AFA White Paper

January 2013

Association of Financial Advisers

New Frontiers

The Age of Consumers

Prepared by

business health

Sponsored by

AIA

Table of Contents

About the Authors

Forward

The Financial advisory profession has had a challenging 5 years with Storm, the Ripoll enquiry, FoFA, My super and of course global markets still suffering from the GFC. In many ways the profession has responded with clear thinking and an increased focus on clients. However as we embark on the 2013 journey and beyond we remain focussed on our core purpose. That is to build ,manage and protect the wealth of the Australian community.

With this in mind the AFA joined together with AIA and Business Health to provide insight into the views of consumers who work with advisers. To better understand their needs and requirements, hot buttons and key issues. In doing so this will add to body of knowledge that will assist advisers, licensees and product providers to more closely align with the consumer in a post GFC & post world.

The New Frontiers – White paper assesses the views of over 12000 clients of advisers over the past 4 years. There are telling insights as well as warning bells for advisory practices. Improving the way in which the review process takes place with clients along with better and more tailored communication process's are some of the key findings and with FoFA's requirement for Opt in and the fee disclosure statement regime it is clear that the review gap and the communication gap across the industry needs to be addressed.

As it's heart quality financial advice takes clients on the long term journey to achieving the kind of life they want to live where financial wealth and security is a means to an end. Thus financial advisers need to align their value offer to this journey and not just at the front end of the process but all the way through.

This is the value that clients are looking for and this is one of the key gaps found by this paper.

This is our challenge and this is our opportunity.

As the Pathways to Excellence white paper (released October 2012) evidenced clients are looking for a number of key requirements from their adviser.

Table 1 - What are clients looking for?

1. Adviser Qualities	The skills, confidence, capability and engagement of the adviser. Creating a trusted environment.
2. Practice Service Proposition	Ability of the practice to deliver the client experience.
3. The Advice Process	Ability to understand client needs, goals and dreams and then create a plan to achieve this.
4 The Practice Charging Model	Need for transparency and visibility of fees and charges. Need to deliver value for money.

The Client Journey

1. Key Findings - Pre Engagement	This is where the client is actively seeking out advice
2. Key Findings - Engagement	This is where the client has made the choice to engage
3. Key Findings - Ongoing Service	This continues for the duration of the relationship

Executive Summary

The importance of regularly seeking feedback from clients can never be overestimated. This is true in any market conditions but especially so when you consider the increased volatility, high profile corporate collapses, multiple government enquiries and the negative media our profession has endured over the past few years.

Given this, it almost defies belief that just 15% of Australian practices have a structured approach to seeking client feedback.

It is extremely dangerous for advisers to assume that they know what their clients are thinking or that a quiet client is necessarily a happy client. This report provides a detailed analysis of the level of client satisfaction based on the 12,000+ active clients who have completed the Business Health CATScan survey since 2008 - a time of considerable challenge for most advisers.

The results indicate a high degree of overall client satisfaction in most of the key performance indicators measured through the CATScan process. It appears that clients are, in the main, very satisfied with their financial adviser. It should be noted however that our dataset is heavily influenced by "best practice" firms. The high performing, well run businesses tend to be the most likely to invest the time, effort and money into seeking client feedback.

While the following pages provide a wealth of information, at a high level there were a number of key take-outs emerging from the research:

- Clients rated the "relational" areas (Business Relationship, Professionalism and Support Staff) most highly - the difficult job of creating relationships and trust is being done well in the eyes of clients. However they were far less satisfied with many of the process driven areas of the practices (Reviews, Communication and Implementation).
- Advisers need to truly understand their clients and tailor their service and support accordingly. In particular, communication needs to be aligned to the client's age, occupation and income level. One size definitely does not fit all! Clients consistently tell us they want personalised and proactive communication. They want the communication to talk specifically to them, and to not simply consist of generic information that goes to everybody. They also want a financial review process that covers their life and their goals, not just their investments and/or policies.
- While all clients deserve to be treated fairly and with respect, not all clients deserve to be treated equally. High value clients (as defined by the practice itself) deserve and demand a higher level of service. These results suggest that more work, thought and effort is required in the area of segmentation.
- The results for both higher income earners and self-employed clients consistently underperformed the national benchmarks and while these groups can be more demanding and generally have higher expectations of their adviser, they tend to be the most valuable clients.
- Many of these clients are nearing the end of the financial lifecycle - 59% are aged 60+ and 54% have left the workforce and are presumably drawing down on their retirement savings. The challenge for advisers is to now, of course, develop appropriate strategies to attract new clients to ensure their practice remains viable well into the future.
- There appears to be an enormous opportunity for new client acquisition from within the existing client base - 87% of respondents said that they would refer their adviser to friends, family and associates.
- Clients who believe they have a "close business relationship" with their adviser are far more satisfied across all areas. It raises the question "what is being done to foster a closer relationship with key clients?" While quite often the client/adviser relationship builds over time, it was interesting to note that the mid-term clients (ie: those who have been with their adviser for between 3-7 years) were generally less satisfied than both the new clients and the long term clients.
- While clients value the personal relationship they have with their adviser they want to know they are part of a business with a team of people looking after them. It was a concern that only 41% of clients indicated they would be confident having their financial affairs managed by someone else within the practice.
- Finally, it is interesting to note that Range of Services was rated second lowest by clients. This is the first time this has occurred during the 12 year history of the CATScan and begs the question - why? Perhaps it's the ability or willingness of the adviser to adapt his/her offer to cater for changing client circumstances. Or maybe it's simply a matter of not knowing? In any event it seems that this result suggests both opportunity and threat.

While there are many ways to obtain feedback from clients and each method has its own pros and cons, the following table drawn from the broader Business Health HealthCheck database clearly shows that by asking clients for their feedback, advisers not only strengthen their relationships, but also generate (on average) a 73% increase in profit per principal.

PROFIT DRIVER	% OF AUSTRALIAN PRACTICES	INCREASE IN PROFIT* PER PRINCIPAL/OWNER
Formally ask for feedback		
No	85%	-
Yes	15%	73%

