Maximising (Profit) Flow in a Financial Planning Business

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The Goal

In 1984, Eliyahu M. Goldratt published The Goal, a ground breaking Business Management book, which introduced readers to the theory of constraints. Using detailed analysis of an industrial plant's manufacturing process, the book's characters identified efficiency bottlenecks, implemented changes and measured the results. The outcome was a continual cycle of improving product quality, higher yields and, ultimately, increased profits.

> *"What you have learned is that the capacity of the plant is equal to the capacity of its bottlenecks."*
>
> - Eliyahu M. Goldratt (The Goal)

While the setting for The Goal was a traditional product manufacturing plant, many of the concepts introduced in the book can be just as valuable in a financial planning business.

Note:
In the interest of keeping this whitepaper concise, I will focus only on the delivery of new advice. However, the concepts equally apply for the delivery of ongoing client service & support.

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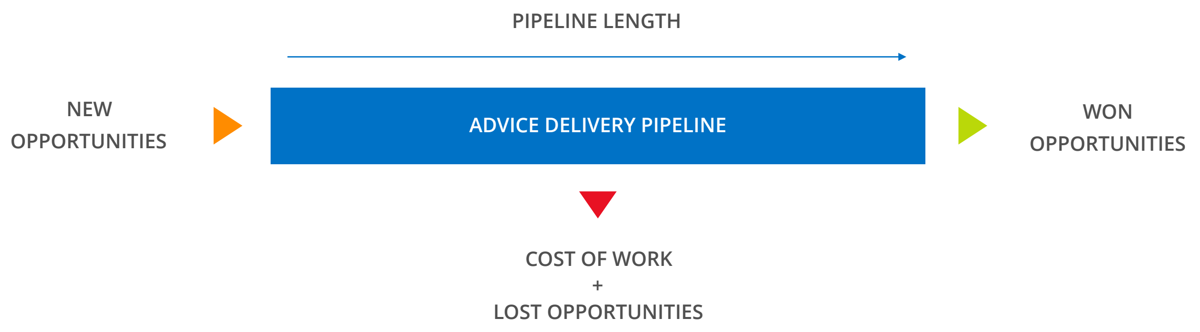
The Financial Advice Process (Delivery of Advice)

All businesses can be defined by one or more processes, by which they deliver their products/services. Financial Planning business are no different. Commonly processes (or workflows) are identified by the actual work being done; Client Fact Find, Statement of Advice Generation, Superannuation Rollover, etc. But for the purpose of analysing business performance, I find the following more effective.

The diagram below illustrates a simple but powerful reality. I.e. business profit is really only influenced by the following variables (levers):

1. Number of new opportunities (pipeline capacity)
2. Time to deliver advice (pipeline length)
3. Conversion of new opportunities
4. Cost of work done
5. Average revenue per won opportunities



Case Study

To help demonstrate the relationship between these variables, consider the following business example:

- Pipeline capacity: 5 clients
- Pipeline length: 50 days (1 completion every 10 days)
- Average revenue per Opportunity: $3,000
- Profit per Opportunity (revenue - costs) = $900 (30% profit margin)

Based on the above metrics, the business can deliver advice to approximately 36 clients per year and achieve a (new business) profit of $32,400.

Now let's assume the business is able to identify process improvements and reduce pipeline length by 5 days (10%). I.e. they are now able to complete 1 client every 9 days, which increases throughput to 40 clients per year or $36,000 (an 11% increase in profit). Generally, however, process improvements that reduce pipeline length also serve to reduce the direct costs of producing the advice. If profit per Opportunity is increased to $1,050 per client (a 7% reduction in costs), the business now achieves $42,000 profit (~ 30% increase in profit).

