

UNDERSTANDING THE SMSF ENVIRONMENT MAP

Aaron Dunn, CEO & Co-Founder, Smarter SMSF

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Aaron Dunn

CEO & Co-Founder, Smarter SMSF



Within the financial services industry, people look to Aaron as a trusted source to learn more about SMSFs and the direction of the sector. Highly admired amongst his peers, Aaron's insights into both technical and practice-based issues within the SMSF industry sees him regularly sort out to participate as a key stakeholder for Government reviews, and regulatory issues. Aaron is the CEO and Co-founder of Smarter SMSF, a business that supports accountants and financial advisers across CPD training and SMSF documents. He is the creator of the Future of SMSF report that provides key insights into the way in which practitioners operate within the SMSF industry. As a SMSF Specialist Advisor and CPA, Aaron has worked within the SMSF sector for more than 20 years. A lover of sport, in particular AFL football (Essendon) and athletics, Aaron was previously a nationally ranked high jumper having set a personal best jump of 2.14m.



Evolving the Future of SMSF

TIMELINE OF EVENTS

- February 2020**
SMSF Environment Map
The future of SMSF report helped us to understand how practitioners were operating within the SMSF sector.
- September 2019**
SMSF Value Proposition
Our 5 stages to a SMSF business allows us to create a framework for practitioners to work through to help achieve success.
- February 2019**
5 stages to an SMSF business
To improve value and to build a successful modern SMSF practice, need to understand the environment today.
- November 2018**
Finalised Future of SMSF Report

Stage 3: Specialist provider

5 STAGES OF AN SMSF BUSINESS



Biggest challenge:	Implementing change
Secondary challenges:	Keeping up-to-date Business Model consideration – expand or niche?



Success Factor
The key to advancing from this stage is to focus on standardising your processes, service delivery and fee model to enable you to scale successfully

- Important at this stage of growth to look at how technology enables a more client-centric focus, rather than simply driving efficiencies
 - e.g. online access (average 38% / specialist – 43%)
- Process will require some redefining of roles within the practice, keeping up-to-date, but also increasing client touch points
- This change management process will take some time to transition existing clients – requires business to demonstrate the improvement value proposition.

Stage 4: Emerging player

5 STAGES OF AN SMSF BUSINESS



Biggest challenge:	Business Model – decision to expand or niche
Secondary challenges:	Attracting new clients Keeping up-to-date



Success Factor
The key to advancing is to be clear about the future direction of your SMSF business model – i.e. expansion of services (advice), or niching further (admin).

- Start devoting time to the SMSF business strategy – understanding your customer segment(s), clearly define your value proposition, types of relationships (low or high touch), channels, etc. to accelerate forward.
- Important to start contemplating the resources required to be able to support the next stage of the business.
- Opportunity is substantial with growth at this stage as a specialist being 282% faster than a typical generalist practice.

Stage 5: Industry leader

5 STAGES OF AN SMSF BUSINESS



Biggest challenge:	Attracting new clients
Secondary challenges:	Pricing & Competitiveness Keeping up-to-date



Success Factor
The key to advancing from this stage is to focus on an increased level of knowledge to support ongoing client relationships.

- Becoming a major player comes with a mature understanding of market forces and how the business needs to respond – albeit the flywheel is much harder to move initially
- Whilst keeping pace of change can be a strength of the business, it must translate throughout all levels of the organisation (*i.e. culture – the way we do things here*)
- Will the globalised workforces recalibrate domestically in the future as a result of technology advancement (e.g. AI & ML) – the cost of technology will become cheaper than globalised hires?



Poll:

What do you believe is the current stage of your SMSF business?