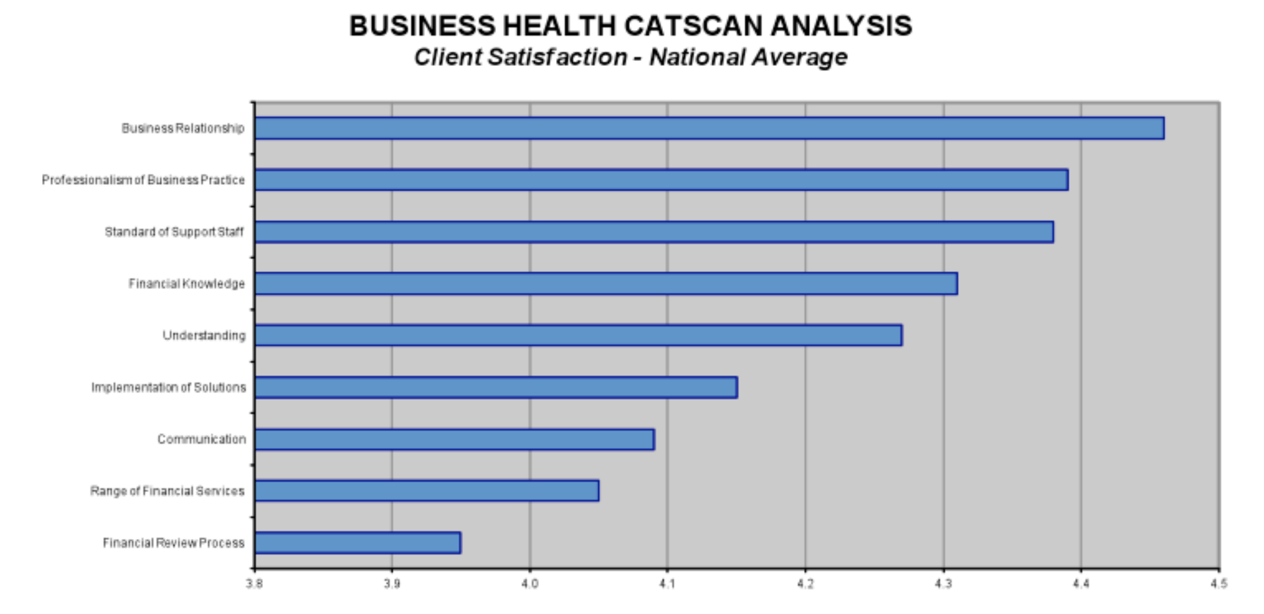
* All of the "profit" calculations contained in this report assume a notional $100,000 salary for each principal working in the practice.

Key Findings

Key Performance Indicators

The Business Health CATScan allows clients to rate their adviser's performance in nine key service delivery areas (KPI's) using a simple one to five rating system (where a maximum score of 5 is defined as "Excellent - expectations are always met and consistently exceeded").

The national average score across the entire dataset was 4.23 which indicates, at a high level, most clients were quite satisfied with the services being provided by their adviser. In terms of the specific areas covered, clients scored the area of Business Relationship (average score of 4.46) most highly and conversely, the Financial Review Process received the lowest score from clients with an average of 3.95.



However, it should be noted that our data set is heavily influenced by "best practice" firms - high performing, well-run businesses that tend to be the most likely to invest time, effort and money in using a tool like the CATScan to seek client feedback.

Nonetheless, there are numerous conclusions that can be drawn from the data and extrapolated to practices representing the full spectrum of performance.

Even these best practice firms have significant opportunity to enhance their services. The following table shows how the overall performance index - a relative indication of the greatest opportunities for improvement from the client's perspective - was calculated.

Key Findings

Key Performance Index

The Index is a measure of how each KPI fares relative to the absolute minimum as well as the highest score, and is extremely useful in interpreting how clients are "grading" performance both within each KPI and in relation to the other KPI's.

Rank	KPI	Score	Variance to Your Average	Difference to Minimum (3.80)	% Above Minimum	Performance Index
1	Relationship	4.46	.25	.66	17%	100.0%
2	Professionalism	4.39	.19	.59	16%	90.1%
3	Staff	4.38	.18	.58	15%	88.9%
4	Knowledge	4.31	.10	.51	13%	77.5%
5	Understanding	4.27	.07	.47	12%	72.1%
6	Implementation	4.15	-.05	.35	9%	53.5%
7	Communication	4.09	-.12	.29	8%	43.9%
8	Range	4.05	-.15	.25	7%	38.8%
9	Review	3.95	-.26	.15	4%	22.4%
	Your Average	4.23		Absolute Min	3.80	

Variance to Average

This measure calculates whether the KPI score was above or below the overall average. As shown above, Implementation of Solutions, Range of Financial Services, Communication and Financial Review Process were all below average.

Difference to Minimum

The absolute minimum figure of 3.80 is based on all of the CATScan results to date and is the lowest that we would expect an adviser to score on any measure. The difference to minimum shows how each KPI fared relative to this absolute minimum.

Performance Index

Using the comparison to Absolute Minimum we are able to construct the 'Performance Index' - which shows how each KPI fares relative to the Absolute Minimum score as well as the highest score. The Performance Index shows that clients rated their adviser's Review Service as only 22.4% of their performance in Business Relationship.

Converting Insight into Practical Action

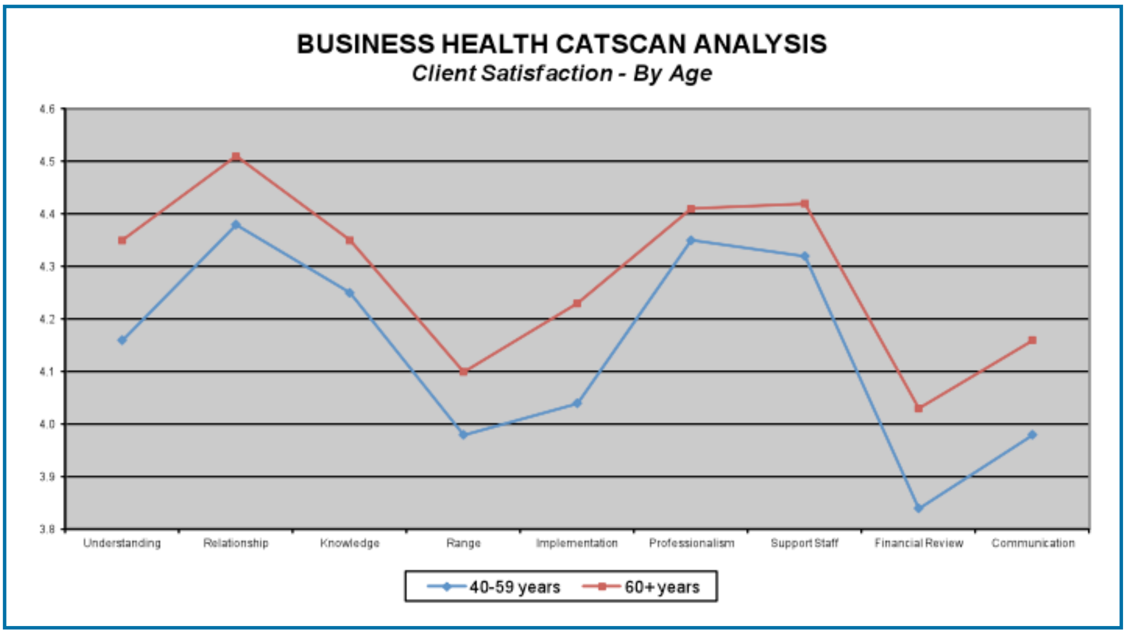
The responses within each KPI measure were further analysed to compare key demographic differences between respondents. Data was broken down by client income, depth of connection with their adviser, gender and age. And while every client is unique and unlikely to be a perfect reflection of their demographic, understanding key demographical differences can make it easier to cater your services, marketing, and even office environment to meet not only the needs of your clients, but their expectations as well.

