

The Retail Investment Supply Chain (and your firm's value)

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of



This presentation is about

Strategy

Product/Service development

Making better margins

Building higher value businesses

This presentation is not about

Meeting RDR Requirements

Abstract Management Concepts

Stuff you already know

Some assumptions

- You represent an owner/managed SME
- You are not selling up in the next 5 years
- You are prepared to invest in your business
- You have in excess of £250m of client funds under influence
- You are on schedule to meet RDR requirements
- You have an open mind regarding independence vs restricted

Corporate objectives

Maximise revenue

Increase operational efficiency

Fully engage staff

Maximise profitability

Increase capital value

Our mission

From 7 x current EBITDA

to

9 x an increased
EBITDA

or, put another way – the difference between

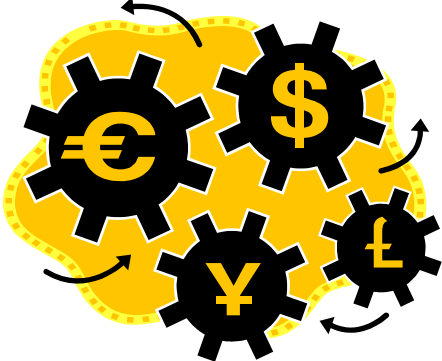


Retiring here...



and retiring here



Drivers of change

Economy	Technology	Regulation
		

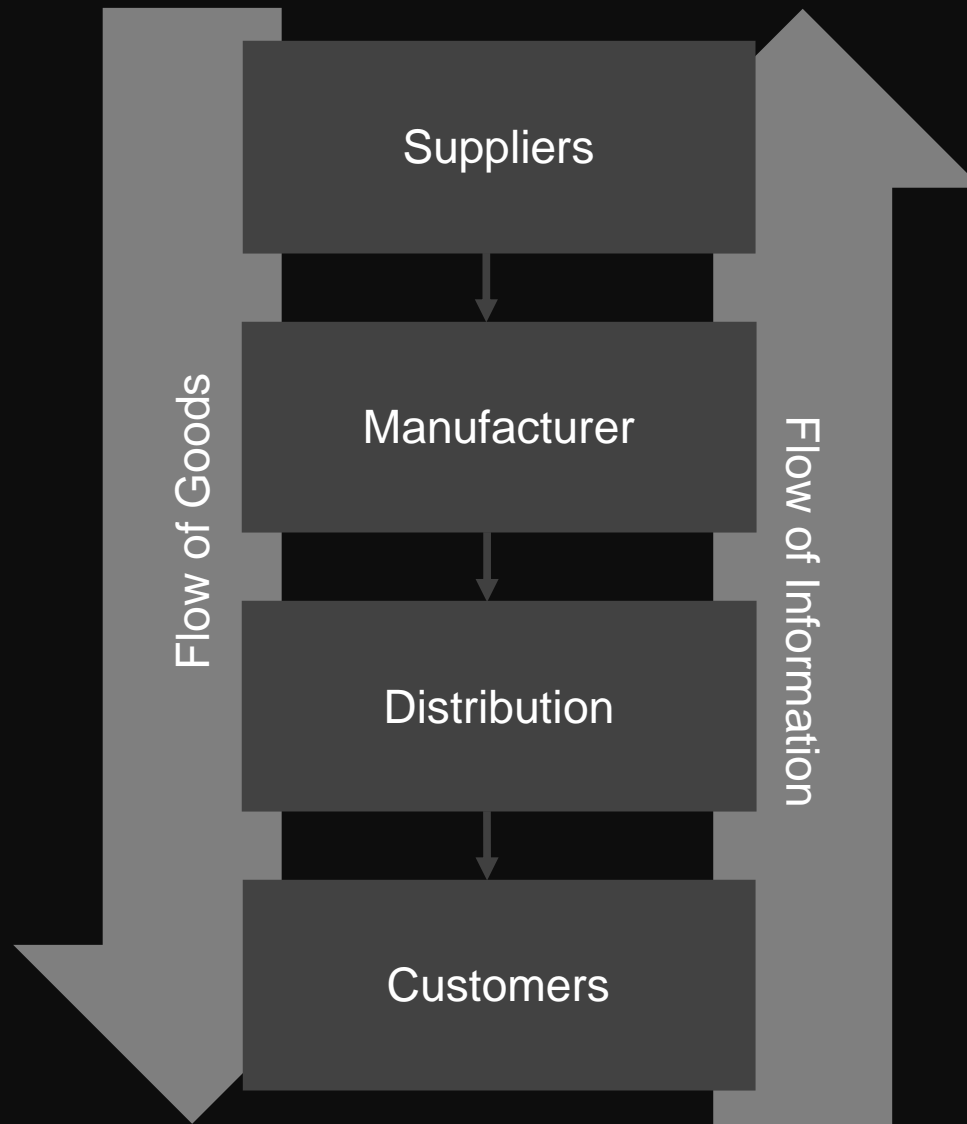
So, what is a Supply Chain?