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Evolving the Future of SMSF

UNDERSTANDING THE SMSF ENVIRONMENT

Three step process to equip professional to building a successful modern SMSF practice



Value proposition
Developing or further improving the value in your SMSF business model

+

SMSF environment map
Understand what is impacting the current and future direction of your SMSF business model

+

5 stages of an SMSF business
Ensure that you understand where you are today



SMSF Environment Map

ZOOMING OUT - AT A GLANCE

INDUSTRY FORCES

- Competitors (incumbents)
- New entrants (incubergents)
- Stakeholders
- Suppliers & other value chain actors
- Substitute products & services



MARKET FORCES

- Market segments
- Needs & demands
- Market issues
- Switching costs
- Revenue attractiveness

EP

SP

SP

EP

IL

KEY TRENDS

- Technology trends
- Regulatory trends
- Societal & cultural trends
- Socioeconomic trends

MACRO ECONOMIC

- Global market conditions
- Commodities & other resources
- Capital markets
- Global market conditions



INDUSTRY FORCES

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Industry Forces
COMPETITORS (INCUMBENTS)

Identifies the incumbent competitors and what their relative strengths are within the SMSF industry

- Incumbents predominantly as Industry Leaders (IL) and Emerging Players (EP)
- ATO SMSF stats show 35% of practitioners have 91% of market
- Specialists capturing 74% of new business, growing at 282% faster than generalists
- Largest change amongst firms with > 400 funds

INDUSTRY FORCES	MARKET FORCES
MACRO ECONOMIC	KEY TRENDS



Industry Forces
COMPETITORS (INCUMBENTS)

- Important to understand the traits (advantages / disadvantages) of ILs & EPs
 - Why are they attracting so much of the new work?
- How are the offers of the SMSF sector evolving
 - Fixed-fees, regular billing – why are we seeing this trend?
- Influence being exerted within the industry that flows back down to service providers?
 - e.g. pricing, revised business models

INDUSTRY FORCES	MARKET FORCES
MACRO ECONOMIC	KEY TRENDS





? Within the SMSF sector, who is your business actually competing with?

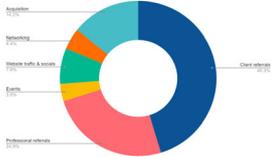
Is it local, industry specific, incumbents, or someone else?

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Industry Forces
INSURGENTS 

Identifies new insurgent players and determines whether they compete differently to you within the SMSF industry

- New entrants – specialists creating niche business models, moving to EP
- Different by size and scale – but for how long?
- People & relationships remain a competitive advantage
- Value propositions vary on price, regularity, online, service standard, support, etc.





? What do we learn from insurgents vs. incumbents in how to succeed today within the SMSF industry?

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Industry Forces

SUBSTITUTE PRODUCTS



Describes potential substitute for your offer – including those from other markets and industries

- How well do we understand new entrants into the SMSF market?
 - ATO stats – age, income, behavioural?
 - Do the reasons change as to why?
 - Have the entry \$ points changed?
 - Have the barrier to entry impacted new entrants? And how?
- How are we addressing aging SMSFs – future and potential to migrate to alternate platforms?
 - 20% members, 70+ years with \$217bn (30%) assets



Industry Forces

SUBSTITUTE PRODUCTS



- What role are competing super funds (e.g. industry funds) going to impact the SMSF sector into the future?
 - Member directed models
 - Limitations on advice by accountants
 - ASIC & fees – what does it really look like with costs?
 - Targeted campaigning against SMSFs – shift post royal commission
 - Product offering to SMSFs (HostPlus as PST)





What are the strengths of SMSFs that continue to attract clients?



What threats exist to substitute SMSFs with prospective trustees?

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Industry Forces

STAKEHOLDERS

Specifies which actors may influence your firm and business model

- Which stakeholders? How much influence do they hold?
- Regulatory impact on business models
 - FASEA, limited licensing on advice, TPB requirements
 - Potential future impact if move to a consumer-centric model
- Legislative impact – what role reforms measures play in attracting and retaining SMSF clients
 - Ability to provide support through changes and key decisions that needed to be made post 1 July 2017

INDUSTRY FORCES	MARKET FORCES
MACRO ECONOMIC	KEY TRENDS

Industry Forces

SUPPLIERS & VALUE CHAIN

Identifies key issues driving and transforming the SMSF industry from a customer and offer perspective