As you review the following sections and each demographic KPI breakdown, keep in mind that the key value of asking your clients what they think about your practice is not simply to "improve your numbers" from one survey to the next, but rather to open a dialogue between you and your clients that will ultimately strengthen your relationships with them. That, in turn, will be what drives better results across survey periods.

Age Does Matter

The age breakdown of the clients who completed the CATScan was skewed towards people aged 60 and over – 59% of all of all respondees fell into this age band. A further 32% of the clients were "wealth accumulators" aged between 40 and 59 and only 7% of the participating clients were aged under 40 (2% of clients did not disclose their age).

As the following graph shows, the client satisfaction scores varied considerably by age. Across all nine of the key service measures tracked by the CATScan, older clients were far more satisfied with their adviser's performance than their younger counterparts.



Given the skew towards the 60+ demographic (for some advisers this segment represented well over three quarters of their entire client base), perhaps some advisers need to take an "ageist" view of how their service offer is delivered.

Converting Insight into Practical Action

Actions to consider:

Communication

As this is undoubtedly a key driver in the development of client relationships, communication needs to be crafted to reflect the age of the audience to whom it is directed.

- Is the language used client friendly and easy to understand or does it favour (albeit unintentionally) the age group of the writer?
- How about its tone – conversational or technically focused?
- Is it delivered in written format only or are email and web-based vehicles also used? We believe a mix of medium is to be preferred and this should, at the very least, consider what role (if any) social networking has to play.
- How large is the print size (remember retirees do wear glasses)?
- How about the content – recipes versus twitter tips?

The frequency of communication is another important area, especially for older clients who may need more regular reassurance that their adviser is on top of their specific situation. This is particularly relevant during times of economic uncertainty and volatility.

And finally, regardless of age, CATScan clients repeatedly tell us that they want more personalised communication – "Dear Valued Client" just doesn't cut it anymore.

Client meetings

It is important that advisers consider the duration of their "face-to-face" client meetings. While older clients normally appreciate spending some time establishing &/or deepening the relationship before getting down to the "nuts and bolts" of their financial plan, time can be of the essence for generation X and Y professionals with younger families.

The timing of meetings and events must also be structured to recognise the preferences of the different age groups. While employed and self-employed clients will prefer to meet outside their core business hours, this isn't as critical for retiree clients who don't face the same time issues - most likely late morning or early afternoon will appeal to them more.

The office

Those advisers with a high proportion of aging clients must also be mindful of how practical, accessible and welcoming their office is:

- How well does it cater for older clients, who might have difficulty in negotiating stairs?
- Is the furniture and decor in keeping with what this target market would expect?
- Is public transport nearby and if parking is not convenient, can valet parking be organised?

And how well do the staff interact with the clients? Does their language, dress and overall presentation help make older clients feel comfortable and assured?

Type and range of products

While it is dangerous to generalise, different age groups can have very different environmental and social beliefs and philosophies. These differences need to be identified and acknowledged in the adviser's solution suite/product list.

Consider the rise of ethical and environmental funds and the raft of reverse mortgage products now on the market. Long term health care products and funding into a retirement village also fall into a similar category.

For other clients, business succession, philanthropic gifting and estate planning for example, will be extremely important and hopefully will be able to be addressed by the client's adviser in one way or another.

Fee structure

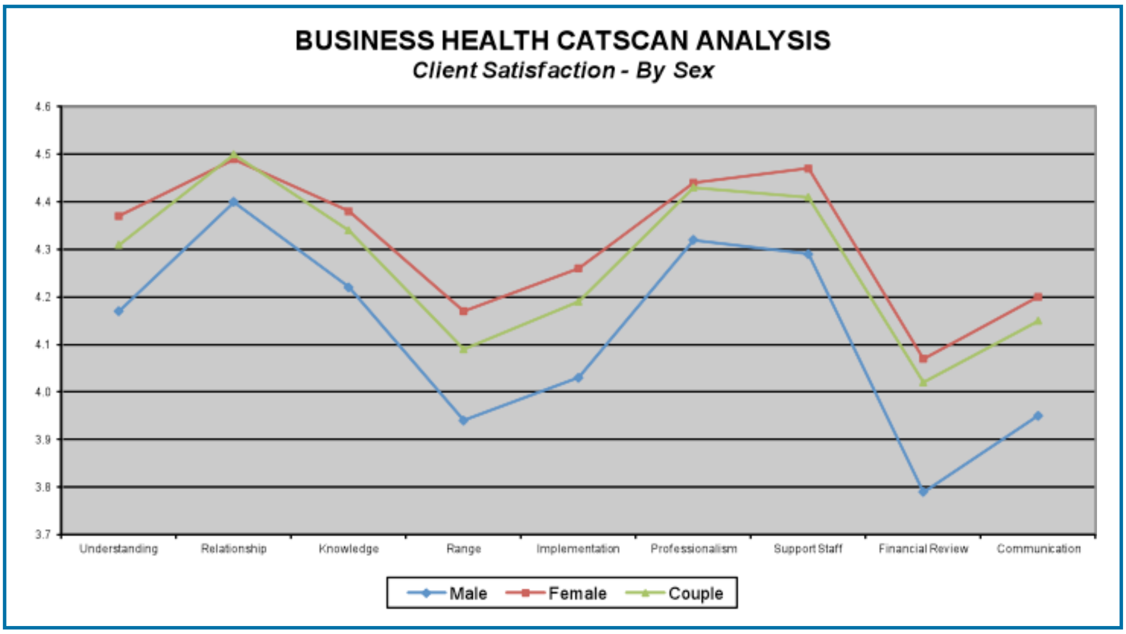
While we will leave it others to debate the merits of fees versus commissions, attitudes to adviser compensation does vary significantly across age groups – advisers should understand how their clients feel and offer a model they are most comfortable with.

Converting Insight into Practical Action

The Gender Impact

Just over a third (37%) of all the respondees were male and a quarter (25%) of the clients were female. Interestingly more than one in three clients (36%) identified themselves as a "couple".

As the following chart shows, while the male clients scored significantly lower, the "couples" also underperformed their female peer group.



Actions to consider:

Always be mindful

Advisers must ensure they continue to recognise their "couples" and treat them accordingly. And this attitude must extend to everyone in the practice.