A supply chain is a set of organisations directly linked by one or more of the upstream and downstream flows of products, services, finances, and information from a source to a customer.

Managing a supply chain is 'supply chain management'

(John T Mentzer, 2001)

Generic Supply Chain

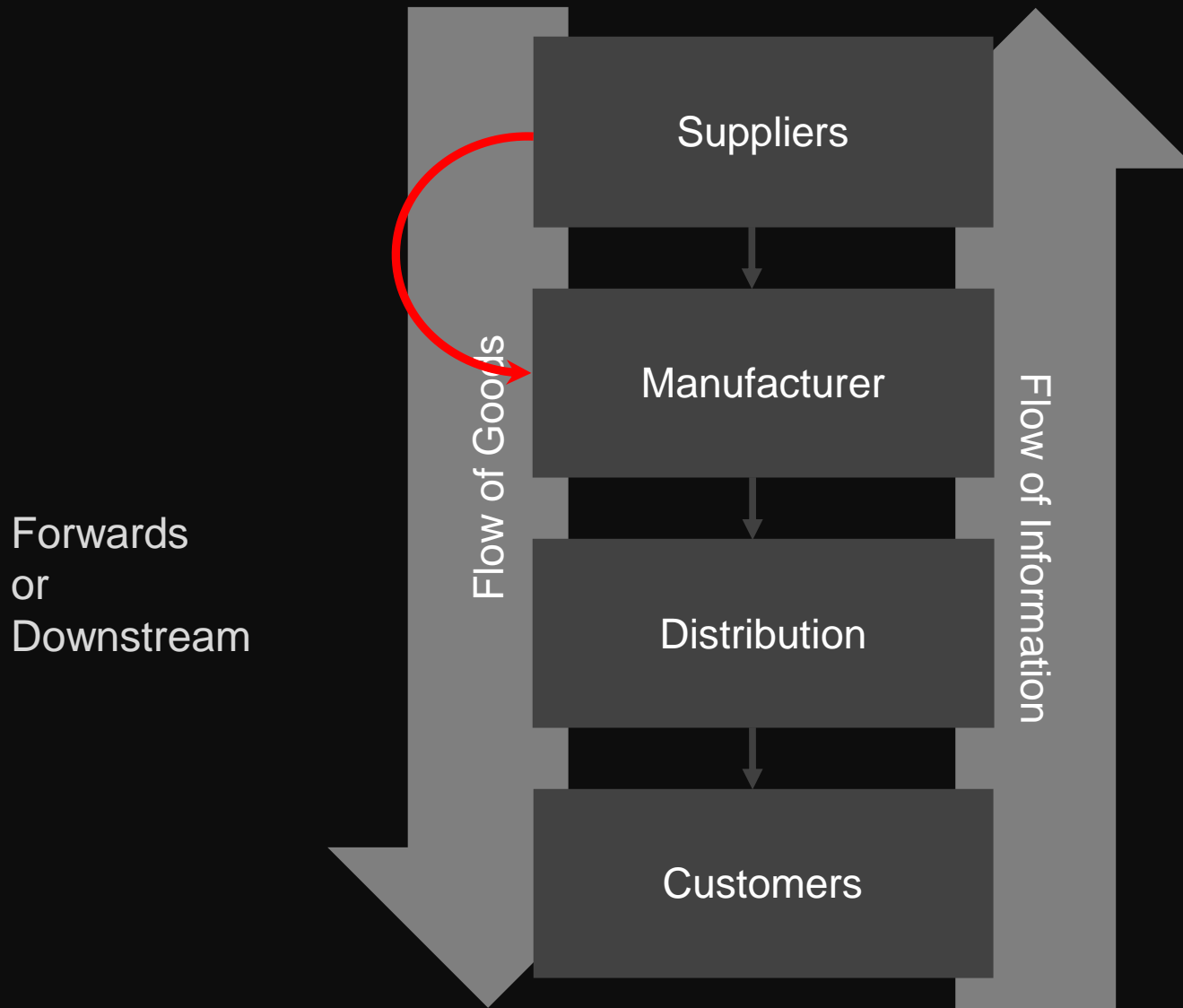


What about integration?

