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Factors affecting the growth of small privately-owned financial planning businesses

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Abstract

Over the past 10 years, there have been many financial scandals in the financial advice industry, which has caused substantial losses for investors. Large wealth institutions controlled by major Australian banks have significantly contributed to investor losses by promoting their products which were not always in the best interests of clients. The aim of this study was to explore the factors affecting the current and future growth of small privately-owned financial planning businesses as a competitive marketplace provides better consumer outcomes. The study undertook a qualitative approach using an exploratory research design which involved the recruitment of 51 privately-owned financial planning practice owners who were personally interviewed with semi-structured interview questions. Using a theoretical framework based on Michael Porter's five competitive forces model, the study found that the main factors enhancing growth were differentiation of service, technology enhancement, target marketing and business and client referral arrangements. Factors that negatively affected growth included the affordability of providing advice due to regulatory changes and the negative public perception associated with various industry scandals. The results provide existing and new entrant adviser practices with valuable knowledge to make informed decisions in the areas of practice management and direction. Additionally, the study provides policymakers and regulators with further knowledge to better support the privately-owned financial planning sector, thus enabling consumers to benefit from a more competitive marketplace.

KEYWORDS

financial planning, growth factors, Porter's competitive forces, privately-owned

1 | INTRODUCTION

In recent years, the financial planning industry has seen an increase in industry concentration due to mergers and acquisitions. ‘A financial advice sector that is concentrated and tightly controlled is not wholly conducive to robust competition and consumer focus, innovation and choice’ (North, 2015, p. 216). Alarmingly, of the current 21,146 licensed financial advisers, only 130 are registered as fully independent advisers (Power, 2019). According to North (2015), the current paradigm has enabled less competition and a stronger competitive advantage for large institutions. As it stands, the model does not appear to sustain a growing independent financial planning sector.

To recognise why consumers need a strong independent financial planning sector, it is important to understand the effects of conflicted advice by institutions and their advisers. To analyse the effects of conflicted and non-complaint advice, a content analysis study was undertaken by Steen, McGrath, and Wong (2016), which investigated the causes of major financial loss involving financial advisers in Australia. Their analysis involved identifying themes and concepts throughout the media using content categories. The study found that from 2004 to 2014, over $900 million was paid back to clients by financial planning firms that had created financial losses for over 20,000 clients (Steen et al., 2016). The ANZ, Commonwealth Bank, Macquarie Bank and NAB were all involved in various scandals with over 100 advisers being banned and 11 advisers gaoled. The study found several factors common to each of the scandals, including inappropriate remuneration structures causing the sale of unsuitable products, and inadequate compliance systems and processes (Steen et al., 2016).

To determine the factors affecting the growth of small privately-owned financial planning practices, the study addresses two research questions. First, ‘what are the main factors that have had a positive or negative effect on the growth of privately-owned financial planning businesses?’. Second, ‘what are the expected factors that will affect the future growth of privately-owned financial planning businesses?’. Privately-owned adviser planning practices are defined as practices that have no institutional ownership or affiliation. A privately owned practice can provide fully-independent advice or non-independent advice (Commonwealth of Australia, 2001). To address the research questions, the study used a theoretical framework based on Michael Porter's five competitive forces model. The model's primary function is to understand why some businesses grow and others fail (Porter, 1980).

Addressing the two research questions helps to fill the gap in the limited academic literature as to the factors affecting the growth of small Australian privately-owned financial planning businesses Additionally, the study's practical contribution to the industry provides knowledge to financial advisers and Australian Financial Service Licensee (AFSL) holders that enable them to make informed decisions in the areas of practice management and direction. Furthermore, policymakers and regulators are provided with additional knowledge to better support the privately-owned financial planning sector, thus enabling consumers to benefit from a competitive marketplace. To conduct the analysis, the methodology and design (refer to Section 3) involved recruiting and personally interviewing 51 privately-owned financial planning practice owners throughout Australia. The study used predominately open-ended questions to identify themes and trends to build theory. The results were analysed using a manual and automated content analysis procedure.

The study found that differentiation of service was a significant factor in achieving positive business growth. In particular, independent advisers obtained a commercial advantage over non-independent advisers by providing a differentiation of service. Additional factors that were major contributors to positive growth included strong business and client referral arrangements and improvements in technology efficiency. Factors that were found to have a substantive negative effect on growth included increases in compliance, training and education requirements, and the fallout from the negative public perception associated with various industry scandals. Expected factors that will affect future growth included affordability of advice due to the increases in compliance and education costs, lack of scale and competitiveness, and the changes in the remuneration structure, which put additional pressure on profit margins.

This paper is organised as follows. Section 2 provides a literature review of studies that have examined Porter's five competitive forces and the three generic strategies. Section 3 explains the type of methodology and research design undertaken in the study. Section 4 provides the results of the study, which are discussed in Section 5. Lastly, the conclusions and recommendations can be found in Sections 6 and 7.

2 | LITERATURE REVIEW

The literature review begins with Section 2.1, which is a brief introduction to the importance of the small business sector. Section 2.2 is a review of Porter's five competitive forces, followed by Section 2.3, which reviews his three generic strategies to create a long term defendable position against the five forces.

2.1 | Small business importance and challenges

Small and medium-sized enterprises (SMEs) are of great importance to world economies as a major provider of economic growth (Albuquerque, Escrivão Filho, Nagano, & Junior, 2016; Bocconcelli et al., 2018; Culkin & Smith, 2000). Since the 1970's, SMEs have provided the largest contribution of all new jobs in OECD countries (Peacock, 2004). In Australia, 'small businesses account for 97.4 per cent of all operating businesses, and at the end of 2017–18, there were 2,313,291 actively traded businesses' (Australian Bureau of Statistics, 2019). The privately-owned financial planning sector in Australia is dominated by small businesses, with 90% of businesses having five or less advisers (Viskovic & Clarke, 2017).

