



PAUL BARRETT

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AZ NEXT GENERATION ADVISORY'S FOUNDER PAUL BARRETT IS RAISING EYEBROWS WITH HIS STRATEGY TO CREATE A FINANCIAL NETWORK, AND "COMMUNITY", BY BUYING FINANCIAL PLANNING BUSINESSES.

WORDS SIMON HOYLE PHOTOS MATT FATCHES

In late April Paul Barrett's financial planning practice acquisition strategy entered a new phase. It provided an undisclosed amount of funding to Pride Advice, a financial planning practice founded by Brett Schatto, to enable Pride to acquire Bailey Capital Management (BCM).

It was the first time AZ Next Generation Advisory (AZNGA), backed by the Italian asset manager Azimut, has provided expansion capital to any of the dozen financial planning practices it has acquired over the past year. But it won't be the last – three more deals have been approved and will be rolled out in coming months.

AZNGA's initial growth strategy was simple: acquire financial planning businesses that it believes have significant growth potential and where, critically, the business owners are not looking to sell out. AZNGA initially acquires a 49 per cent stake, providing the business owners with a release of capital, and then it buys out the remaining equity over a 10-year period. Now, though, Barrett is turning his attention to helping his investee companies grow.

From day one, Barrett's strategy has raised eyebrows and led, inevitably, to speculation that it is either a funds aggregation play, or that he needs to integrate all of the practices to achieve scale and hence maximise profitability. Not so, he says.

Barrett says he is focused on creating a financial planning network, providing cross-fertilisation of ideas between practices, focusing on strategic opportunities for each business and streamlining each firm's management and reporting systems.

INVESTING WHERE PROFITS ARE BEST

Barrett is not interested in creating a licensee business. To put it bluntly, he wants to invest where the profits are best.

"We're not a dealer group; we're a financial advisory network," he says. "Dealer groups are also financial advisory networks, or certainly should be. We're delivering, though, true deep value, in that we are solving succession, we're solving management information systems [MIS], and we're solving efficiency. These are the things financial planners have been asking for, for a long time. So the question is what do dealer groups really provide?"

"And increasingly it's the core regulatory and licensing and compliance frameworks, which are actually very valuable. The dealer group proposition, whilst it's probably more focused than it was before, I think is very valuable.

"There's no question in this very highly regulated environment, you need partners and suppliers who can assist you to ensure you are absolutely meeting your responsibilities and requirements. And I think dealer groups are increasingly doing better and better jobs of that."

Barrett says the introduction of management systems and a strategic framework have been transformative for the businesses AZNGA invests in.

"Imagine rocking up to a board meeting where you have each financial planning business come in, back-to-back, and each proprietor walks in to the meeting with a board pack that is detailed and accurate and real-time and talking about their business in a way I never saw when I was in dealer group land," he says.

"I never saw businesses being able to have the conversations we're having now. And why? Because we've asked the question: can we please look at your general ledger and your accounting systems? And can we please go on to one system? And can we report quarterly?"

THINKING HAS CHANGED

Even though many of the practices acquired by AZNGA are well known to Barrett from his time working for institutionally owned dealer groups, and the proprietors of those businesses are the same people as then, he says they have changed the way they think about how they report and talk about their businesses.

"I used to listen to them talk about their businesses, but the way they talk about them now, because we've given them the infrastructure to be able to extract what's really important, and taught them about what really successful boards do; and we've been operating that way from day one, it's been extraordinary," he says.

"We said to all the firms as they were coming on, look, one thing we do need you to do when you join AZNGA is go onto one accounting system, with one general ledger and we get consistency of information. We consolidate the financials at the AZNGA level, and it goes all the way up to Milan.

"Most of them were on MYOB and now they're on Xero, so the first benefit they've got is a real-time data source that they wouldn't have otherwise. Every quarter, firms get an opportunity to prepare a board pack, which isn't overly time-consuming, and then sit down as a management group and as a board, and talk about the business in a very mature way. Straight away you've upped the ante in terms



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of the way we think and talk about the business, because of MIS. At the other end, you've got strategy.

"We don't think all our firms have to have the same strategy, of course. In fact, we're pleased to say they have all got quite different strategies, but the language they use to talk about strategies we'd like to get some common ground on. So we're bringing in a new strategic framework – a way to talk about your strategy.

"If you think about that, at these very extreme ends of the stuff we're going to talk to the firms about, we get a form of consistency there, so my task from here on in is to pick the right topics that lie between those two extremes to focus in on."

CREATING A COMMUNITY

Barrett says there is "a single word that sums up what we're trying to do, and that is 'community'".

"I spoke about this a bit at the Dealer Group Summit last year," he says. "I think, fundamentally, my number one objective has to be, and is, to build a unique community. If you can successfully build a community, where people have common interests and are in that community with common aspirations, you can weather storms, you can be successful. You can achieve a lot together. So for me year one and year two — the period we're in now, the first phase, if you like — is to establish a community."

Barrett says a strategy meeting of the AZNGA firms, held in Manly on Sydney's northern beaches during April, was designed to foster this sense of community.

"Yes, there was some content around business strategy and the sort of things you'd expect, but we spent 80 per cent of the time on community," he says.

If integrating the planning businesses isn't on the cards, then introducing common management information systems and a framework for discussing strategic opportunities most firmly are.

Barrett says AZNGA will remain licensee agnostic, and is happy for his network's planning practices to be representatives of a range of licensees. He sees no conflict in what AZNGA is doing and what licensees do, and says licensees have a long-term role to play.

Barrett says the regulatory imposition of a licensee entity can get in the way of financial planning's development as a profession, but it doesn't have to. Where it does get in the way, it may be classified more as an unintended consequence, than a deliberate outcome of the regulatory structure.

"There was a risk-return trade-off that the regulator had to make when designing a system to regulate the market," he says.

"They sit back, I imagine, and say to themselves, with 20,000 financial planners in this market, how do we govern that? Do we do it planner-by-planner, or do we set up a system that's going to encourage some degree of grouping together of those planners to give us a way, if you balance risk and return, to effectively and efficiently monitor this marketplace?"

TURNING PLANNERS INTO DISTRIBUTORS

Barrett says that while the regulator was seeking efficiency, some entities — usually banks or other institutions — saw the opportunity to turn those groups of planners into distribution channels.

"You had these opposed motives: regulators wanted regulatory efficiency; dealer groups became big distribution houses," Barrett says. "The two things are completely at odds with each other. That's why this whole vertical integration debate has gone haywire.

"The problem is you have this licensee arrangement, which I think does work – but it came in at a time when the industry wasn't mature enough to be a profession. I would not necessarily blame licensees for the issues in these businesses. It's a generational change. You've gone from a life insurance, commission-based world through to a profession, and we're half way through the journey. That's all. There's a transition being made.

"And I do believe the regulatory settings we've got today are adequate. They will give more than just a gentle push in the back of the industry. They will get the industry moving in the right way, and they already have. But it's still going to take a little while longer to truly transform." ■