get advice, that’s a good thing.

“The mass affluent market is one of the most rewarding markets in Australia. They are people...who have got real challenges. They say that something like 46 per cent of people who’ve got an adviser, have unmet needs. Growth comes from how do you provide more to your existing customers, and that might be through your referral relationships.”

MUTUALLY BENEFICIAL

But a referral relationship must be mutually beneficial and there are issues that both sides should think through before forming an agreement.

“I suspect their first and their second and their only concern is, ‘I’ve got to refer this client to this other professional because they are an expert in that’,” McPherson says.

“There’s no discussion about it being reciprocal. There’s no discussion about remuneration. Basically, they’re allowing me to get this resolved. If I do that properly, I’ll make fivefold out of this client. I know this will pay back over a period of time.

“The discerning consumer now these days is highly aware of this sort of stuff and I just wonder whether that’s a barrier that we seem to come up against with a lot of planning businesses, [that] is, ‘I want a referral relationship that’s got to be reciprocal. Let’s get a contract in place and share revenue or profits.’ And who owns the client if something goes wrong?”

Chan says he selects a referral partner, or a centre of influence, based on how well he believes they will look after his own clients.

“How I choose a COI is...that they do a good job, that they’re honest,” he says.

“Two-way is not that I get money back. My business has got its own independence, so it’s not financial matters.

“It’s the two-way of doing a good job.

“Jim mentioned [a merging of] accountancy, financial planning and all professions. What I’ve found is that I can project manage the clients that I find with my COIs, but it changes. If I get a referral from an accountant, and they’re a high-tier accountant, and they want to manage the project, then I’ll do the...piece where I fit into the puzzle. There’s nothing more fearful than a COI for a client and losing control. You have to work as a team.” 