2.2 | Porter's five forces

Considering the size and contribution of SMEs to the economy, the sector is constantly subject to business failure and poor performance (Jocumsen, 2004; Wiesner & Millett, 2012). One of the most influential models designed to understand why some businesses grow and others fail is Michael Porter's five competitive forces model (Porter, 1980). The model has become a centrepiece for texts on business strategy and strategic management globally (Abdullah, Mohamed, Othman, & Uli, 2009; Allen, Helms, Takeda, White, & White, 2006; Barutçu & Tunca, 2012; Bordean, Borza, Nistor, & Mitra, 2010; Collis, 2021; Dobbs, 2014; Grundy, 2006; Han, Porterfield, & Li, 2012; Isabelle, Horak, McKinnon, & Palumbo, 2020; Oraman, Azabagaoglu, & Inan, 2011; Tavitiyaman, Qu, & Zhang, 2011). Porter argues that to be successful, business owners need to understand their strengths and weaknesses in their profession or industry. A business may begin its life with certain competitive advantages, such as a high degree of expertise, knowledge and skills; however, to maintain a competitive advantage, business managers need to have a strong understanding of their industry and how to allocate precious resources (Porter, 1980).

Furthermore, the inability of the owner-manager to establish a suitable organisational model and business practice affects the growth of the SME (McKenzie, 2021). The empirical literature supports the view that SMEs that incorporate continuous strategic planning are likely to achieve better financial outcomes than SMEs that do not strategically plan (Williams, Manley, Aaron, & Daniel, 2018).

Porter (1980) found that businesses need to consider and manage five forces that affect their industry and their place in the industry: 'threat of new entrant; bargaining power of buyers; threat of substitute products or service; rivalry among existing competitors; and bargaining power of suppliers' (Porter, 1980, p. 4). First, new entrants into an industry provide additional competition, which can lead to price-cutting to gain market share, thus creating a reduction in profitability. The extent of the threat of new entrants is highly dependent on the barriers to entry in a particular industry. According to Porter (1980), there are six major barriers to entry: economies of scale; product differentiation; capital requirements; switching costs; cost disadvantages; and government policy. Government policy is the main barrier to entry in the financial planning industry, for new entrants as financial planners need to meet stringent licensing conditions (Snider, 2015).

Second, industries face competition from buyers bargaining for lower prices, higher quality or more services causing a reduction in industry profitability. Industries dominated by only a few large buyers will raise the importance of producing high quality, non-replicable products. The power of buyers is particularly dominant in industries that provide knowledge-based services, financial planning being one of those industries (Porter, 1980). Furthermore, Porter (1980) suggests that all businesses in a given industry are competing with substitute products from competing industries. Substitutes can put a cap on prices businesses can charge, thus affecting profitability.

Third, the threat of substitution of financial planning services is considered high as the advancements in financial product technology have created many online platforms that enable clients to purchase financial products directly without the use of an adviser (Jung, Dorner, Glaser, & Morana, 2018; Snider, 2015; Woodyard & Grable, 2018). Financial technologies, known as FinTech, have generated interest among Australian investors (Kaya, 2017). The fastest-growing Fintech is Robo-advice which can build automated portfolios that are personalised to the client's needs and goals (Jung et al., 2018). Robo-advisory users generally have lower-income and lower net worth, and are less impulsive financially (Fulk, Grable, Watkins, & Kruger, 2018).

Fourth, rivalry among competitors in an industry can often lead to firms attempting to improve their market share or profits by reducing prices, increasing customer service, introducing new products and engaging in advertising wars which may not leave the business or the industry in a better financial position (Kilduff, 2019). The Financial Planning industry in Australia has been identified as being exposed to a medium level of competition (Yeoh, 2019). Competition in the industry is driven by price, service quality and product range. However, while the industry is dominated by homogenous goods and services with many competing businesses, high markups are sustainable (Gabaix et al., 2016).

Lastly, an industry that is dominated by key suppliers can create a significant threat to the profitability of industry participants by either implementing a reduction in quality or increasing the price of the available goods and services. The threat is particularly damaging to industries where there is limited opportunity for price recovery for consumers (Porter, 1980). Supplier bargaining power in the financial planning industry is considered low as there are many product providers with thousands of products available. Suppliers of financial products in the industry include life insurance, managed funds, exchange-traded funds, superannuation, retirement streams, equity platforms and direct investments (Richards & Morton, 2019).

2.3 | Generic strategies

To outperform other firms when addressing the five competitive forces, Porter (1980) identified three generic strategies which create a long term defendable position. These are overall cost leadership, differentiation and focus. According to Porter, to be effective, firms should only pursue one strategy as total commitment is required. First, the cost leadership strategy consists of policies aimed at the pursuit of cost reductions. Ensuring overheads control, minimising costs in marketing, research and development and eliminating marginal customers are examples of the strategy. Having lower costs than competitors is the main aim of the strategy; however, the quality and service of the firm should not be compromised (Porter, 1980). Small privately-owned financial planning practices are at a disadvantage when competing on price with large product aligned institutions due to their ability to subsidise the cost of advice with product making profits (North, 2015). The study will explore whether small financial planning businesses are using the cost leadership strategy to successfully combat the five competitive forces.

The second strategy is product or service differentiation to position the firm to provide a unique offering in its industry. The strategy creates a defensible position to address the five competitive forces in a contrasting way to cost leadership. Differentiation builds brand loyalty which attracts customers who are not as sensitive to lower prices, providing protection against competitive rivalry (Porter, 1980). However, for the differentiation strategy to be effective, firms must provide superior customer value through either high-quality products, features or ongoing care or support (Allen et al., 2006). Strategies that provided differentiation in the independent financial planning sector in the United States included customised services, remuneration structures, and target marketing (Snider, 2015). In addition, advisers can manage supplier bargaining power, by specialising in specific areas where they could demonstrate expertise such as retirement, young professionals, tax advice, life planning and insurance services (Snider, 2015).