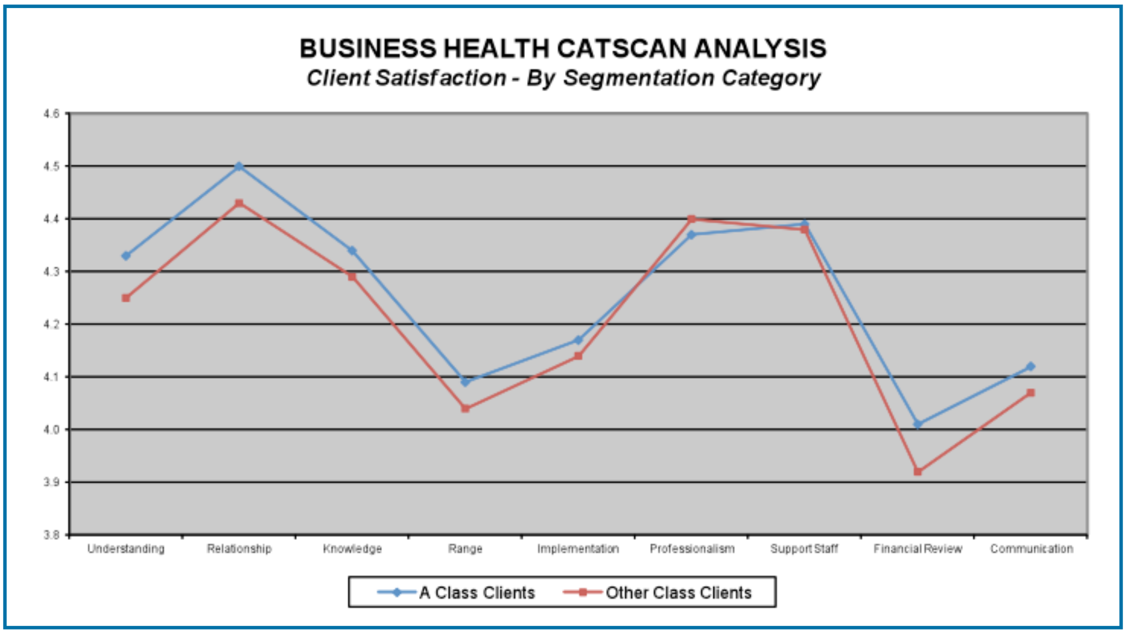
How it plays out

It seems many practices are seen to acquiesce to the dominant partner. While this is usually quite unintentional, advisers should ask themselves how they handle the following scenarios:-

- If only one partner can attend the annual review meeting, do you still conduct the meeting or look to postpone the meeting until they both can attend?
- During the face-to-face meetings with your "couples", do you engage equally with both partners (ie: making eye contact, directing supplemental questions, seeking confirmation/acknowledgement, ensure talk time, etc)?
- Is all of your correspondence formally addressed to both partners and are both names used in the salutation/greeting?
- When a key decision needs to be made about your client's investments/portfolio, who do you call and do you insist on authority to proceed from both partners?

Treating clients fairly, respectfully but not equally

The CATScan process allows us to identify and isolate the scores and comments given by "A" class clients (as defined by the specific practice). A total of 3,955 "A" class clients were contained in the dataset and as the following chart shows, overall they appear marginally more satisfied in all nine of the key performance areas covered in the CATScan.



While this might seem a pleasing result, it should be noted that the difference between "A" clients and "Others" is only marginal. While every client deserves to be treated fairly and every client deserves to be treated with respect, not all clients deserve to be treated equally. "A" Class clients must receive a premier level of service and support - after all, they are probably paying for it.

Segmentation is not about providing poor service to any client. It is predicated upon providing an appropriate level of service that can be delivered profitably.

Converting Insight into Practical Action

Actions to consider:

Objectivity is key

Categorising clients can quite often be a very difficult exercise, particularly for the adviser who usually has a long personal history with many of the clients. For client segmentation to be most beneficial an objective segmentation criteria should be used and the adviser alone should not be solely responsible for managing the client ratings.

Differences must be tangible and meaningful

To be of real business value the segmentation model must be seen to deliver different levels of service between the various categories of clients – segmentation should not simply be an academic exercise.

The following table drawn from the latest HealthCheck analysis clearly demonstrates the value the practices in our database have been able to derive from segmenting their client register.

PROFIT DRIVER	% OF AUSTRALIAN PRACTICES	INCREASE IN PROFIT* PER PRINCIPAL/OWNER
Client segmentation		
No	12%	-
Yes	88%	127%
Effective implementation (segment, differentiated service and reviewed regularly)	64%	156%

* All of the "profit" calculations contained in this report assume a notional $100,000 salary for each principal working in the practice.

Review regularly

To reflect the changing circumstances (of both client and adviser), best practice dictates that the segmentation model is reviewed on a regular basis in terms of:

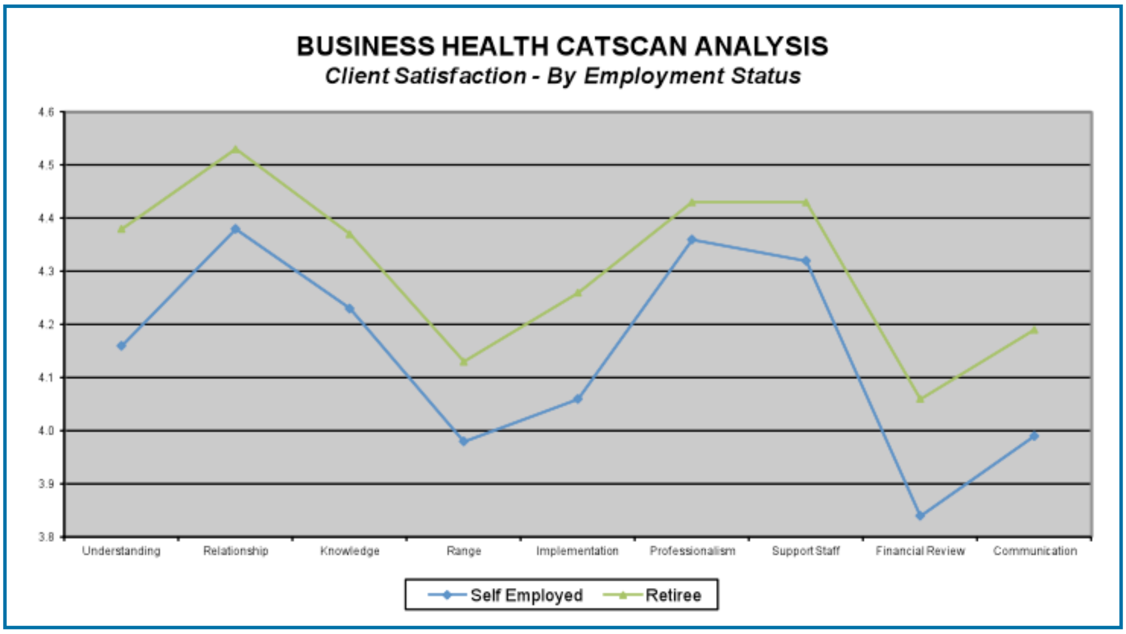
- Type of services being offered per segment.
- Cost to deliver those services.
- Allocation of clients

Retirees and the Self-Employed

Perhaps reflective of the age distribution, 54% of the clients indicated they are no longer gainfully employed (ie: they stated they were either retired or not participating in the labour force).

Of the remaining clients, 28% indicated they were employees and a further 15% were self-employed. While the broad needs of "employees" per se is well known and catered for by advisers, it is important for advisers to appreciate that small business owners require different handling and access to an extended, more diverse product range.

It is also worth noting that, generally speaking, self-employed clients can be more demanding and have far higher service expectations. As the following graphs shows, while the retiree clients scored quite strongly, the self-employed clients were far less satisfied with their adviser's performance in all nine of the CATScan KPI's.