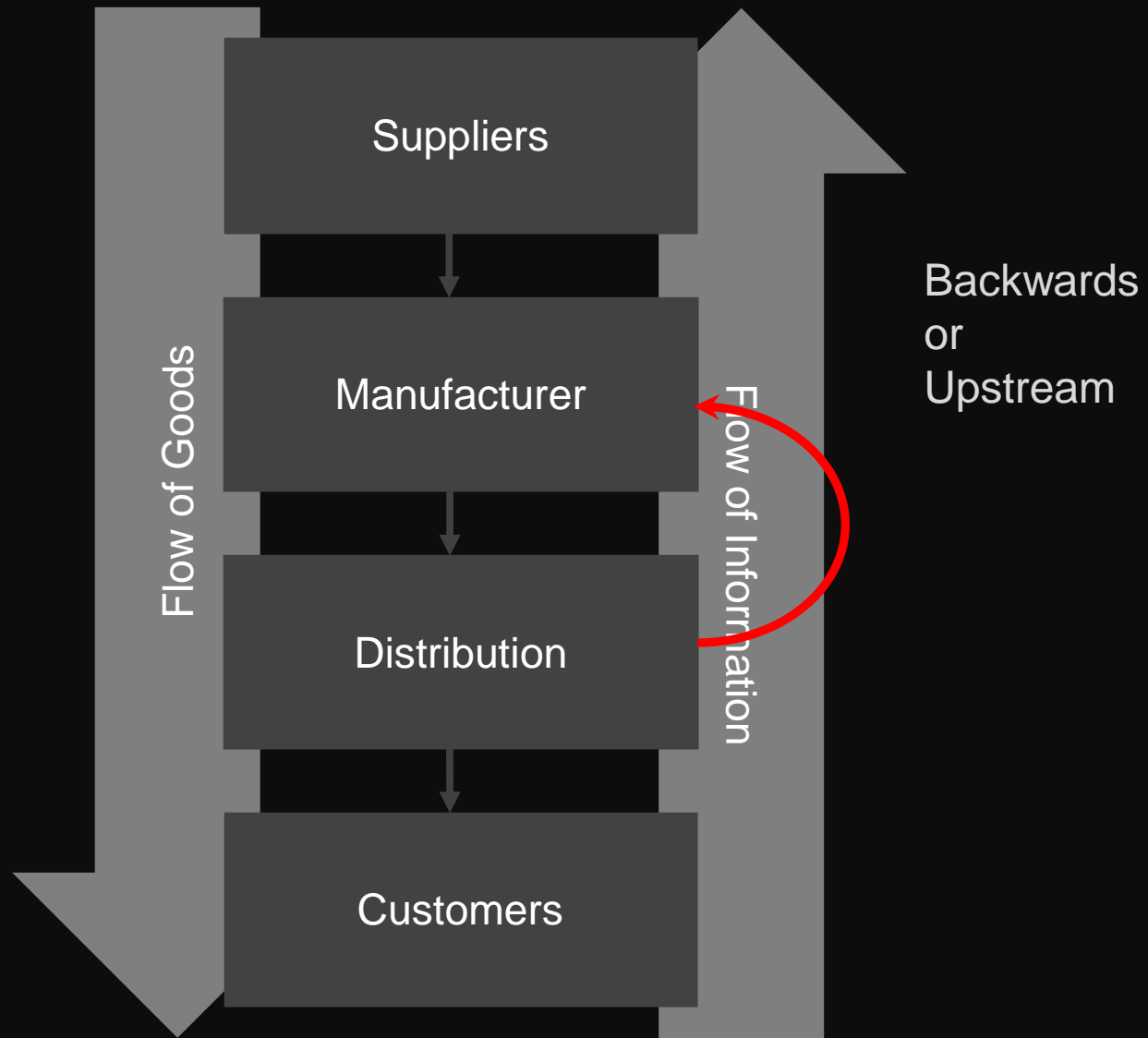
- Horizontal
- Vertical



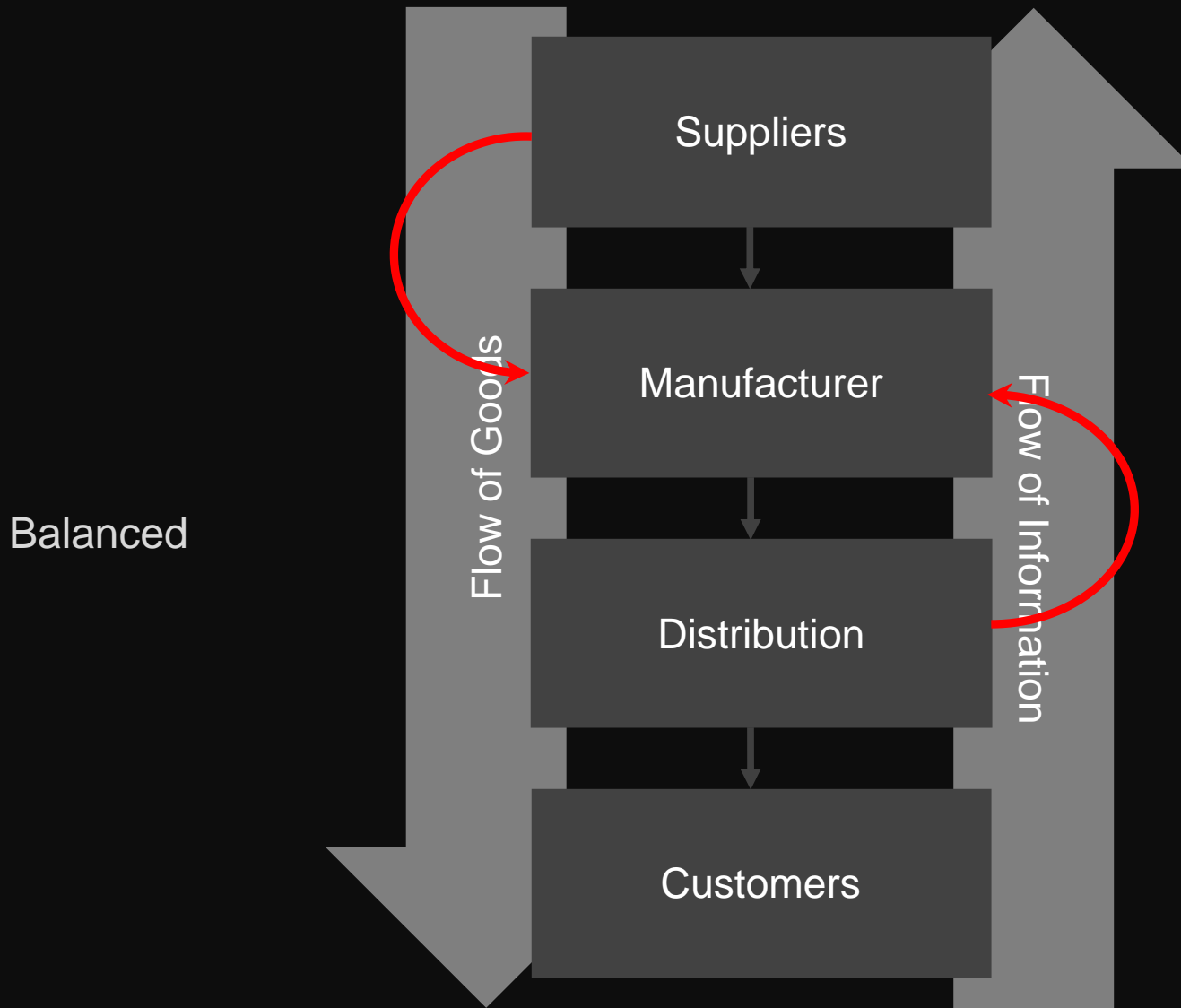
Vertical Integration



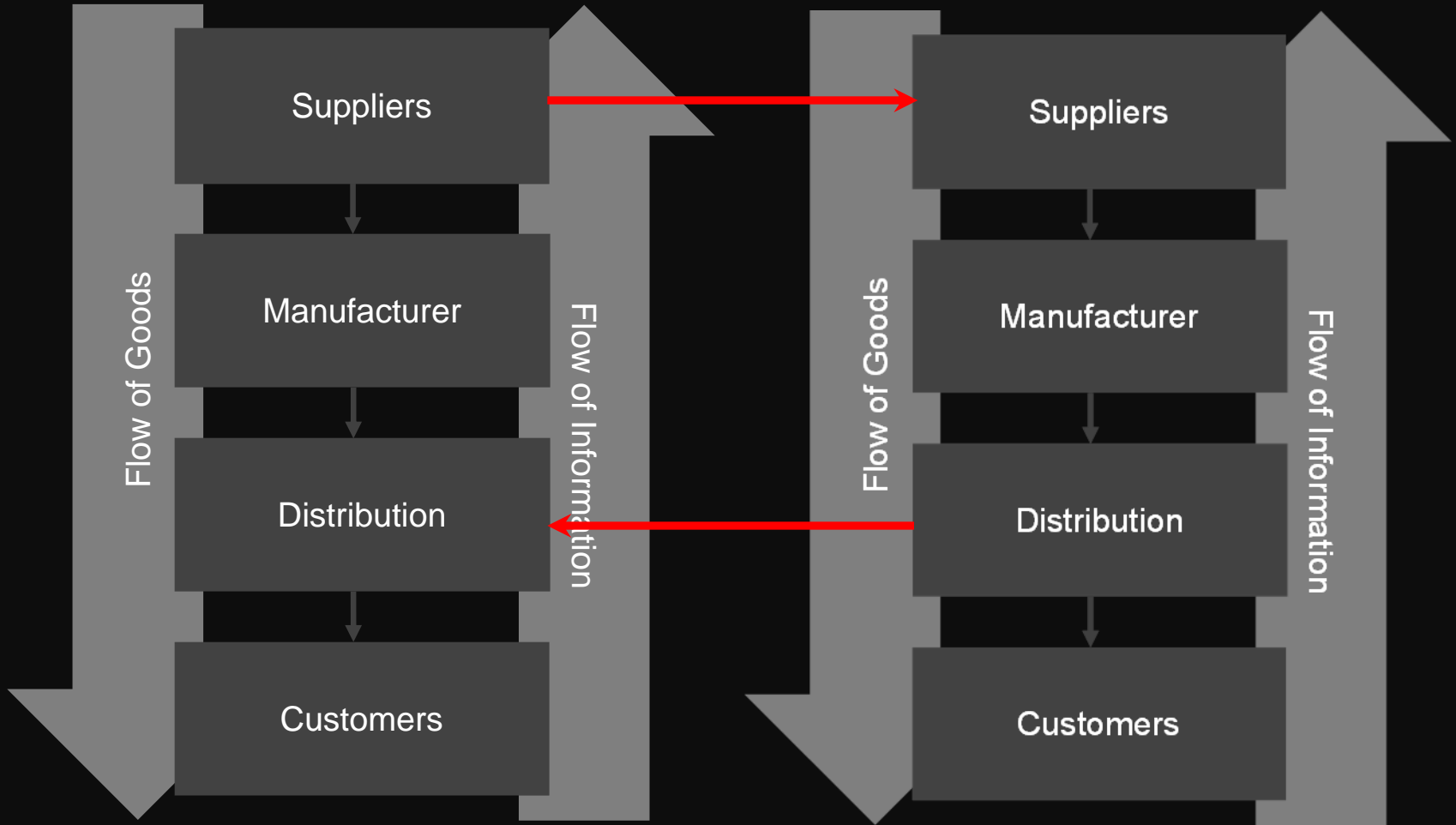
