

FUTURE OF PROFESSIONAL ADVICE

Sounding Board Relationships & Solutions



What is a sounding board?

A sounding board is a **person** you run things by, or someone **you turn to for advice***

* www.yourdictionary.com

Bstar*

In the professional and financial services sectors, the business cycle has shifted again - clients have increased needs and expectations, regulatory requirements are adding costs and skilled staff shortages have created a **'perfect storm'** of execution difficulties for practices.

What can practices do to generate recurring advisory revenue services with higher margins? Innovative practices have always emphasised the importance of the **value of the total client relationship over the number of clients.**

Recent research¹ suggests that Small Business, SME and Medium Enterprise clients want sounding board solutions from their trusted advisors.

Sounding board solutions for these client segments include Mentoring Packages, external/virtual CFO Services & Board of Advice Programs.

In Bstar's experience, these solutions are currently earning fees ranging from **\$250 per month** to **\$5,000 per month**, dependent on the size of client, number of meetings per year and complexity of issues.

Key financial returns generated by sounding board solutions include:

Contribution margins in excess of **80%**;

Smoother cash flows;

Higher practice valuation multiples.

Sounding board solutions are ideal services for Accountants, Financial Advisors and Lawyers as they deepen the trust with existing clients. However, most clients in these categories already have more than one advisor, and **competition to secure the sounding board relationship is heating up.**

The key insight from **Bstar's 2020/21 SME Research Report**² is that business owners need a sounding board they can turn to and trust to reduce non-financial risks, improve business performance and the owners' quality of life.

Benchmark advice businesses have EBIT margins of **40% or more**

To attain this goal, each service contribution margin needs to exceed **75%**



1. Bstar's 2020/21 SME Research Report – refer to www.bstar.com.au.

2. Available from Bstar on request.

This new decade has been marked by extraordinary challenges for Small Businesses, SMEs and Medium Enterprises, and the indications are that the global and domestic economies will continue to be buffeted by new pressures.

Business owners who plan, and adapt to meet these challenges will survive and thrive. But they need assistance and support to attain their business plan goals and objectives. They need to invest time and effort into the implementation and execution of those plans.

Sounding board solutions have become so popular they now represent a standalone service in Bstar's **Family Offices Services** model for business clients.



So, who is best positioned to take on this role?

Sounding board relationships are highly valued, and once established, are very sticky. The table below highlights the strengths and weaknesses of three key professional advisor groups.

	STRENGTHS	WEAKNESSES
Accountants	<ul style="list-style-type: none"> • Strong financial literacy skills, high level of trust. • Experience with wide range of business enterprises. 	<ul style="list-style-type: none"> • Time and capacity constraints. • Relationship focus is frequently only on tax matters.
Financial Advisors	<ul style="list-style-type: none"> • Business acumen and expertise to 'project manage' client accountability. • Deep understanding of personal objectives and ambitions for the future. 	<ul style="list-style-type: none"> • Core services predominantly focus on personal not business needs. • Financial literacy may be limited to investments etc., rather than business operations.
Lawyers	<ul style="list-style-type: none"> • 'Legal sounding board' in relation to estate planning matters, documenting transactions and dispute resolution. • Experience with problem solving for wide range of clients. 	<ul style="list-style-type: none"> • Focused on transactions, rather than recurring advice. • Typically, only provide advice and are not involved with implementation of advice or solutions.

Focus on Execution and Accountability

In the accounting sector, practices are offering **CFO services** that focus on accurate financial reporting, profit/cash flow/balance sheet budgeting/forecasting, ratio and benchmarking analysis.

Whilst these activities are an important element of an external or virtual CFO service, **they are not the only element in sounding board solutions.**

Focusing solely on the numbers limits the scope and the length of engagement. As the financial indicators improve, a client will ask 'My GP margins are ok, debtors' days are under control, what's next?' To retain the client, practices need to be ready to support the next stage in the business life cycle. Without this, clients will cancel the engagement.

Professional advisors need to go beyond just looking at the numbers when structuring and pricing their sounding board solutions. Clients understand their own business, and frequently can make, or already have made, strategic plans to improve business performance and value. Where they struggle is in implementing these plans.

The primary focus for these services should be supporting execution, by holding clients accountable to implement the 'agreed to' action items.

Accountability is centred on goal, strategy and action item management. Strong financial literacy skills are not the most critical nor essential for this role. Project management skills become vital in engaging and sustaining clients' effort to fully implement the plan, therefore consistent and formal follow-up are essential.

Previously, these solutions have required both the specialised skills of a senior practitioner, typically involved in key client meetings and planning sessions, and administrative support to ensure regular follow up and reminders. However, automated systems are driving significant efficiency gains.