Actions to consider:

Close enough is not good enough

Small business owners generally have less time to devote to their financial affairs and are far more demanding than employee or retiree clients. They have higher expectations and are less tolerant of sub-standard service (as clearly shown in the CATScan chart above).

To be successful in this segment, advisers must ensure their back office systems and processes can deliver on time, every time and their "client facing" staff have all of the required skills and present knowledgably and professionally.

Review your solution suite and capability

As already stated, self-employed clients usually have a wide range of needs and require advice across a number of different financial areas. Practice principals need to invest heavily in the education/qualification levels of their advisers and continually look to broaden their level of expertise.

Many small business owners can also be quite tech-savvy. They appreciate, for example, that an efficient website can save them time and money – an advisory practice with a static "brochure-ware" type of website will not be that appealing.

Broaden your professional network

The needs of most small business owners extend well past traditional product offerings. Self-employed clients often value referrals to other professional service providers (eg: accountants, lawyers, general insurance brokers, lending/leasing suppliers, etc). A strong alliance/referral network is critical if advisers are planning to successfully target this market.

Converting Insight into Practical Action

Raise your profile

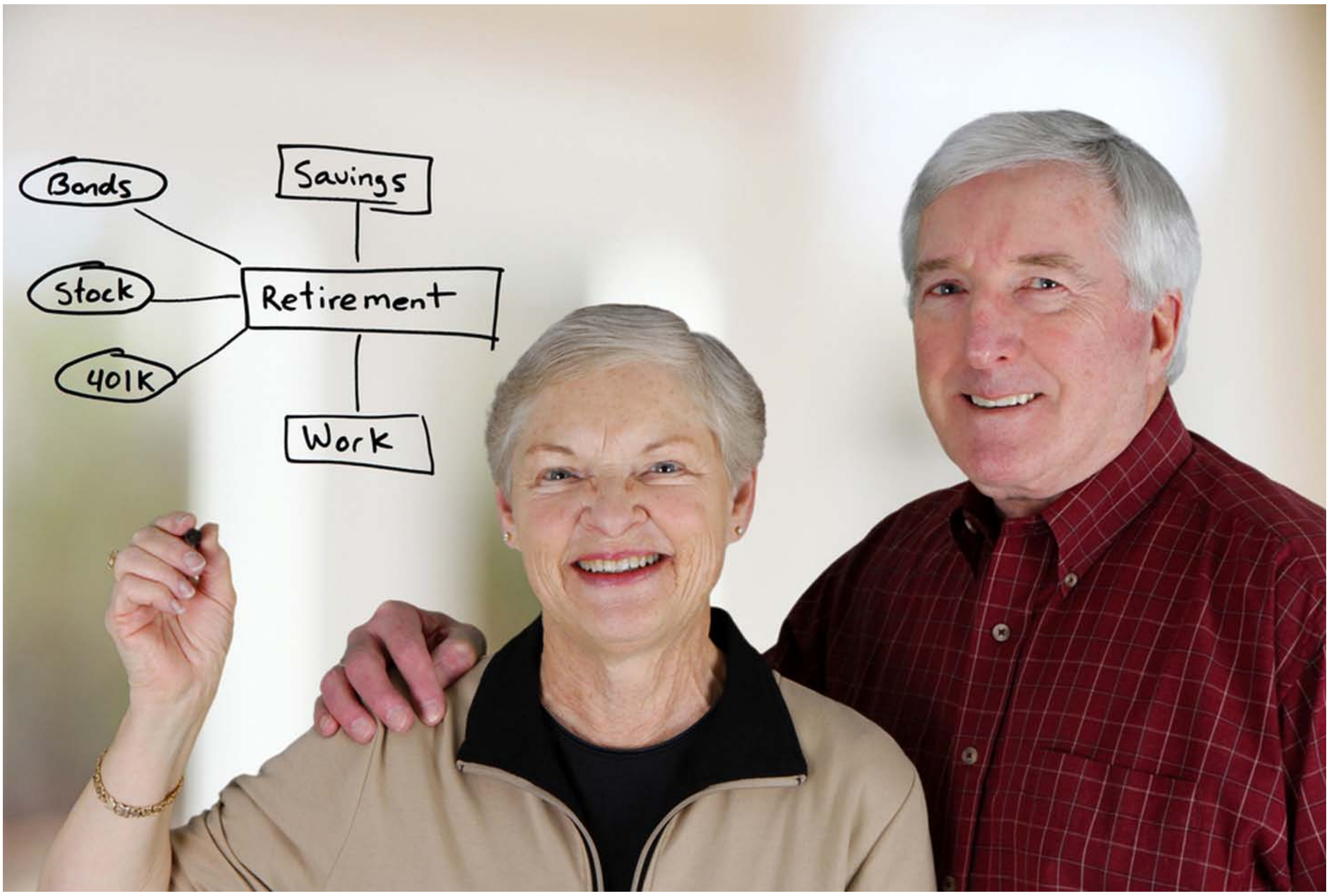
If advisers have the skills and knowledge to add real value to small business owners, they should ensure they promote this expertise widely. Illustrative case studies should be included on their websites and in client newsletters. They should consider writing a column for their local newspaper and contributing articles for their referral partners to use with their self-employed clients and suggest running joint seminars.

It is also wise to make contact with the associations in the area that support small businesses (eg: chambers of commerce and local business networking groups). Becoming actively involved in these groups is a quick and cost effective way of lifting your profile.

Seek regular feedback from clients whose opinions you will really listen to and be prepared to action

Advisers must keep in constant contact with their self employed clients and never just assume they know what their small business owners are thinking. If problems do arise, they need to know about them and address any issues quickly. Given that well over three quarters of the advisory practices in the country do not formally seek feedback from their clients, many advisers continue to put their relationship with their small business owners (and indeed their other clients) at risk.

And if self employed clients are happy with the services being delivered, advisors should ask for a referral. The CATScan research shows that 87% of all clients are willing to refer their adviser to friends, family or associates yet only 61% say the actually have – perhaps they just need to be asked?