Vertical Integration



Vertical Integration



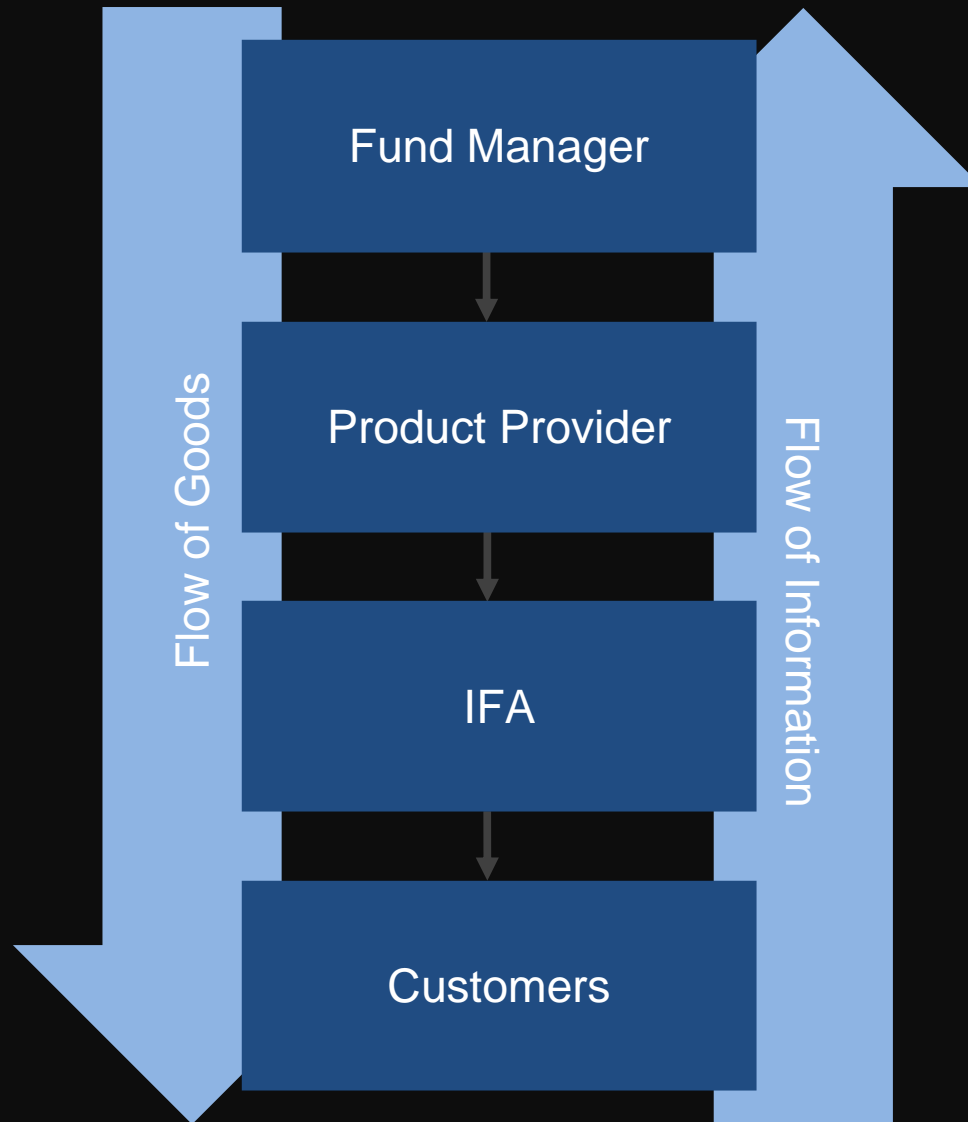
Horizontal Integration



Integration - pro's & con's

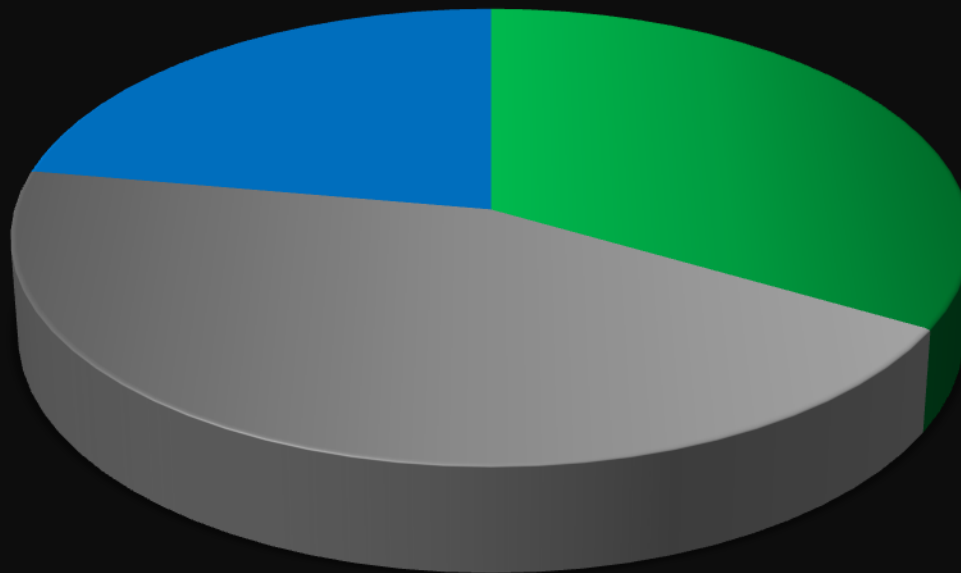
Advantages	Disadvantages
Higher/diversified revenue	Investment cost
Lower costs	Management resource
Increased profitability	Profitability J Curve
Increased quality control	Greater responsibility
Strategic independence	Monopoly risk
Higher capital value	Regulatory risk

Packaged Supply Chain



Packaged annual charge

225 bps total cost of ownership (old model)