The average engagement term for a CFO service is **2-3 years**

What business owners really value and pay for is **Accountability**

Game changer!

New **Accountability App** technology is enabling advisors to:

Overcome time barriers by generating **35%** efficiency gains

Develop the skillsets to offer automated sounding board solutions

Build staff confidence to do more advisory work with existing clients

Reduce the burden of repetitive administration



34hrs p.a.
reduced to 22hrs
100% gross fees,
35% less time

The secondary focus should be to manage client’s expectations – by communicating what services will be provided. Clients have to accept and own their plans for change, and commit to fully implement them.

Sounding board advisors don’t need to be an expert in all areas, but they must be able to hold all team members accountable to the plan. Tasks outside the advisor’s core competencies (e.g. HR, IT or Marketing) can be outsourced or referred to other professionals or subject matter experts.

By using an automated accountability technology that assigns responsibility to each stakeholder the workload is spread and updates are available in real time. The table below outlines other tips which can improve success rates.

Tips to reduce Sounding Board Solutions FTI (Failure to Implement) rates

<p>1. Client Groups</p>	<p>Tailor your solutions to each client group as they have different needs. For example:</p> <ul style="list-style-type: none"> • Small Business - Mentoring Package • SME - CFO Service • ME - Board of Advice Program
<p>2. Non-Financial Performance Indicators</p>	<p>Assess and track both financial and non-financial performance indicators in your regular client meetings.</p>
<p>3. Quantification of Value</p>	<p>Quantify value to ‘retain the retainer’. On the anniversary of your engagement demonstrate the value creation:</p> <ul style="list-style-type: none"> • Financial - complete a business revaluation to determine the reduced value gap risk; • Non-Financial - generate a Closed Action Item Report to provide proof of improvement outcomes.

Cash Flow: Improve trading cash flow & business liquidity. 4 items

2020/21 Budget
 Prepare a series of cash flow budgets (best case, worst case) to assess the business's cash flow requirements.
👤 Tom Smith 📅 **Start Date:** 1 July 2020 📅 **End Date:** 31 August 2020

Cash Flow
 Conduct a review of the business's current debtors, WIP and/or stock management procedures to identify areas for improvement.
👤 Sarah Jones 📅 **Start Date:** 8 October 2020 📅 **End Date:** 6 November 2020

Cash Flow
 Engage debt collection agency.
👤 George Chen 📅 **Start Date:** 9 October 2020 📅 **End Date:** 16 October 2020

Customers and Market Demand
 Restructure customer payment terms and conditions (i.e. % of upfront payments, discounts, interest or penalty fees for late payment etc).
👤 Georgia May 📅 **Start Date:** 1 May 2020 📅 **End Date:** 30 September 2020

Staffing Crisis

Attracting, motivating and retaining experienced staff is a constant challenge for owners of professional and financial services practices.

Recruitment firms are actively targeting and poaching experienced staff to fill the many vacancies across all industries.

Providing staff with professional development and career pathway programs is key to both attracting and retaining those with in-demand skills.

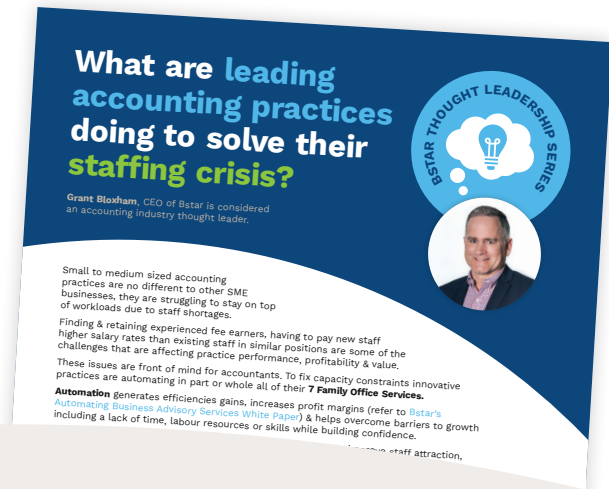
Training and support to develop skill sets to provide sounding board solutions creates a tangible **point of difference** for a practice looking to recruit graduates and retain future partners.

The opportunity to develop multi-service client relationships is compelling. It offers opportunity for variety, specialisation and diversification.

Staff recruitment and graduate induction programs should feature these pathways. They will set practices apart from competitors and **attract the talent needed to grow**.

Growing sounding board solutions will generate new revenue streams. Transitioning responsibility to future successors to manage this division is a tangible way to develop a succession plan while growing the overall practice.

Only **22%** of practices stated their staff are capable of delivering all or selected Business Advisory services³



New Clients

There are multiple ways to attract new, ideal clients via sounding board solutions.