- What are the crucial issues affecting the SMSF landscape?
- What shifts are underway and where is the market heading?
- Importance of understanding the role of key players and how they influence you business model
 - E.g. transformation of practices through software – BGL, Class, Xero have all significantly changed the landscape through technology

INDUSTRY FORCES	MARKET FORCES
MACRO ECONOMIC	KEY TRENDS

Industry Forces

SUPPLIERS & VALUE CHAIN

- Understand how business models have become so reliant on technology (as a key partner) to deliver client solutions & challenge to keep pace
 - E.g. Martec's law
- Improvements in efficiency (Aver – specialists to emerging players, where tech is the enabler, not the solution
 - Impacts on profitability, cash flow, etc within business

Chart 6.4 - Use of data automation / integrations (By Revenue Size)



MARKET FORCES

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Market Forces
MARKET ISSUES

Identifies key issues driving and transforming your market from customer and offer perspectives

- Understanding the crucial issues affecting the trustee landscape
 - Government confidence & stability (e.g. policy settings)
 - Technology impact to service offering (value proposition)
 - Regulation – who can do what?

INDUSTRY FORCES	MARKET FORCES
MACRO ECONOMIC	KEY TRENDS



Market Forces
MARKET ISSUES

- Understanding the 'shifts' that are underway within the SMSF sector?
 - Age shifts – new entrants to the SMSF market (age demographics, older trustee/members)
 - Death dispute risks
 - Aging members and incapacity (incl. elder abuse)
 - Technology moving firms to regular reporting models (away from annual compliance)
 - Legislative change also being a driver
 - Potential for redress of licensing landscape (consumer-centric model)
 - Industry funds strength
 - Future impact & policy influence
 - Product offerings into SMSF market



Market Forces
MARKET ISSUES



Identifies key issues driving and transforming your market from customer and offer perspectives

- Where is the market heading?
 - Increasing regulation that requires further RegTech solutions
 - Rationalisation of professionals within the sector through increased focus towards SMSF specialisation
 - Increasing role of technology through AI and ML to support customer relationships
 - Use of big data to further understand trends, modelling for advice, etc.

INDUSTRY FORCES	MARKET FORCES
MACRO ECONOMIC	KEY TRENDS

Market Forces
MARKET SEGMENTS



Identifies the major market segments, describes their attractiveness and seeks to spot new segments

- What are your most important customer segments?
 - How wide does this vary between service providers?
- Advice (#1)** still seen as the biggest growth potential for practices (even more so with specialists)
 - #2 - Admin/Compliance / #3 – Estate Planning
- Declining segments?
 - Legislative risk, e.g. contraction in use of LRBAs
 - Decline in new SMSFs? Trend to continue?
 - Will it be Government dependent (regulatory trends)? E.g. Labor's proposed franking credit reforms

INDUSTRY FORCES	MARKET FORCES
MACRO ECONOMIC	KEY TRENDS

Market Forces
MARKET SEGMENTS



Identifies the major market segments, describes their attractiveness and seeks to spot new segments

- Peripheral segments that deserve greater attention?
 - What areas are of greatest concern and risk with SMSFs?
 - Quality of advice (REP 575 outcomes)
 - Legal risk of being challenged – e.g. document quality, procedural issues, etc?
 - Regulator challenges to the sector – e.g. investment strategy expectations (ranges 0 – 100%)

INDUSTRY FORCES	MARKET FORCES
MACRO ECONOMIC	KEY TRENDS

Market Forces

NEEDS & DEMANDS

Outlines market needs and analyses how well they are served

- How well do you understand your client's needs?
- Where are the biggest unsatisfied client needs?
- What do clients really want to get done?
 - Understand behavioural types – controllers, outsourcers, coach-seekers
- Where is demand increasing within your client base? Declining?