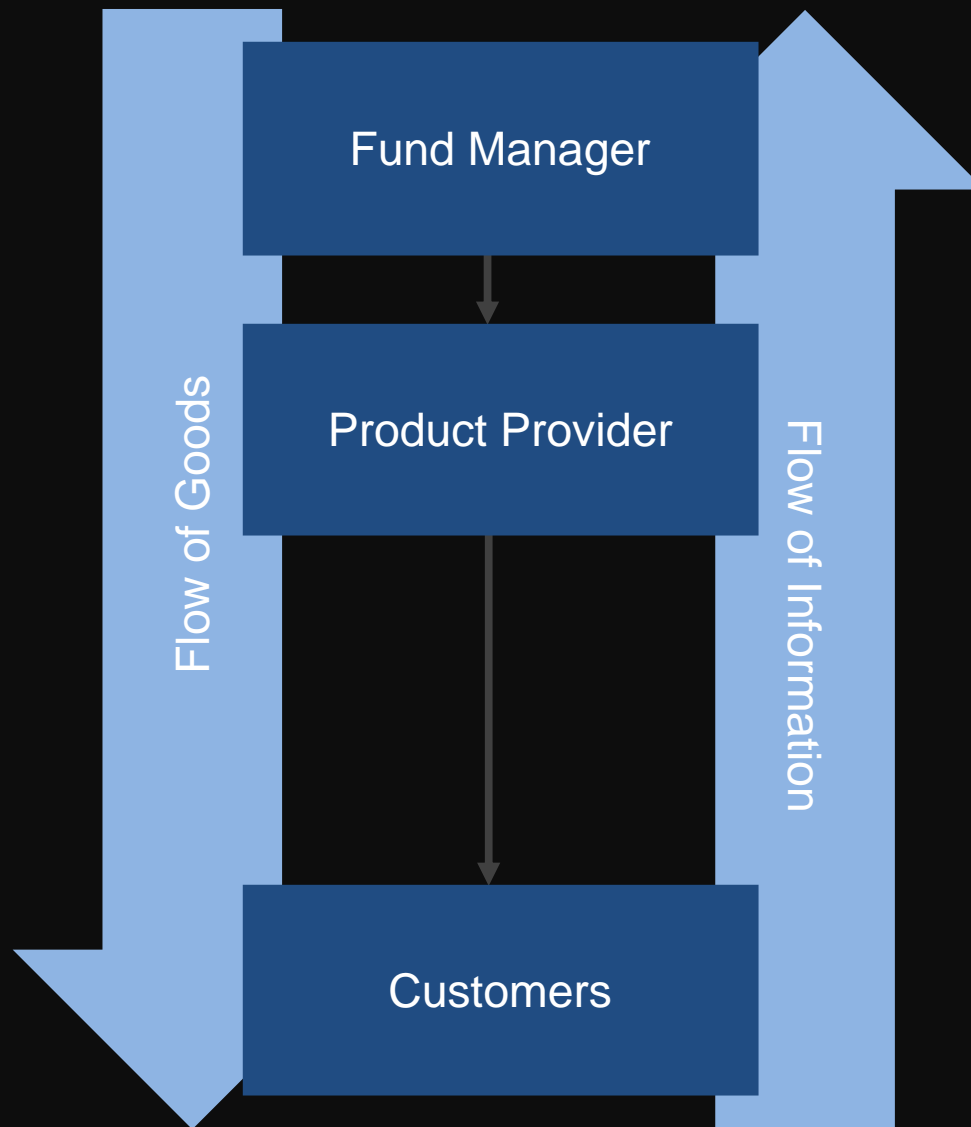


■ Fund Manager = 75bps

■ Product Provider = 100bps

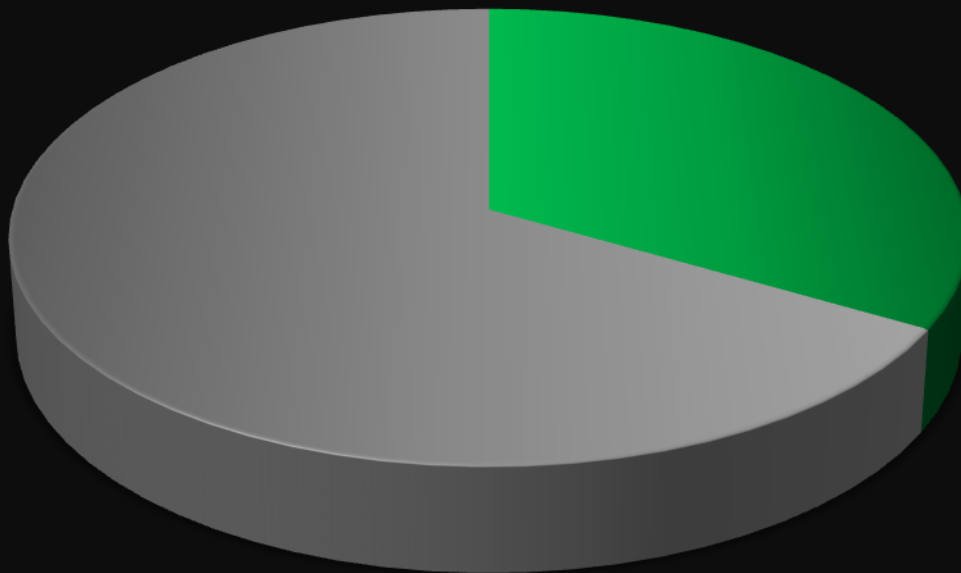
■ Advice = 50bps

Packaged Supply Chain in 2013?