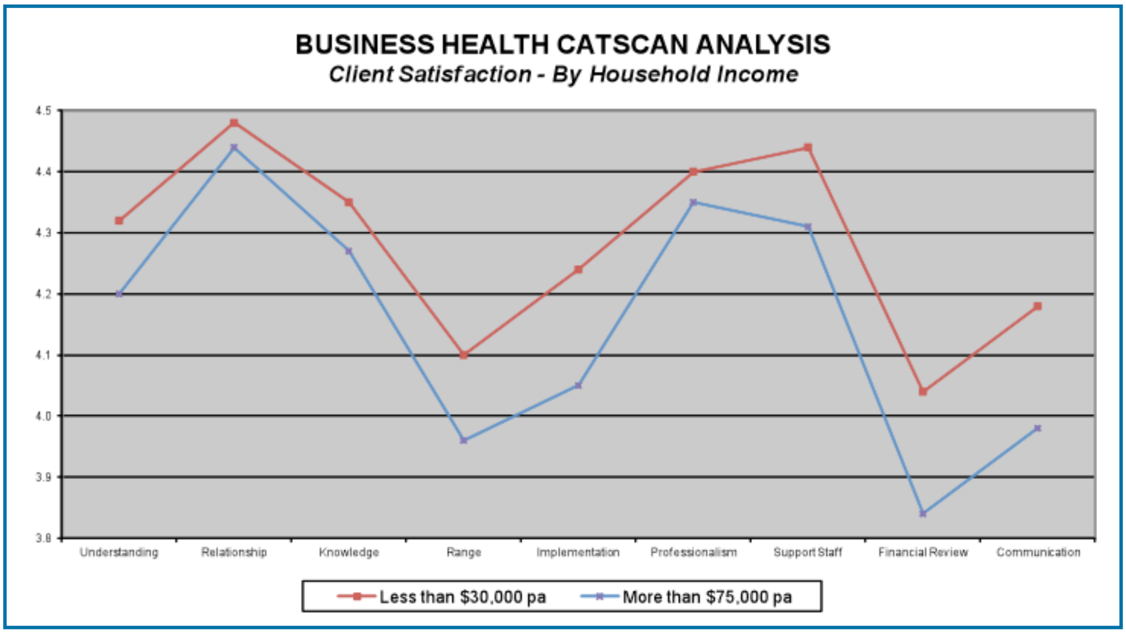
The Income Effect

Just under two thirds (64%) of the clients that participated in the CATScan stated they earn an annual income of less than $75,000 per annum (with over one in three clients earning less than $50,000).

As seductive as large investable assets and high incomes are, and regardless of how these clients are described (high net worth versus mass affluent versus emerging upper middle income professionals) or how they may be classified, it is worth noting that on average, KPI scores tend to decrease as income increases (ie: lower income people score more highly than higher income people).

While the number high net worth individuals has decreased in the past two years, these wealthy Australians continue to be actively courted by an increasing number of advisory businesses. And, while we have found that the definition of high net worth varies significantly from firm to firm (and we are not suggesting that an annual household income of $75,000+ should be the universal breakpoint), there is no doubt competition in this relatively small segment of the market remains intense.

As the following chart shows, those clients with household income in excess of $75,000 per annum are less satisfied with their adviser's performance across all nine of the key service delivery areas - many advisers are struggling to completely satisfy their higher income earners.



So what is contributing to these results?

Of course it is always dangerous to generalise, and each business is unique and hence the challenges and solutions will vary between practices, however, in general, five key themes emerged from the analysis of the higher income earners in our CATScan data warehouse.

Converting Insight into Practical Action

Actions to consider:

Understand and carefully manage service expectations

Higher income earners generally have much higher service delivery expectations. They tend to measure and benchmark the service they receive from their advisory practice, not necessarily against other companies in the financial services arena, but rather, what they perceive is 'global' best practice regardless of the specific industry.

Advisers specialising in this market must take a very active role in setting and managing their clients' expectations. If this is not done effectively (and continually reinforced after every meaningful client contact), advisers may find themselves faced with completely impractical or unrealistic hurdles to meet.

Left to their own devices, high net worth clients can expect the world and want it delivered yesterday!

Broaden your solution suite

Clients with higher incomes or net worth can have a broad range of complex needs that require specialist advice across a number of different areas. Advisers need to consider if they have the skills and knowledge to add real value to these clients. If they don't, they must either start investing in increasing their capabilities or, develop a strong and trusted alliance/referral network with other associated professional service providers.

Marketplace positioning

Those advisers who are not widely acknowledged as being a premier supplier of financial advice to successful members of their local community may be at a distinct disadvantage when it comes to attracting new, higher income clients.

As clients move up the income scale, the firm's reputation and positioning, along with the adviser's own personal profile, become increasingly important. Serious consideration must also be given to the location and the look and feel of the adviser's premises – they need to be in keeping with those of the other professionals this target market may also be using.

When dealing with high net worth clients, all aspects of an adviser's business must be able to stand up to a thorough and discerning due diligence process.

Surround yourself with a great team

While all clients (regardless of their salary or investable funds) truly do value the relationship they have with their key adviser, higher income earners expect the same level of excellence and professionalism from everyone involved in managing their financial affairs.

All staff need to excel at what they do and project the image high net worth clients expect.

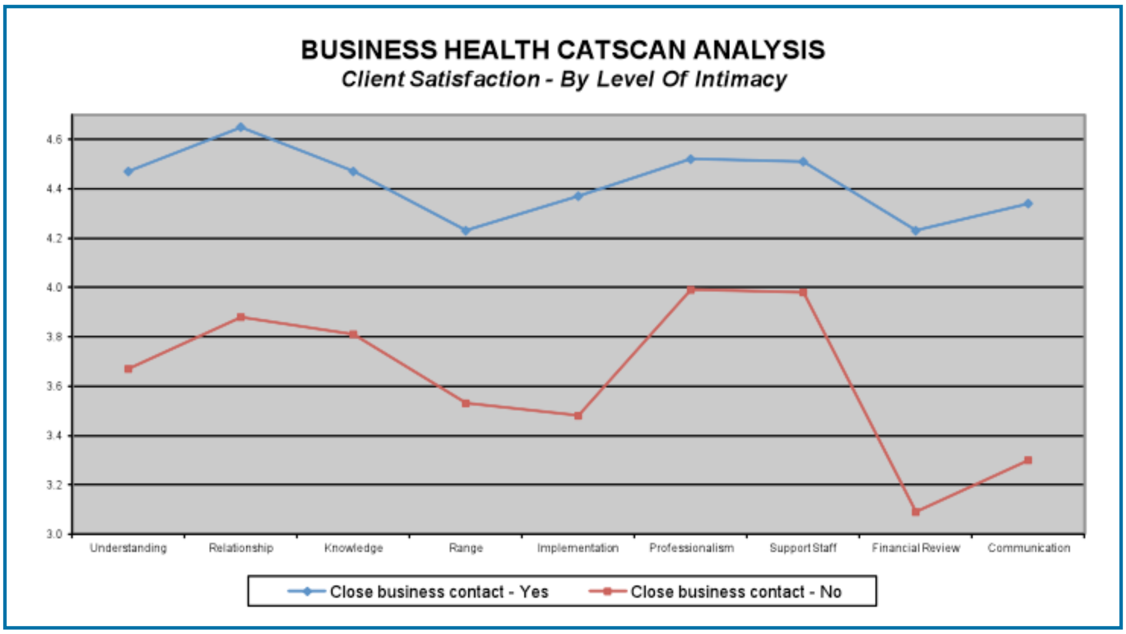
Be referrable

In keeping with most "linked" communities, endorsements and testimonials from respected friends, family or colleagues are incredibly important when dealing with higher income earners. Advisers must ensure that their most valuable clients understand and appreciate that they value referrals and continually create opportunities to explore how they may be able to help others within their social network.