Porter's third generic strategy to create a long term defendable position when combating the five competitive forces is focusing on a specific target market or group and servicing that target very well. To implement the focus strategy, all firm policies are designed to provide dedicated service to its target that is either more efficient or effective than competing firms. The outcome can consist of either differentiation being obtained through superior servicing of the needs of the target market or the generation of lower costs in providing the service or a combination of both. As discussed previously, if a firm's focus has produced either a low-cost position or differentiation or both, the firm has defences against the five competitive forces (Porter, 1980).

There have been no empirical studies undertaken to determine the effects of focus strategies in the Australian financial planning industry. This study addresses the gap in the academic literature in relation to which of Porter's generic strategies have been successful in managing the five competitive forces to create sustained profitability in small financial planning businesses.

3 | METHODOLOGY

The study has undertaken a postpositivist methodology that incorporates a qualitative approach using an exploratory design. The exploratory design enables the researcher to undertake an inductive approach, which is theory building, fundamental to postpositivist methodology (Guba & Lincoln, 1994). The approach provided the framework for the discovery of patterns and trends that financial advisers are experiencing and addressed the how and why, rather than merely testing and confirming hypotheses. This section will discuss the design of the sample size and recruitment of participants, the interview questions format, the interview procedures, and the methods used to conduct the data analysis.

3.1 | Sample size and recruitment of participants

The study sample size consisted of 51 privately-owned financial planning practices, of which there were nine independent and 42 non-independent practices. The recruitment of participants involved firstly obtaining an industry list of over 300 advisers and then individually emailing them to request an interview and to confirm if they meet four eligibility conditions. First, they must be licensed through ASIC and listed as an authorised representative of an AFS on the ASIC website. Second, they must have a minimum of 2 years experience as an authorised representative of an AFS. Third, they must have ownership in the advisory business they represent. Finally, the business ownership structure will not have shareholders or beneficiaries associated with wealth management institutions such as banks or insurance companies.

Each state of Australia had adviser representation in the study based on the size of the state's population compared to the population of Australia as shown in Figure 1 below.

The study's qualitative research method used non-probability sampling, which is reasonably homogenous with a small selection criterion (Morse, 1995; Ritchie et al., 2003). Due to the interviews being conducted individually, the sample size was determined based on no new evidence being created. The study group consisted of a cross-section of small (1–2 advisers), medium (3–5) and large licences (6 and above), which are categories based on a study undertaken by Viskovic and Clarke (2017). One and two advisers' practices are highly dominant, with 84% of the participants practices in this category as shown in figure 2 below.

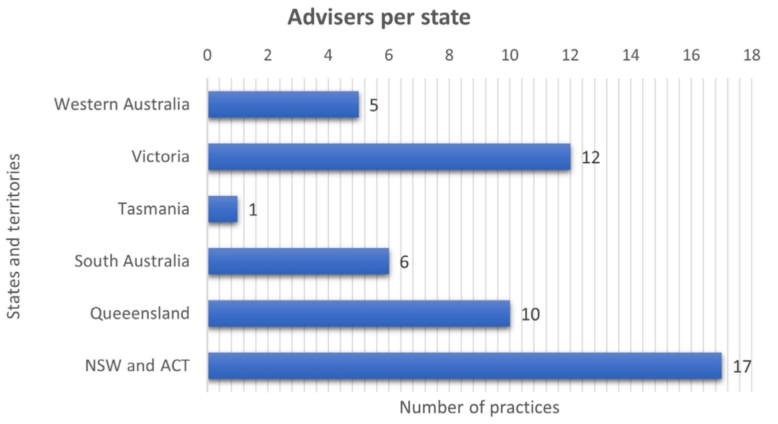

FIGURE 1 Advisers per state. All states and territories were included in the study except the Northern Territory, representing less than 1% of the Australian population

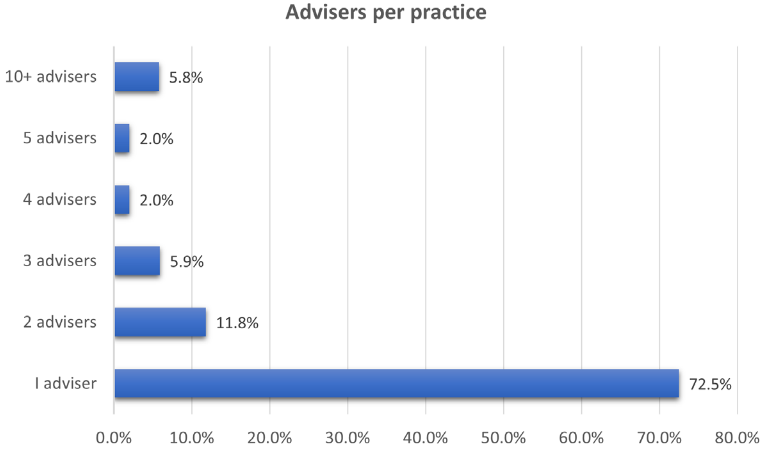

FIGURE 2 Advisers per practice. All 51 respondents provided the number of licensed advisers in their practice

3.2 | Interview questions

The study used predominately open-ended questions, which creates an atmosphere of engagement in the personal interviews and enables the participants to answer the questions with their own opinions and views (Wahyuni, 2012). The open-ended questions provide the tool to gain an in-depth understanding of what factors are affecting the growth of their business. This exploratory approach provides data that is not influenced by the use of alternative answer options and required participants to be more considered in their responses (Hair et al., 2011).