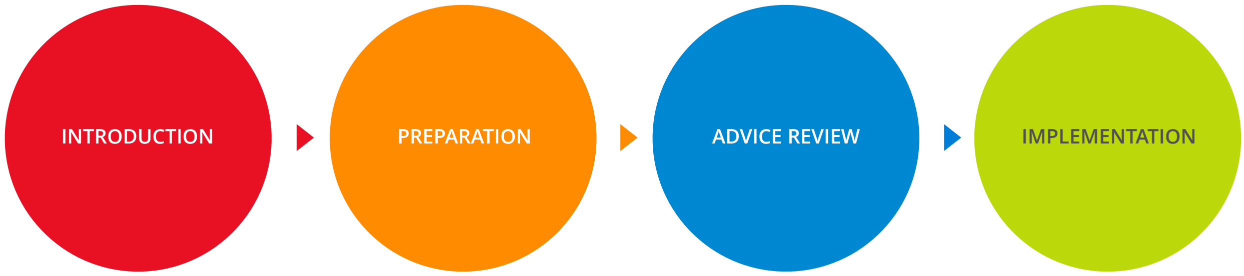
While overly simplified, the example highlights the compounding effect of multiple improvements at different points in the process. A 10% improvement in flow, coupled with a 7% reduction in costs, increased overall profit by 30%. As you'll see shortly, the compounding can be further magnified by identifying improvements for the other variables (e.g. pipeline capacity).

Measuring Performance

Before performance improvements can be implemented, analysis (measurement) of the existing process must take place, allowing bottlenecks (constraints) to be identified.

Pipeline Length (Flow)

The diagram below shows the Financial Planning pipeline broken down into 4 key phases, with common tasks listed below each phase.



Intro Appointment
Fact Find
Objectives/Scope
Authority to Proceed

Pre-Underwriting
Product Research
Preplanning Request
SoA Generation

Implementation Planning
Plan Presentation
Authority to Proceed

Applications
Underwriting
Account Closures
Quality Control Check

By measuring the duration of each of the above phases for every client, it is possible to identify trends and opportunities for reducing the overall length of the advice pipeline.

For example, you may find that opportunities involving insurance tend to have a longer preparation time than investment only opportunities. Further analysis may reveal that clients are generally slow to complete the medical fact used for pre-underwriting.

Or perhaps use of a certain product provider tends to increase time spent in implementation because they require hard copies of binding nominations and certified IDs to be sent via standard post.

Cost of Work

Cost of work is defined as the cumulative time spent by team members working directly on an opportunity. It includes activities such as:

- Meetings/phone calls/emails with the client
- Conversations with product providers
- Data entry into the CRM
- Scanning documents/IDs/etc
- Preparation of advice documents & application forms
- Checking on implementation status
- File tidy/clean-up
- Project management of all of the above

Historically, tracking and reporting on these activities would have taken as much, if not more, time than the activities themselves. However, modern software systems can automate the recording and provide real time analysis of work done. Being able to measure the actual work done for each opportunity can help identify opportunities for improvement such as:

- Technology investments to help automate and manage workflow
- Staff professional development
- Product provider changes

Opportunity Conversions

The final, variable/lever that can be tracked and analysed is the rate with which new opportunities convert. Opportunities fail to convert for a variety of reasons. But through careful measurement and analysis, trends will emerge. Opportunity conversions can be measured against a range of variables, including:

- Age of client
- Postcode of client
- Gross income of client
- Referral partner
- Adviser
- Type of advice

Using this data, you may identify opportunities such as:

- A certain adviser tends to achieve better results with couples approaching retirement.
- Conversion for clients < 35 years of age increases substantially when their household income is greater than $80,000 p/a
- Certain referral partners convert at a much higher rate than others

Identifying Improvements

Armed with the business intelligence (BI) outlined above, identifying improvements becomes relatively straight forward. The following table shows just a few examples of real issues easily be reduced or eliminated once identified.

PHASE	ISSUE	FIX
Introduction	Clients are not signing off on formal advice in first appointment.	Develop appointment script that uses online calculators & modelling tools to help identify a need, demonstrate instant value and encourage a decision.
Preparation	Clients are slow returning the medical fact find.	Use an online survey that can be completed & submitted directly to the CRM system via phone/tablet.
Advice Review	Significant delay between SoA being ready and getting client in for appointment.	Set automated workflow task to ensure client is contacted and appointment scheduled as soon as paraplanning request has been sent.
Implementation	Lack of clear & centralised implementation plan results in mistakes and re-work.	Set up an automated implementation management system in CRM to enable intelligent task allocation & enforce cross-team communication.

While the issues/improvements will differ from business to business, the outcome is the same; an objective and disciplined approach to process improvement, yielding a higher throughput of clients.

FinPal's financial planning software is enabling modern businesses to realise a new potential. Revolutionary business intelligence and management systems deliver enhanced team performance, increased client engagement and reduce business risk.

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