And one final health warning gleaned from the thousands of practices we have worked with over the past few years – bigger is not always better! The clients with highest net worth &/or annual income do not automatically translate into the most profitable clients for your firm. All advisers need to ensure they can measure not just the revenue generated, but also the real cost to their business to service each client.

Getting Close and Personal

73% of the clients in the CATScan dataset feel they have close business contact with their adviser. This is a key figure as the following graph clearly shows. For every Key Performance Indicator, clients who think that they have close contact with their adviser score, on average, significantly higher than those who do not think so.



Further analysis of the CATScan data shows that, on average, it is the clients who have been with their adviser for between 3-7 years that represent the greatest business risk. When compared to their peers who have only recently joined a practice or those long term clients who have been with their adviser for seven or more years, the clients in the 3-7 year duration band are generally more likely to feel as though they do not have close business contact with their adviser.

This is perhaps not that surprising when you consider the normal client relationship lifecycle. In the early days, advisers are actively engaged in the comprehensive fact find/discovery process and are intent on fully understanding the needs and wants of their new client. Through the creation of personalised financial plans and/or the restructuring of product holdings and investment portfolios, advisers get the chance to continually showcase the depth of their technical acumen and professional expertise.

At the other extreme, those who have been clients for seven or more years in some ways become almost "rusted on". While great care must be taken never to take these long term clients for granted, the relationships are usually very strong and the service delivery expectations are well known and well managed. You know them well, they know you well and provided there are no unforseen surprises to shake this confidence, things normally progress quite smoothly.

However, the very nature of the relationship is different with the clients in the 3-7 year bracket. The initial euphoria that comes from putting together a new financial strategy may now have worn off and there may not be a need to regularly buy and sell investments, update the level of protection cover or change policy providers. It may also have been some time since these clients have met face-to-face with their adviser and unless the ongoing practice communication program is extremely effective, they may be feeling a little "unloved" and starting to question the promises that were made when they first joined.

So what can advisers do to mitigate the risk these mid-term clients pose?

Converting Insight into Practical Action

Actions to consider:

Continually remind them what you do

Clients sometimes mistakenly make the assumption that if there has been no action recommended, their adviser has done no work. Advisers need to continually remind their clients of all the things they do for them, even if the individual benefit to the client is not immediately obvious.

Also, clients don't always remember the depth and breadth of solutions their adviser may be able to deliver. Case studies and third party testimonials are a great way to educate clients on enhancements to the service suite or to reposition existing products that may now be appropriate.

Conduct client reviews, not just investment/product updates

The review meeting is the ideal opportunity for advisers to re-engage with their mid-term clients and while many practices have invested countless hours examining the various elements of their review procedures and agonised over the content and layout of their review reports, clients continually tell us advisers often lose sight of what is most important - the client! We hear all too often from clients that while their adviser is very good at investment updates and product evaluations, in their mind, this does not equate to a client review.

First and foremost (and at the risk of stating the obvious), in the clients' eyes, a client review must be centred around the client. It should be all about them - their family, their business, their goals, their dreams and their aspirations. While their money and their policies are obviously important, they should not be the sole focus of the review.

An effective and valued review process can lead to greater scope for client referrals, more cross and up selling opportunities and an enhanced perception of "closeness" – this "closeness" improves the KPI results across the board.

Position, position, position

This real estate mantra is, in our opinion, equally valid for the advice area - positioning is paramount. It is also absolutely essential for clients with around five years of tenure - advisers need to make sure they remain visible and top of mind. They need to continually "touch" these clients throughout the year and importantly, ensure all their communication pieces are personalised and relevant (blanketed, shot-gun communications often do more harm than good).

Successful practices communicate their messages through a range of different media - newsletters, emails, face to face meetings, seminars, telephone calls and now including social media. The more frequently the adviser "talks" to the client, the more likely their message (Client Value Proposition) will sink in. And unless this occurs, it is most probable that the client will quickly forget just what it is that their adviser is actually doing for them.

As the following table clearly shows, Business Health has been able to prove a direct correlation between "A" class client contact and practice profitability. On average, those practices who contact their best clients more than 10 times per year generate 287% more profit per principal than those who only "touch" their best clients fewer than five times a year.

PROFIT DRIVER	% OF AUSTRALIAN PRACTICES	INCREASE IN PROFIT* PER PRINCIPAL/OWNER
'A' Class client contacts		
Less than 5 per year	9%	-
Between 5 - 10 per year	41%	174%
More than 10 per year	**50%**	**287%**

* All of the "profit" calculations contained in this report assume a notional $100,000 salary for each principal working in the practice.

It is also interesting to overlay these findings with a deeper analysis of the CATScan data. Where advisers scored highly in the communication section of the CATScan, almost 95% of their clients indicated they would be willing to refer their adviser to friends, family or associates.

However, while the willingness of clients to refer is an extremely important lead indicator, of greater value to an advisory practice is the number of clients who have actually referred their adviser to someone they know.

Again, the CATScan data clearly showed that the clients of the most effective communicators have actually referred their adviser over 30% more often than the clients of the least effective communicators.

Based on these findings all advisers should review the effectiveness of their client communication programs (and never ever underestimate the power of just picking up the phone) – there is indeed a very real business benefit in getting this right.

Converting Insight into Practical Action

Adviser Dependancy is Alive and Well

One of the real business concerns to emerge from Client Ready I was the fact that only 41% of clients surveyed would be confident in having their financial affairs managed by someone else in the practice other than their current servicing adviser. More than half of the clients are at risk of leaving if their current adviser was to leave the business.

Given, in many firms, the practice owner is also the adviser to the key clients, it would appear that adviser and principal dependency is very much "alive and well" in our profession!

While this may not have been a huge issue in the past, according to Business Health's HealthCheck data base, the average age of practice principals is now 57 years. Many owners are starting to seriously consider how and when they will exit their business or perhaps wind back their day-to-day client facing activities and take on more of a strategic management/mentoring role within their practice.

We also fully appreciate that, by the very nature of the work they do, extremely strong bonds develop between great advisers their clients. In fact, of the nine key service delivery areas covered in our CATScan survey, clients rate the business relationship they have with their adviser above all else.

This depth of relationship is a true business asset and while such key person dependencies can never be eliminated, there are some practical steps that can be taken to manage and mitigate this business risk.

Actions to consider:

Introduce all of the key staff to the best clients

As the people working within the practice are no doubt one of its greatest assets, it's vitally important to ensure that they are not the practice's best kept secret.

Take every opportunity to promote the team. Publish their names and photos on the website, arm them with business cards, have them speak at client seminars and develop a "who's who in the zoo" contact flyer that you can include in all client induction material.

You don't buy a dog and bark yourself

Be disciplined and immediately delegate all administration calls/queries to the appropriate member of the team. Don't get involved unless there is a problem and delegate the $20 an hour tasks to someone else - your time is better invested elsewhere.

Find reasons for the key support staff to regularly speak with your clients. Supplement the adviser's face-to-face contact with a proactive client communication program that includes all of the key members of the team. All communication/contact does not have to come from the servicing adviser/principal.