The adviser interview questions were based on and then modified from, the researcher's pilot project. Additional questions were developed as a result of the responses from the pilot project to ensure the data provided sufficient depth to answer the research questions. The researcher's pilot project interview questions were developed from interview questions designed by Snider (2015) and Van Tonder and Ehlers (2011). The questions were specifically modified to take into consideration the current regulatory environment, industry requirements and technological changes.

3.3 | Interview procedures

The interview procedures incorporate the researcher's postpositivist approach by conducting semi-structured interviews with predominately open-ended questions to identify themes and trends to build theory (Wahyuni, 2012). All interviews were conducted in the adviser's office, over the phone or in private locations between February and June 2020. Ethical approval was granted prior to the commencement of the interviews. The personal interviews had an average duration of 50 min and were conducted within a fortnight after receiving participant consent. To ensure the accuracy of the data, all interviews were digitally recorded and fully transcribed. Notes were written during and after the meeting, in addition to the recorded dialogues, to ensure that essential categories and themes were noted. To protect their identity, all advisers have been given alternative names (adviser 1, etc.).

3.4 | Data analysis

Due to the exploratory nature of the study, a qualitative data analysis approach was undertaken. This method has been adopted from a previous study by Snider (2015) and Van Tonder and Ehlers (2011), which examined the success factors small financial planning businesses. The transcribed interview data was subjected to a manual content analysis. The manual analysis entailed classifying the interview data in word format into emergent themes. The goal of the analysis was to uncover the most frequent responses to the open-ended questions and to compare and contrast the responses to find patterns and themes. The responses were further analysed by comparing the results with the Porter (1980) five competitive forces and the three generic strategies to maintain a defendable position (refer to page 8). This analysis provided the framework to understand what factors are affecting the growth of the participants' businesses, and how they managed the impact. The data was tallied, and a summary of each interview question response was prepared.

4 | RESULTS

To address the two research questions (as outlined in the introduction) the 51 adviser participants interviews were firstly analysed using a manual content analysis. The analysis found six main themes, as shown in Table 1. Each theme is one of five sub-headings used to analyse the results throughout this section. The main themes are additionally compared to Michael Porter's five competitive forces and three generic strategies model to identify strengths and weaknesses in managing the factors affecting growth (Porter, 1980). All of the gross revenue and net profit percentage changes discussed in this chapter have been self-reported.

TABLE 1 Manual themes and sub-themes

Themes	Sub-themes
Main reasons for gross revenue growth increase	Referrals, marketing, differentiation, staff
Main reasons for the decline in gross revenue	Licensee costs, negative public perception
Main reasons for net profit increase	Technology
Main reasons for net profit decrease	Compliance, training and education
Factors affecting future growth in revenue	Education, regulatory changes, affordable advice

4.1 | Main reasons for gross revenue growth increase

This section addresses the main reasons for the gross revenue growth over the last 3 years of the 30 non-independent and eight independent advisers who reported positive or neutral increases. The findings revealed over the last 3 years, the privately-owned non-independent advisers had an average growth rate of 16.55% (5.52% annually). In comparison, the average growth rate over the past 3 years for privately-owned independent advisers (eight participants) was 67% (22.33% annually). The comparative results provide a significant difference in growth rates between the two groups, and the reasoning for the difference will be analysed in the ensuring sub-section.

The 38 adviser participants who had positive or neutral gross revenue growth over the last 3 years were questioned as to the main reasons for the growth. The top five responses can be found in Table 2 and figure 3 which provides a comparison of the non-independent and independent response rates.

TABLE 2 Main reasons for gross revenue increase

Main reasons for gross revenue increase	Total number of respondents (38)	Non-independent respondents (30)	Independent respondents (8)
Client referrals	25	20	5
Differentiation of service	16	8	8
Business referrals	11	9	2
Target marketing	9	5	4
Staff retention	9	7	2

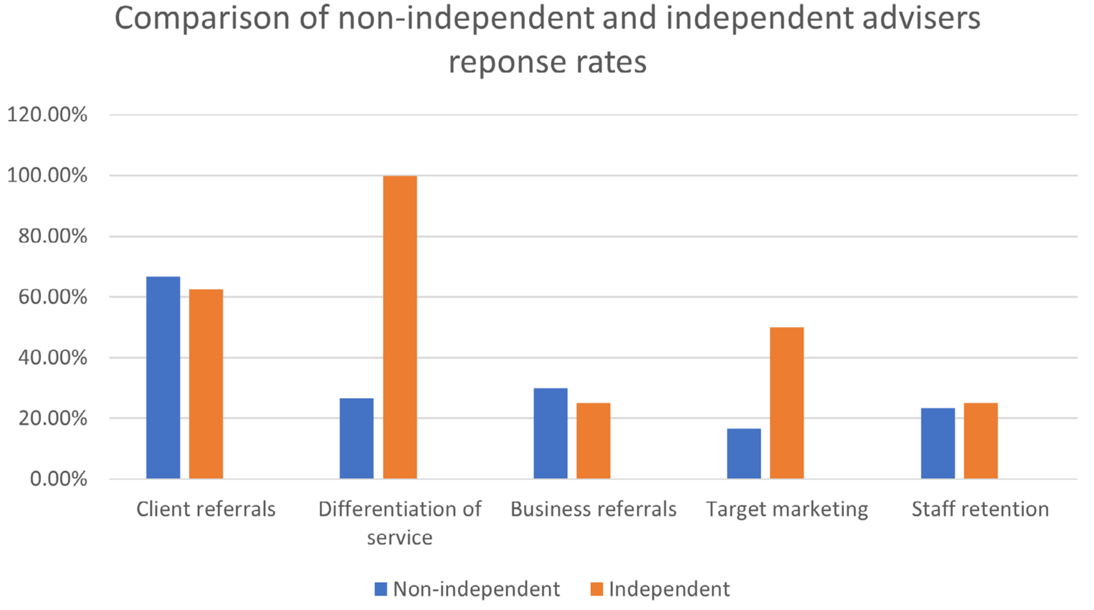

FIGURE 3 Response rates. Comparison of non-independent and independent advisers' response rates to specific