Service Category	Ranking (1-9)
Strategic Advice	3.93
Financial Planning	1.44
Insurance	8.07
Compliance	4.81
Investment Strategy Advice	4.1
Education	3.66
Estate Planning	3.64
Other (Demanding)	3.51

Market Forces

REVENUE ATTRACTIVENESS

Identifies the major market segments, describes their attractiveness and seeks to spot new segments

- What are customers really willing to pay for?
- Where can the **highest value** be achieved?
- Can clients easily find and acquire cheaper services?
 - How many 'moats' have you created with your SMSF business model to protect from competition?
 - E.g. 67% provide annual or as required service (reactive)

INDUSTRY FORCES

MARKET FORCES

MACRO ECONOMIC

KEY TRENDS

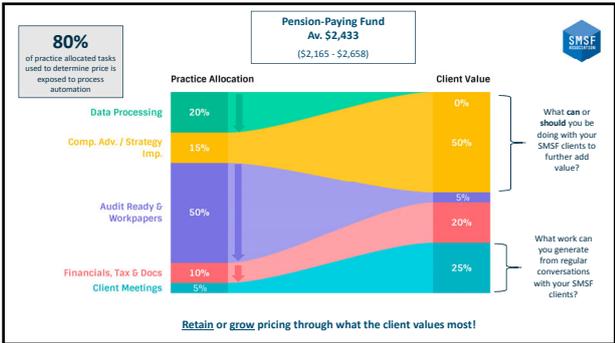
Market Forces

PRICING SCENARIO

Average Fee (Pension Paying Fund) - \$2,433 [Range: \$2,165 - \$2,658]

Task	Allocation (in hours)			Allocation (%)		Subject to automation (%)
	A	M	P	Practice Allocation (%)	Client Value (%)	
Data Processing	3.0	-	-	20%	0%	> 80%
Strategy Implementation / Compliance Advisory	0.5	1.0	0.5	15%	50%	0%
Audit 'ready' incl. workpapers	5.0	2.0	-	50%	5%	> 50%
Financials, SMSF AR and fund documents	0.5	1.0	0.5	10%	20%	> 50%
Client Meeting	-	-	1.0	5%	20%	0%
Total Job	9.0	4.0	2.0	100%	100%	

1. Accountant @ \$140 p/hr x 6 - 9 hrs = \$1,120 - \$1,260
 2. Manager @ \$200 p/hr x 3 - 4 hrs = \$600 - \$800
 3. Partner @ \$350 p/hr x 1.5 - 2 hrs = \$525 - \$700



Market Forces

WHAT WE DON'T WANT...

Process automation squeezing pricing and profit margins from your SMSF client engagement.

RISK AREAS:

- Time-cost billing
- Annual-based compliance
- Inability to articulate value through job completion process (meetings & invoicing)

Market Forces

'STACK' VALUE

As process automation increases which reduces the time to complete a task, it is **critical** to keep focusing on demonstrating value to maintain or grow client value.

SUCCESS FACTORS:

- Moving to fixed-fees enhanced VP
- Annuitised invoicing
- Regular reporting
- Increase SMSF compliance advisory (within licensed / unlicensed scope)

SMSF
INITIATIVE

? Think of 2-3 areas within your business that require greater attention to manage both client and business risk?

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SMSF
INITIATIVE

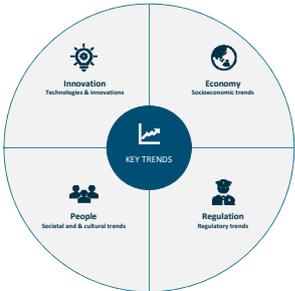


KEY TRENDS

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Key Trends
TECHNOLOGY TRENDS

Identifies technology trends that could threaten your business model – or enable it to evolve or improve



SMSF
INITIATIVE

Key Trends

TECHNOLOGY TRENDS



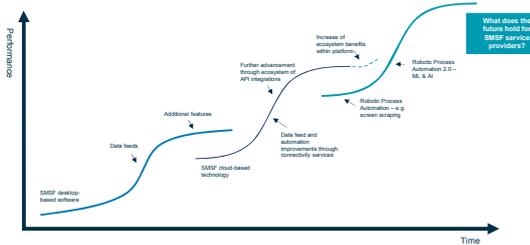
Identifies technology trends that could threaten your business model – or enable it to evolve or improve

- What are the major technology trends, both within the SMSF industry and from outside the sector?
 - Technology is greater equaliser for practitioners
 - Distinct difference in results between technology 'adopters' vs. 'implementers'
- What technologies represent important opportunities or disruptive threats?
- What are there emerging technologies that peripheral SMSF trustees are adopting?
 - e.g. younger new entrants



Key trends

HOW TECHNOLOGY CONTINUES TO CHANGE THE SMSF SECTOR



Key Trends

NEW TECHNOLOGY, OLD THINKING



The biggest challenge for practitioners...