Wherever possible conduct all of the client facing appointments on-site.

Make a point of involving the key support staff in these meetings and take clients and prospects on a "guided tour" of the office to showcase the capacity of the team.

And finally, perhaps the last word should go to the numbers themselves - while it is now universally acknowledged that principal dependent businesses have a lower capital value, Business Health's HealthCheck data also shows that those practices that have an effective transition/succession plan (which of course includes identifying and addressing any key person dependencies) deliver 106% more profit per principal than those who have don't. A return worth the investment of your time and effort?

PROFIT DRIVER	% OF AUSTRALIAN PRACTICES	INCREASE IN PROFIT* PER PRINCIPAL/OWNER
Succession buy/sell agreement		
No written plan	-	-
Written plan	46%	53%
Effective implementation (written plan, reviewed regularly, covering all contingencies, successor identified, funding in place)	**24%**	**106%**

* All of the "profit" calculations contained in this report assume a notional $100,000 salary for each principal working in the practice.

In Closing

It might seem logical that requesting client feedback would be a beneficial, if not essential, tool for creating stronger connections with your clients and developing your practice in ways to better meet their needs. It therefore remains a source of some disappointment to us that fewer than 20% of practices have proactively sought any feedback from their clients over the past two years.

If asking your clients to rate your services feels like an invitation for a barrage of honesty you'd prefer to avoid, or if you feel the costs of creating or outsourcing a survey would be better kept on your bottom line, you have ample company among your peers. Unfortunately, you and they would be missing the point. Client surveys are just as effective a way to communicate to your clients as they are a way to hear from them.

The very act of asking your clients for their opinion about you and your business is a crucial touchpoint that speaks volumes to your dedication to, and appreciation for, your clients. Perhaps somewhat ironically, it is also an excellent opportunity to remind them about services they may not even know you have!

The act of surveying your clients regularly can indeed be a powerful tool for building client loyalty.

For your consideration.

Appendix A - CATScan Process

The CATScan process provides practices with an easy and cost effective outsourcing facility to measure the satisfaction levels of their clients. We offer both a traditional paper-based/hard copy version of the tool and an on-line/web based version of the CATScan but the process for both is essentially the same:-

In short, the participating practices simply:-

- Select the clients they wish to include in their survey group – they should only include clients whose opinion is valued. We also suggest a mix of "A" class clients and "Others".
- Tailor the Business Health template cover letter/email to suit their individual communication style and distribute this with the hard copy questionnaire and a reply paid envelop or a secure link to our on-line system.
- This approach ensures Business Health never holds any of the client information and avoids all privacy issues. And, as the invitation to participate comes directly from the practice, it also maximises the chances it will be read and actioned (most clients don't know who Business Health is and are likely to ignore any correspondence from us or treat it as junk mail or spam).
- The clients then complete their questionnaire and return it to us in the reply paid envelopes or they click through to the on-line link and provide their feedback. Both methods ensure the practice never receives any information directly from the client and guarantees every client complete confidentiality and anonymity.
- Using a simple one to five rating system **(see table below),** clients are asked to rate their practice's performance in nine key service delivery areas, provide some high level demographic information and encouraged to provide comments.
- Business Health monitor response rates on a weekly basis and hold each CATScan survey open until the client responses dry up – this usually takes two to three weeks.
- Once all the clients that are likely to respond have done so, Business Health close off the CATScan survey and begin their analysis. Each practice receives a comprehensive 40+ page report detailing their specific CATScan results broken down by six different demographic criteria (age, income, sex, income, duration and client status). We also benchmark their standings (both at an overall level and specific client demographic level) as measured against our national data warehouse.
- A complete list of every client comment made throughout the survey is also included. While the numerical analysis and statistical comparisons contained in the CATScan reports are of enormous value, quite often it is these qualitative comments that prove the most enlightening.
- Business Health also supply a post-survey template email that practices can use to thank the clients for participating and advise them of the key findings.

RATING	EXPECTATIONS
5 – Excellent	Expectations are always met and consistently exceeded.
4 - Good	Expectations are always met and sometimes exceeded.
3 – Satisfactory	Expectations are usually met, with an occasional problem.
2 – Poor	Regularly fails to meet expectations.
1 – Very Poor	Rarely meets expectations.

Appendix B - Survey Questions

For reference, following are the questions for each KPI asked in the CATScan survey:

KPI	Survey Question
1. Understanding	How well do you believe your Adviser understands your personal financial needs?
2. Business Relationship	How comfortable do you feel talking about your financial needs? What is the level of trust between yourself and your Adviser?
3. Financial Knowledge	What level of technical knowledge do you believe your Adviser has in relation to your financial needs? This includes the knowledge contained within the practice, and its network of associates.
4. Range of Financial Services	How well do you think the range of products and services your Adviser offers matches your needs?
5. Implementation of Solutions	How well do you believe your Adviser has followed through and implemented solutions to your financial needs? This may include the time taken to implement a solution, the process that was followed, and whether you received what you expected.
6. Practice Professionalism	How do you rate the overall professionalism of the practice in terms of its business operations, business premises, furnishings, equipment, image and location?
7. Standard of Support Staff	How do you rate the standard of the support staff in terms of professionalism, dependability and courteousness?
8. Financial Review Process	How well does your Adviser keep up to date with your changing financial needs? Do they regularly ask for details on your changing circumstances and update you on whether you are achieving your financial and personal goals?
9. Communication	What is the standard of communication you receive from your Adviser regarding relevance, quality and frequency of communication, including letters, newsletters, telephone calls, seminars etc?

Appendix C - Client Demography

Variable	Total Number Of Clients	% Of Total Clients
Number	92	1%
Of	707	6%
Clients	%	32%
Of	7,197	59%
Total	4,455	37%
Clients	3,072	25%
Couple	4,398	36%
<$30,000 annual income	2,016	17%
$30,000 - $50,000 annual income	2,690	22%
$50,000 - $75,000 annual income	2,107	17%
$75,000+ annual income	4,335	36%
<3 years as a client	2,096	17%
3 - 7 years as a client	4,029	33%
7+ years as a client	5,677	47%
Self Employed	1,838	15%
Employee	3,468	28%
Not in Labour Force	354	3%
Retiree	6,171	51%
Has access to email - Yes	7,401	61%
Close business contact - Yes	8,839	73%
Stay if Adviser changes - Yes	5,001	41%
Would refer - Yes	10,544	87%
Have referred - Yes	7,383	61%
On-going relationship - Yes	11,130	91%

Confidentiality & Disclaimer

The material contained in this report represents confidential information and intellectual property residing within Business Health Pty Ltd. It has been provided on the basis that it will not be conveyed to any third party without the prior approval of Business Health Pty Ltd.

Business Health Pty Ltd makes no representations or warranties as to the validity, relevance or accuracy of the information provided nor of the capability of any report to achieve any purpose resulting from its completion.

Business Health Pty Ltd accepts no responsibility whatsoever for any loss or damage suffered by any user of the services of Business Health Pty Ltd.