4.1.1 | Client referrals

The most common main reason for the increase in growth revenue over the last 3 years was client referrals based on the responses of 25 of the 38 adviser participants (65.8%). The privately-owned non-independent advisers' response rate was 66.7%, with 20 out of 30 participants. The privately-owned independent advisers' response rate was 62.5%, with five out of eight participants. The results are supported by Yeoh (2019), who stated that advisers rely heavily on business to business relationships and referrals from existing clients. Building and maintaining relationships with clients is critical to the success and longevity of small advice businesses. Furthermore, Porter (1980) found that the power of buyers is particularly strong in industries that provide knowledge-based services. The results support Porter (1980), as a majority of advisers are dependent on their clients (buyers) to grow their businesses through ongoing referrals. Implementing a focus strategy (Porter, 1980) that is client-centric has created been found to be the highest contributor to increase gross revenue.

4.1.2 | Differentiation of service

According to Porter (1980), service differentiation enables a firm to provide a unique offering in the industry. The strategy creates a defensible position for dealing with Porter's five competitive forces. The study found that the second-highest reason for the increase in gross revenue growth was a differentiation of service with 16 responses (42%). Significantly, 100% of independent advisers identified differentiation of service as a substantial contributor as opposed to only 26.7% of non-independent advisers. To gain a greater understanding of the types of differentiation of services, the participant advisers were questioned as to what they considered was a differentiation of service. Privately owned non-independent advisers viewed differentiation as specialising in specific wealth and retirement strategies or dealing with a targeted age group. The main type of differentiation of service discussed by the independent advisers was the fact they are offering purely independent advice.

4.1.3 | Business referrals

Receiving client referrals from other businesses was also a primary reason for the increase in growth revenue over the last 3 years, according to 11 adviser participants (29%). The privately-owned non-independent advisers' response rate was 30%, with nine out of 30 participants. The independent advisers' response rate was 25%, with two out of eight participants. The participant advisers provided strong feedback with 'Participant adviser 48' firmly believing in having a formal relationship with an accounting firm by becoming a part-owner to increase the financial planning business.

Business to business referrals have been found to be a cost-effective and efficient avenue to grow a business. The use of Porter's focus strategy has been identified in this section as advisers have found establishing formal arrangements with business referral partners and focusing on those relationships has created increased gross revenue.

4.1.4 | Target marketing

One of the three strategies Porter (1980) identified to enable firms to outperform other firms when addressing the five competitive forces is focusing on a specific target market or group and servicing that target very well. According to Porter (1980), to implement the focus strategy, all firm policies need to be designed to provide dedicated service to its target that is either more efficient or effective than competing firms.

The results of the study found that nine participant advisers (23.7%) identified target marketing as a main reason for the increase in gross revenue over the last 3 years. The privately-owned non-independent adviser's response rate was 16.7%, with 5 out of 30 participants. The independent adviser's response rate was 50%, with four out of eight participants. The responses from independent advisers indicated that they were targeting clients who wanted to receive independent advice using websites and professional associations as marketing tools.

4.1.5 | Staff retention

The success of a small business has been linked to the quality skills of its employees (Omri, Frikha, & Bouraoui, 2015; Sels et al., 2006; Taneja, Pryor, & Hayek, 2016). This study found that nine participant advisers (23.7%) considered that staff retention was a main reason for their increase in gross revenue over the last 3 years. The privately-owned non-independent advisers' response rate was 23.3%, with 7 out of 30 participants. The independent advisers' response rate was 25%, with two out of eight participants.

The responses from the participants indicated the importance of specialisation, which has created an opportunity for staff to enhance and their skills and knowledge, thus providing for strong employee retention. However, the adviser participants were questioned as to whether any changes to staff resourcing were anticipated over the next 12 months. The responses showed that seven new staff out of 51 practices are expected to be employed, and three staff are expected to be terminated over the next 12 months. The new potential roles consisted of three administrators, one paraplanner and three advisers. No practice was intending to employ staff to directly market the business. Advisers stated reasons such as the training and compliance requirements as to why they would not expand their staffing resources.

In summary, there is a minimal expected growth of human resources with only a net increase of four staff expected over the 51 practices during the next 12 months. Participant advisers stated reasons such as the increased training and compliance requirements as to why they would not expand their staffing resources. Government policy is one of the six barriers to entry, according to Porter (1980), and the study has found the increase in training, compliance and education requirements has severally restricted their business's ability to organically grow.

4.2 | Main reasons for decline in gross revenue

The study found 12 adviser participants (all non-independent) had negative gross revenue growth over the last 3 years of an average of 25.15% (8.37% annually). The 12 participant advisers were asked, ‘What were the main reasons for your decline in gross revenue over the last three years?’. The two most common responses were increased licensee costs (six responses) and negative public perception (four responses).

4.2.1 | Increased licensee costs

The AFSL licensee costs are a direct cost to the adviser participant for the use of licensee services, including compliance, research, administration, professional indemnity insurance, training and professional development. Small financial planning businesses have been impacted with higher costs to manage the Future of Financial Advice (FOFA) reforms and do not have the benefits of scale (Explanatory Statement Select Legislative Instrument 102, 2014). As the licensee provides many of the services the participant advisers require to be able to provide financial advice, the increase in regulatory costs have been transferred to advisers. Due to the majority of financial advisers being licensed by third-party AFSLs the results indicate advisers are additionally subject to two of Porter's competitive forces, the bargaining power of suppliers and barriers to entry (Porter, 1980). The increased cost of obtaining and maintaining an AFSL has given more power to large AFSLs that have sufficient scale, as small privately-owned advisers are heavily reliant on the supply of licensee services to be able to provide advice.