One example is to showcase sounding board solutions unique selling proposition (or USP) in social media ads, on web sites and when promoting services to centres of influence.

Featuring testimonials and recommendations from existing clients is another proven effective method.

Service specialisation

Ideal client

“We work with **private family enterprises** to grow the **value of their business** so they can attain **financial independence**. We do this by becoming the key **sounding board** they turn to and trust”.

Client end goal

Your USP

Succession Planning

Succession planning is a critical issue for owners of professional and financial services businesses.⁴

One of the main barriers to succession planning is that the value of the practice or business is too low to fund the needs of the current owner(s). Therefore, the key challenge is to grow the value before sale or exit.

Industry benchmarking data shows there are significant differences between average and benchmark performance (average of the top 20%) in accounting practices.⁷ Improving profit margins will also increase practice valuations.

.....
91%⁵ of accountants don't know their practice value or the profit margin at which they achieve financial independence

88% of SMEs have a value gap risk⁶
.....

4. Bstar's Business Risk Survey data.

5. Bstar's Business Risk Survey data

6. The 'value gap risk' is the risk that the business value is not sufficient to support next life stage plans, or to fund retirement.

7. Bstar's Accounting Industry Valuation Benchmarks Database (Practices Group \$2M - \$5M revenue range).

PROFIT MARGINS

19.3%

Average

28.2%

Benchmark

46.1% Improvement opportunity

VALUATION MULTIPLES

3.75

Average

5.15

Benchmark

37.3% Improvement opportunity

Practices need to plan to **maximise profit, improve cash flow** and **optimise practice value**. It is useful to assess whether sounding board solutions will provide new revenue streams, improved profit margins and grow practice value.

The table below lists some simple strategies to start the process. These will improve Partner and Director alignment, engage staff and assess financial returns.

PARTNER/DIRECTOR ALIGNMENT	
Benchmarking	Benchmark your profit margins & valuation multiples to determine what improvement is required (if any) to achieve financial independence profit margins and valuation multiples.
Contribution Margins	Compare the contribution margins of each of your current service offering to sounding board solutions margins (80%).
Services per Client	Review your Family Office Services model to identify areas to expand the number of services provided per client.
Automation	Create capacity by appointing a champion to automate your core service(s) in part or whole.

STAFF PD & FINANCIAL RETURNS	
Staff Survey	Survey your key staff to assess their interest in developing sounding board skills.
Ideal Clients	Calculate the total number of Ideal Business Clients to determine fee growth potential.

TICK BELOW IF APPLICABLE	IDEAL BUSINESS CLIENT PROFILE	LIST THE NUMBER OF CLIENTS
<input type="radio"/>	High value (3x average fee)	
<input type="radio"/>	Owners over the age of 50	
<input type="radio"/>	Lifecycle stage: within 3 – 5 years from sale or exit	
<input type="radio"/>	Start-ups with no business history/experience	
<input type="radio"/>	Multi-owner, private enterprises	
<input type="radio"/>	End goal to achieve financial independence	
<input type="radio"/>	High succession concerns	
		Total:



Determine the potential fee base for sounding board solutions within your existing client base by:

- Multiplying the total number of ideal clients
- By an industry client engagement rate of **56%**
- With an average fee per SME client of **\$9,000** p.a.

First Step

To learn more about sounding board solutions:

- ▶ **Request** a demonstration of Bstar's Accountability App;
- ▶ **Attend** one of Bstar's online Profit and Value Driver Workshops.

The Workshop shares insights on **3 key profit and value drivers for advice businesses** including meaningful discussions on how to successfully implement sound board solutions.



Grant Bloxham CA
Bstar Founder & CEO

Grant is considered an industry thought leader and is co-author of Bstar's Insights Articles, White Papers, Accountant and SME Research Reports.

Bstar

Bstar empowers accountants and financial advisors to enrich the lives of their business clients by providing automated business advisory, valuation and sounding board solutions.

Bstar's 21-year milestones.



Bstar's goal is to help and support advice businesses to generate benchmark profit margins and valuation multiples so Partners and Directors can attain **financial independence**.

IMPORTANT INFORMATION

This article has been prepared by Bstar Pty Ltd ABN 60 109 809 305 and provides an opinion on growth opportunities for sounding board solutions in professional & financial service practices. It is for general information only. Bstar has prepared this article from information from a range of sources believed to be accurate at the time of publication. Where data is sourced from Bstar research and insights reports or publications, they are available from Bstar on request. This is an opinion piece and does not constitute advice (whether professional, legal, tax, investment, financial or any other type) or professional consulting of any kind. Readers need to make their own assessment of any strategies suggested as Bstar is not objective or impartial when referring to its own products, services or solutions. Before making any decision or taking any action readers should make enquiries and investigations and consider consulting key business advisers.

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