WHAT IS THE MAIN AIM OF PRACTICE BENCHMARKING?

The Practice Benchmarking exercise is aimed at assisting financial advisers perform an objective self-assessment of their practice. We’re hoping to ask questions and provide reports which stimulate thoughtful discussion and get you to think about where you might make improvements. Importantly, we’re not aiming to rank, rate, mark-down or mark-up any particular practice – the results are your own. The main purpose is to:

- Use the scores to identify where your practice performs well or poorly, so that you can identify areas for improvement
- By re-taking the assessment over time you are able to track and evaluate your progress

You may find some of the questions uncomfortable to answer – this only means you’re thinking about them properly. The best outcome we can expect to have is where you use these questions and the end comparative reports to assess which areas of your practice could be enhanced. This is all in line with our approach of helping to build successful and sustainable practices.

UNDERSTANDING THE STEPS

We ask a comprehensive series of questions covering the four main aspects of a practice: Clients, Services Offered, the setup of the Practice, and lastly the Financial Performance of the practice. Not all questions are used in the scoring calculations, they are there merely to get you to think about how you deal with the particular issues you face and to encourage debate. Your answers to these questions result in a scoring assessment, viewed in the Practice Benchmark report. We then illustrate the link to valuation in the Valuation report, and lastly we highlight where you can identify actionable steps to take.
STEP 1: COMPLETING THE QUESTIONNAIRE

There are 106 questions in the questionnaire currently, across the 4 main areas discussed above. The questions do not take long to answer for someone familiar with your practice, at a maximum around 20 minutes or so. Not all questions are used for scoring and valuation. All answers given are completely confidential so it is in your interest to answer accurately. We will be catering for periodic testing where you will be able to track your score (progress) over time. Once this Step 1 has been completed, you will be able to view the Practice Benchmark and Valuation Reports.

Benchmark Questions example

STEP 2: THE PRACTICE BENCHMARK REPORTS

Once you have completed the Practice Benchmark questionnaire we calculate your scores. The scoring methodology we follow is benchmark based. By this we mean that we compare your individual score to what we believe is an average outcome for a practice such as yours. The way to interpret this score is to view it from the perspective of an external third party – if they had to evaluate your practice – how you service clients, how you’ve setup the practice, etc. – would they see it as high or low quality relative to average? For each of the 4 evaluation areas, as well as the overall score, the interpretation is the same.

The second step we take within the scoring process is to calculate a Premium or Discount %. This comes from the Practice Benchmark scores and is dependent on your Overall Score. A positive number means that your practice compares well against the benchmark, a negative number means that your practice compares less favourably against the benchmark.

To reiterate the objective with the scoring: the aim is not to identify good or weak practices, it is aimed at each practice identifying where they have opportunity for improvement. By linking this score to a Premium or Discount we are able to equate your self-assessment to a tangible value, which hopefully incentivises practice owners to take positive steps in the areas where the scores are low (i.e., where there is a Discount). The premiums we set have limits: plus or minus 30%. Any practice will have an inherent value regardless of how well or poorly it scores, so for this reason we set limits on the Premium or Discount.
We also provide reports for comparison relative to your peers. This is done to give you important context – what we find is that by using real world examples in the benchmarking process, this helps practices evaluate how they relate and provides motivation to make improvements.

We provide more detailed reports highlighting Key Measures. These are aimed at providing you with comparative reports across a number of the Practice Benchmark questions

**STEP 3: THE VALUATION REPORT**
We provide this section to complete the self-assessment process. By arriving at a Valuation number, each practice is able to gauge the inherent value of their practice, as well as measure how the setup of their practice (as indicated by the Scores and Premium/Discount) impacts the valuation. The Valuation calculation we perform is based on a number of inputs you have provided in the Practice Benchmark Questionnaire, and the methodology we follow is a Discounted Cash Flow (DCF) approach.

Importantly, we make the distinction between Price and Value. What this means is that we calculate a fundamental valuation for your practice based on the quality of the business, the financials, and how it is structured. We then gauge this relative to ‘market price’ – which is an indicator of what practices sell for in the market. The point of doing this is to assist advisers in creating a strong business and valuation case for their practice. It is often the case that practices are under-priced in the market as a result of not having clear and strong support for this valuation.

Note that the valuation we provide is an indication only, and ideally should assist in linking your self-assessment to a measurable outcome which you can track. It is not designed to be a comprehensive valuation – we would need considerably more information to achieve this. Saying that, the principles we follow are fundamental valuation principles and in most cases will provide a useful answer for you.

**Valuation Report Example**

In the report example above you will notice two values within a set of price limits (Upper and Lower). At a high level these can be interpreted as follows:

- **Normal Valuation**: this is the DCF based valuation we calculate based on some of the answers you provided in the questionnaire. We adapt the approach dependent on what form of practice you operate (Individual, Collective, Corporatised, Wealth Manager)
- **Your Practice Valuation**: this is the Normal Valuation adjusted for the Discount or Premium from your practice benchmarking score. The difference in value is the value of this discount or premium to you

1 The DCF valuation methodology is based on taking the future cash flows available to shareholders, and discounting these to the present. The final DCF value is therefore the sum of all future cash flows to shareholders in today’s terms.
- **Price Limits**: dependent on your type of practice, we set price limits as indicators of what the market currently pays. Note that these are not hard limits, so you are able to have a scenario where your values are either above or below these limits. In most cases it is worth exploring why this is the case.
- **Average Price**: this value is equal to the average of the Upper and Lower Price limits, and provides an indicator of the average price paid for similar practices in the market

**HOW TO TAKE THIS FORWARD IN YOUR PRACTICE**

The Practice Benchmarking process is designed to identify areas where you are able to invest time and effort to enhance your practice. There are multiple ways to take action:

- Setup a prioritised list of action items for you and your colleagues to implement.
- Read through our Industry Research and Resources sections to get insight into the principles underpinning each area of your practice.
- Attend our focused Adviser Programme to get a comprehensive understanding of your practice potential and the industry in which it operates.
- Engage Fundhouse should you require hands-on assistance, via our Consulting Services.
- Revisit this self-assessment periodically to gauge how you have progressed

For any additional questions you may have regards the Practice Benchmarking, please contact us on [adviser@fundhouse.co.za](mailto:adviser@fundhouse.co.za)