4.2.2 | Negative public perception

The second major reason for a decline in gross revenue over the last 3 years, according to four adviser participants, was the effect of the negative public perception due to the various financial scandals. A Banking Royal Commission was established in 2017 to address the scandals, and it found damming evidence that the industry continued to move from scandal to scandal, creating significant financial loss to consumers and harming the confidence of consumers in the financial advice industry (Hayne, 2019). The Banking Royal Commission viewed financial advisers as being 'something between a salesperson and a professional adviser' (Hayne, 2019, p. 124). The negative public perception appears to remain constant due to continued negative media coverage in relation to the fees for no service fallout from the four big banks (Dickson, 2020).

4.3 | Main reasons for net profit neutral or positive growth increase

The 31 adviser participants who had neutral or positive net profit growth over the last 3 years were asked, 'What were the main reasons for your neutral or positive increase in net profit over the last three years?'. The increased efficiency from technology was the most common reason for the increase in net profit over the last 3 years for 13 advisers (41.9% of respondents). The main technology efficiency was the use of the Client Relationship Management System which enables practices to get clients details up to date, track all client interactions and manage their accounts. The increase in functionality has enabled advisers to meet the FOFA reforms and the Financial Services Royal Commission regulatory requirements, thus reducing significant time and cost.

However, portfolio construction has also become a key area of advancement in financial planning with the development of Fintech. The fastest-growing Fintech is Robo-advice which provides an automated advisory process that can create multiple portfolios for a range of clients. (Kaya, 2017). To determine the impact of robo-advice on the practices, the participant advisers were asked, 'Do you view robo-advice as having a negative or positive effect on your business?'. Interestingly no adviser participant is using any form of robo-advice in their practice, and only two participant advisers saw robo-advice as a threat in the future. The reasoning for not implementing the technology was mainly associated with adviser participants belief that clients wishing to have comprehensive advice will always need to talk with a human adviser as robo-advice is limited in its functionality. With the potential for FinTech to become mainstream (Yeoh, 2019), there is the distinct possibility that banks, and other product manufacturers who make use of FinTech, may have an additional competitive advantage over the traditional adviser model (Jung et al., 2018). The threat of substitute products (Porter, 1980) is one of the five competitive forces.

4.4 | Main reasons for net profit growth decrease

This section analyses the main reasons for the decline in net profit growth. Fifteen adviser participants (all non-independent privately owned) had negative net profit growth over the last 3 years of an average of 22.53% (7.51% annually). The two main reasons provided were compliance administration and training and education costs.

4.4.1 | Compliance administration

The most common reason for a decrease in net profit was compliance administration, with 14 of the 15 participant advisers (93%) being impacted. The result is consistent with IBISWorld's (Yeoh, 2019) research which found the constant change in the regulatory environment, combined with reduced confidence in industry services, has substantially affected industry participants and significantly contributed to negative growth over the last 5 years. The industry net profit growth rate was −0.2% over the last 5 years. The findings are further supported by Explanatory Statement Select Legislative Instrument 102, 2014, which found that small financial planning businesses have been impacted with higher costs to manage the FOFA reforms and do not have the benefits of scale. The financial planning industry in Australia is governed by a high level of regulation and policy, which requires advisers to continue to meet substantial ongoing compliance costs (Gilligan, 2018; Keneley, 2020).

4.4.2 | Training and education costs

The second most common reason for a decrease in net profit was training and educational requirements. Six of the fifteen participant advisers (40%) stated that net profit was negatively impacted by the new educational standards as part of the Professional Standards of Financial Advisers Act, 2017 that required all financial advisers who were licensed prior to the first of January 2019, to have a relevant degree by the first of January 2026. The increase in qualification requirements is considerable as previously financial advisers were only required to hold the equivalent of a diploma, which can be completed in a week-long training course.

In summary, the decrease in net profit from the additional training and education requirements is likely to remain a factor in the next 5 years as advisers continue to meet the new educational requirements as part of the Professional Standards of Financial Advisers Act, 2017. Government policy is one of the six barriers to entry according to Porter (1980), and the study has found that the increase in training costs and additional education requirements has had a substantial effect on profitability.

4.5 | Factors affecting future growth in revenue

To understand what the adviser participants believe will impact their future revenue growth, the study found five main factors: capital and operational expenditure, regulatory and compliance changes, education requirements, remuneration changes and providing affordable advice.

4.5.1 | Capital and operational expenditure

To determine if the private financial planning sector is growing by acquisition, all adviser participants were asked: 'Do you expect to be providing any capital to your business over the next twenty-four months?'. Only three adviser participants (5.9%) intend to invest capital in their business in the next 24 months for expansion purposes. The three businesses expansion plans consisted of one practice buying a building to run the business, one expecting to enter into a joint venture with an accounting practice, and one practice looking to buy a new business. To gain a deeper understanding of why there was very limited interest by the adviser participants in growing their businesses by acquisition, the adviser participants were additionally questioned as to whether acquiring client books or practices was a good strategy. Eighteen advisers provided a response, with 13 advisers (72.2%) replying no, three (16.7%) said yes and two (11.1%) said it was a good idea in the past. The main reasons provided by adviser participants who said buying a client book was not a good strategy, was the current industry environment and uncertainty.

The general lack of desire for the advisers to invest in the businesses is further reinforced in Section 4.1.5, with only three advisers expected to be hired from the 51 practices over the next 12 months. Reasons such as the training, education and compliance requirements plus concerns of losing clients if an adviser left the practice were the main concerns.

4.5.2 | Regulatory and compliance changes

All 51 participant advisers were asked, 'What do you expect to be your main challenges in the future?'. The most common future business challenge (16 responses) for adviser participant practices was regulatory and compliance requirements. The reasoning is consistent with Section 4.4.1, with advisers explaining they lack the scale to be able to absorb the additional compliance costs.