How firms need to address the widening 'g_ap' between technology advancement and organisational / process change?

How to respond?

1. Understand and accept that it's about the journey, not the destination
2. Embrace technology changes that will have the greatest impact
3. Become more agile to adapt to change
4. Now and again, prepare for change through organisational 'reset'



Key Trends

REGULATORY TRENDS

Describes regulations and regulatory trends that will influence your business model

- What regulatory trends are influencing the SMSF sector today?
 - E.g. licensing framework for advice, auditor registration
- What rules are currently affecting your business model?
- Which regulations and taxes affect customer demand?
 - Advice limitations have played a role of slowing of SMSF sector growth – barriers to entry: good or bad?
 - Impact of proposed Labor policy changes to refundable franking credits

INDUSTRY FORCES

MARKET FORCES

MACRO ECONOMIC

KEY TRENDS

Key Trends

SOCIOECONOMIC TRENDS

Outlines major socioeconomic trends relevant to your business model

- What are the key demographic trends?
 - E.g. Aging SMSF population, younger new entrants
- Characterisation of income and wealth distribution within the SMSF sector (compared to others)?
 - Larger scope for voluntary contributions, more mature market in payment income streams
- Population spread of existing and new entrants for SMSFs?
 - State-based, city to rural, etc.
 - Are there specific settings that influence this?

INDUSTRY FORCES

MARKET FORCES

MACRO ECONOMIC

KEY TRENDS

Key Trends

SOCIETAL & CULTURAL TRENDS

Identifies major societal trends that may influence your business model

- Describe key societal trends. Which shifts in cultural or societal values affect your business model?
 - Loss of trust (impact of Royal Commission into financial services, aged care)
 - Generational change (Gen Y & Z will outnumber Gen X and Boomers in workforce – McCrindle, top 6 trends)
 - Aging – lifeforms beyond age 55 (Bernard Salt)
 - Skills and staff shortages
- Which trends might influence buyer behaviour?

The four major retirement tribes, 2029

Tribal Group	Percentage
The Wealthy	18%
The Middle	28%
The Precarious	28%
The Vulnerable	26%

<https://www.pensions.gov.au/business/updates/2023/four-major-retirement-tribes-and-their-anticipated-implications-for-smf-advice>



MACRO ECONOMIC FORCES

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Macro Economic Forces
GLOBAL MARKET CONDITIONS

Outlines current overall conditions from a macroeconomic perspective

- At what stage is the Australian and global economies?
- How would you describe the general market sentiment?
 - Towards financial markets?
 - Towards superannuation policy?
- What impact do things like low interest rates having on retirees and meeting retirement objectives, cash flow needs, etc?

INDUSTRY FORCES	MARKET FORCES
MACRO ECONOMIC	KEY TRENDS



Summary
SMSF ENVIRONMENT MAP

- Having determined what stage your SMSF business is at, it is crucial that you understand the broader environment impacting the sector (and beyond)
- Use the available resources to identify trends, opportunities and key risks for your SMSF business
- Leverage the intel to help make better decisions
- **Ultimately, understanding this allows you to better define the value that you can provide to you SMSF clients**



Next session: Defining your value proposition
 ZOOMING IN

Three step process
 to equip professional to building a successful modern SMSF practice

Value proposition
 Developing or further improving the value in your SMSF business model

SMSF environment map
 Understand what is impacting the current and future direction of your SMSF business model

5 stages of an SMSF business
 Ensure that you understand where you are today

Smart people learn together
 THANK YOU & QUESTIONS

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