4.5.3 | Education requirements

The second highest expected future challenge for the participant advisers was the new educational requirements as part of the Professional Standards of Financial Advisers Act 2017 was found to be of concern for 12 (23.5%) of the adviser participants. The effect of the new education requirements was discussed in Section 4.4.2.

4.5.4 | Remuneration changes

A further challenge for the participant advisers was how to charge for their services in the future, as there is no prescribed method. Fees can be charged on an hourly basis, a set fee for advice, an asset-based fee or a combination of the three methods (Viskovic & Clarke, 2017). Twelve participant advisers (23.5%) who were all privately owned advisers were concerned about remuneration changes, including the potential banning of life insurance commissions and the banning of all grandfathering commissions on the first of January 2021, as per the Royal Commission recommendations (Hayne, 2019). While these types of payments, known as conflicted revenue, were banned in 2014, grandfathering arrangements enabled advisers to continue to receive conflicted remuneration payments as long as there was no change or variation to the existing payment schedule (Singleton & Reveley, 2020). Forty of the forty-two privately owned advisers (95.2%) stated that the banning of commissions would reduce their income irrespective of the ability to charge fees as opposed to receiving commissions. Furthermore, the study found that 21 advisers of the 42 non-independent advisers made the comment that clients will not pay fees for insurance advice.

4.5.5 | Providing affordable advice

Providing financial advice to consumers that is both affordable and profitable was a future challenge, according to 8 (15.7%) participant advisers. The increased regulatory requirements combined with the changes to the remuneration model has created a significant challenge for eight of the adviser participants. 'Participant adviser 11' was also of the belief that the practice will only be able to deal with the high end of the market due to the affordability of advice issues.

> I think the possibility is going to be a big one with the current compression on fees. I think deregulate those asking us to provide services to clients that are not sustainable to current year levels, and that will have a reverse effect on the quality of clients that you can take on and the volume of clients you can take on, which is the same because we probably will have to only deal with the high-end market rather.

The results are supported by Explanatory Statement Select Legislative Instrument 102, 2014, which found that small financial planning businesses have been impacted with higher costs to manage the FOFA reforms and do not have the benefits of scale.

5 | DISCUSSION

To address the first research question, 'What are the main factors that have had a positive or negative effect on the growth of privately-owned financial planning businesses' the study explored the main reasons contributing to the growth or decline in gross revenue and growth or decline in net profit over the last 3 years.

First, the study found that independent privately-owned advisers significantly outperformed non-independent privately owned advisers on gross revenue and net profit over the last 3 years. The major reason for the difference in performance, which was stated by all of the independent adviser participants compared to only 26.7% of non-independent adviser participants, was differentiation of service. Second, only 16.7% of the non-independent adviser participants identified target marketing as the main reason for the increase in gross revenue over the last 3 years compared to 50% of independent adviser participants. The results support the conclusion that the limited number of independent advisers has provided the privately-owned independent sector with a competitive advantage over the privately-owned non-independent sector. Michael Porter's five competitive forces model is the conceptual framework of the study, and the findings endorse two of Porter's three generic strategies to outperform competing businesses, differentiation and focus (Porter, 1980).

The five main reasons for gross revenue growth increase were client referrals, staff retention, business referrals, target marketing, and differentiation of service. Participant advisers were found to be highly dependent on word of mouth referrals from both existing clients and business associates. The importance of strong relationships with existing clients is critical for building a marketing platform that is cost-effective and maintainable (Cull, 2015).

Staff retention was also considered important, with a majority of practices having two staff or less (84.3%). The impact on business operations and performance in a small business would be considerably greater than a larger business when there is high staff turnover. Direct marketing was not considered to be effective; however, advisers who target marketed had found it to be a successful strategy. Lastly, differentiation of service was found to be a contributor to growth. Strategies that provide differentiation in the independent financial planning sector in the US include customised services, remuneration structures and target marketing (Snider, 2015).

The study additionally examined the main reasons for increases in net profit over the last 3 years and found that increased technology efficiency was the most common reason. Studies previously undertaken on IFAs in the United Kingdom and Spain found that innovation produced a higher level of performance (Chaston, 2013; Lassala, Carmona, & Momparler, 2016). However, the next 5 years are also expected to bring intense competition to the industry as FinTech becomes mainstream and investors choose digital solutions instead of the traditional advice method. This study's findings indicate that small privately-owned advisers are at significant risk of disruption from FinTech, such as robo-advice, and will need to position their businesses to either provide differentiation of service or incorporate the technology in their business models. According to Woodyard and Grable (2018), substitute products are one of the five competitive forces (Porter, 1980), and the threat of substitution of financial planning services is considered high as the advancements in financial product technology has created many online platforms that enable clients to purchase financial products directly without the use of an adviser (Snider, 2015)

The study further explored the main reasons why adviser participants had a decline. In gross revenue over the last 3 years. The two main reasons provided were increased licensee costs and negative public perception. The FOFA regulations were principally designed to transition the financial advice industry into a profession where advice is in the best interests of clients, and the advice is of high quality (North, 2015). However, the FOFA reforms have increased the cost of compliance which is a major function of an AFSL. The adviser participants licensed through third-party AFSLs stated that the increased compliance costs had been transferred in part or in full to their businesses. To avoid paying third party AFSL costs, financial advisers can obtain their own AFSL, whereby they effectively cut out the 'middle person'. However, they are also responsible for meeting all corporations law requirements, and the initial application and ongoing regulatory requirements have created a costly entry barrier, which is one of Porter's five competitive forces. The negative public perception was found to be primarily associated with various financial scandals and the Royal Commission conclusions. It is reasonable to conclude that continuous negative public perception will further influence the low number of newly qualified advisers entering the industry and affect the growth of existing practices.

The second research question, 'What are the expected factors that will affect the future growth of privately-owned financial planning businesses?' provided five main factors: capital and operational expenditure, regulatory and compliance changes, education requirements, remuneration changes and providing affordable advice. First, the results showed little appetite for any increase in capital or operational expenditure. The results indicate that future growth will be reliant on organic growth; however, only one adviser participant has a growth strategy. Based on the results, it is reasonable to conclude there is a genuine lack of business confidence in the sector.

The two highest-rated perceived future business challenges stated by the adviser participants were the increased regulatory and compliance requirements, and training and education requirements. Due to the new education requirements, 25% of the participant advisers stated that they would be leaving the industry in the next 5 years. These findings support the forecast by the CEO of The Financial Planning Association, Dante De Gori, who said as many as 6,000 existing experienced advisers out of 20,000 are expected to leave the industry due to the educational requirements (Grieve, 2019).The two challenges were also the two main reasons for net profit decrease over the last 3 years. Small privately-owned financial planning businesses are likely to be highly impacted as they do not have the benefit of scale, as they must compete against large advisory groups (North, 2015). The expected impact of higher compliance and training costs supports the findings of IBISWorld (Yeoh, 2019) that small privately-owned financial planning sector will struggle to achieve increased profitability in the next 5 years.

Additionally, there have been significant changes to how advisers can be renumerated, in particular, the banning of all grandfathered commissions from the first of January 2021. The proposed banning of life insurance commissions was also found to be of great concern as advisers are of the belief that clients will not pay for fees for insurance advice. However, according to Richards and Morton (2019), a remuneration model is most likely to be in a client's best interest when orientation is client-centred and is independent of product influence. Furthermore, the quality of advice and the type of remuneration is inherently linked (Šindelář & Budinský, 2017). A transparent and ethical remuneration model provides a strong position to attract new clients and increase consumer confidence. Conversely, a study conducted by Kramer (2018) in the Netherlands found that the willingness for consumers to receive advice was significantly less when no commissions are paid to advisers, and an advice gap would emerge among households with low financial literacy. In particular, low-income consumers were found more likely not to ask for financial advice because of the cost of the advice. Additionally, the distribution of certain types of products has moved from the adviser channel to direct insurance providers (F. De Jong, 2017).

However, the affordability of advice remains a genuine threat to small non-aligned financial advice businesses as large product aligned advice businesses can maintain a competitive advantage due to the ability to subsidise advice losses with product distribution profits. This in effect enhances the bargaining power of consumers (one of Porter's five competitive forces) when dealing with small planning businesses. Furthermore, small planning businesses are unlikely to be able to provide a low-cost position to defend against competitor rivalry of large firms which is also one of Porter's five competitive forces.

In summary, the conceptual framework of the study, which consisted of Porter's five competitive forces was discussed throughout chapter five. Four of Porter's five competitive forces; the threat of new entrants; bargaining power of buyers; the threat of substitute products or services; and rivalry among existing competitors, were found to have a substantive impact on the growth of the participant practices. To manage the impact of the five competitive the findings support two of Michael Porter's three generic strategies to outperform competing businesses: differentiation and focus. Due to the general lack of scale of small privately-owned businesses, Porter's cost leadership strategy would be difficult to implement without reducing the quality of services.

6 | CONCLUSION AND RECOMMENDATIONS

In conclusion, using a theoretical framework based on Michael Porter's five competitive forces model, the study found that the main factors enhancing growth were differentiation of service, technology enhancement, target marketing and business and client referral arrangements. Factors that negatively affected growth included the affordability of providing advice due to regulatory changes and the negative public perception associated with various industry scandals. Additionally, study found five main factors that are expected to affect future growth: capital and operational expenditure, regulatory and compliance changes, education requirements, remuneration changes and providing affordable advice.

Small privately-owned financial planning businesses do not have the benefit of scale and have to compete against large institutions. The study found four of Porter's five competitive forces; the threat of new entrants; the bargaining power of buyers; the threat of substitute products or services; and rivalry among existing competitors to have impacted the current and expected future growth of the participant practices. To address this imbalance, the study provides knowledge to financial advisers and AFSL holders to enable them to make informed decisions in the areas of practice management and strategic direction. Two of Michael Porter's generic strategies to combat the competitive forces, differentiation and focus, were found to be a factor in outperformance. Additionally, policymakers and regulators are provided with additional knowledge to better support the privately-owned financial planning sector, thus enabling consumers to benefit from a competitive marketplace.

7 | LIMITATIONS AND SUGGESTIONS FOR FURTHER STUDY

The study has carried out an extensive analysis of the views of privately-owned financial advisers in the financial advice industry; however, the study cannot cover all aspects impacting the industry. The study found strong evidence that consumers are not prepared to pay fees that adequately compensate advisers for insurance advice. Further research could be conducted to include the views of consumers before the government decides whether to discontinue the current commission model. Additionally, the study found a lack of new adviser entrants to the industry due to increased regulations, costs and negative public perception. To maintain and grow the industry, research could be carried out that includes the views of the universities, students and large institutions as to why the industry is not attracting any material new adviser numbers.

Additionally, further studies could be undertaken to determine if the new education requirements should be adjusted to focus on the adviser's specific authorised advice area. For example, advisers who only provide life insurance advice should only be required to meet relevant education standards to provide life insurance advice and not have to be qualified to provide investment advice. Finally, further studies could be conducted to determine if robo-advice or other financial technologies will be affordable and accessible to small privately-owned financial planning practices in the future or whether it will continue to provide large wealth institutions with a competitive advantage.

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CONFLICT OF INTEREST

None.

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

ETHICS STATEMENT

The ethics approval for this study is available from the corresponding author upon request.

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