Packaged annual charge in 2013

Total Cost of Ownership (old model)



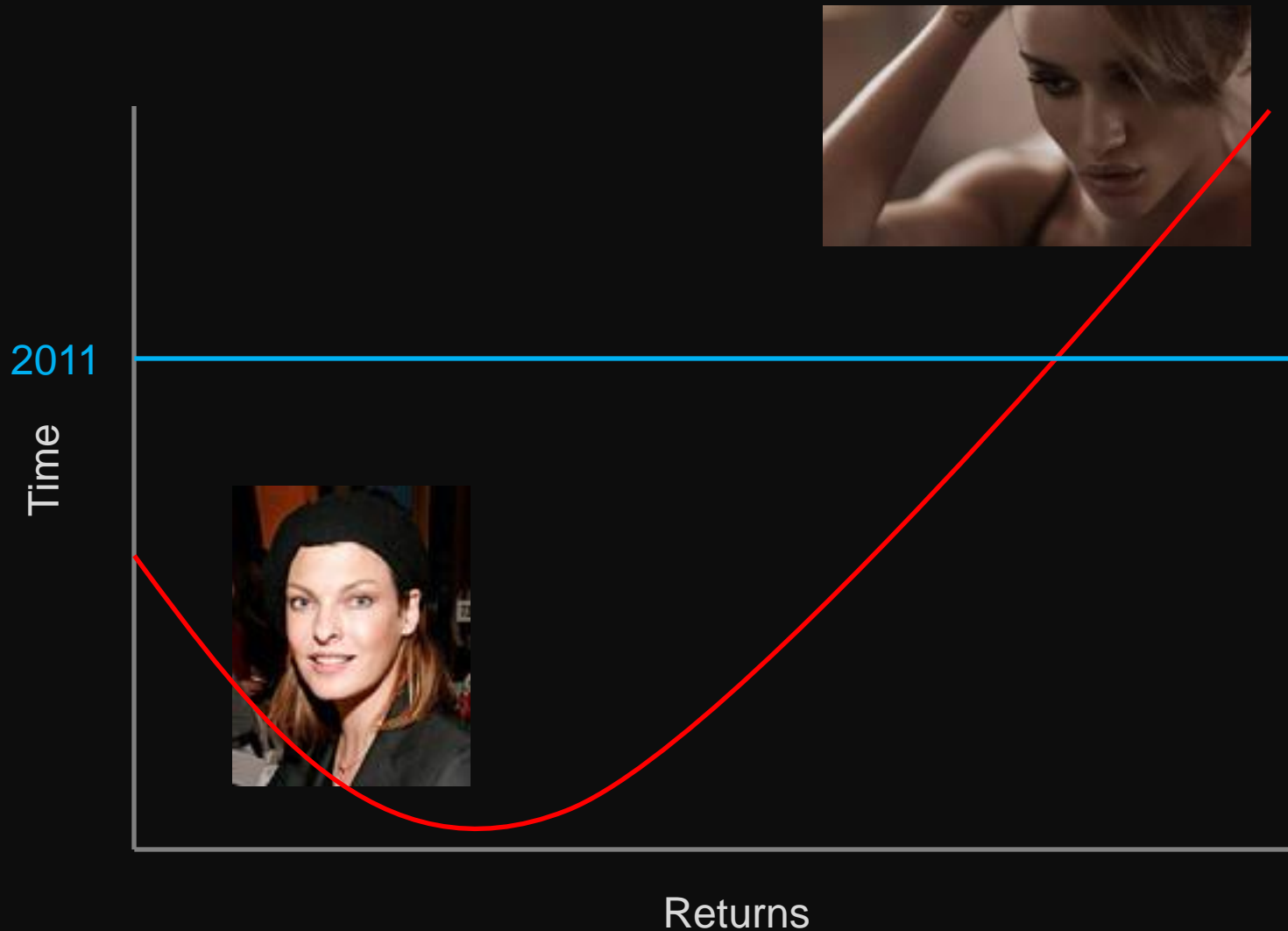
■ Fund Manager = 75bps

■ Product Provider = 150bps

The alternative to packaged?



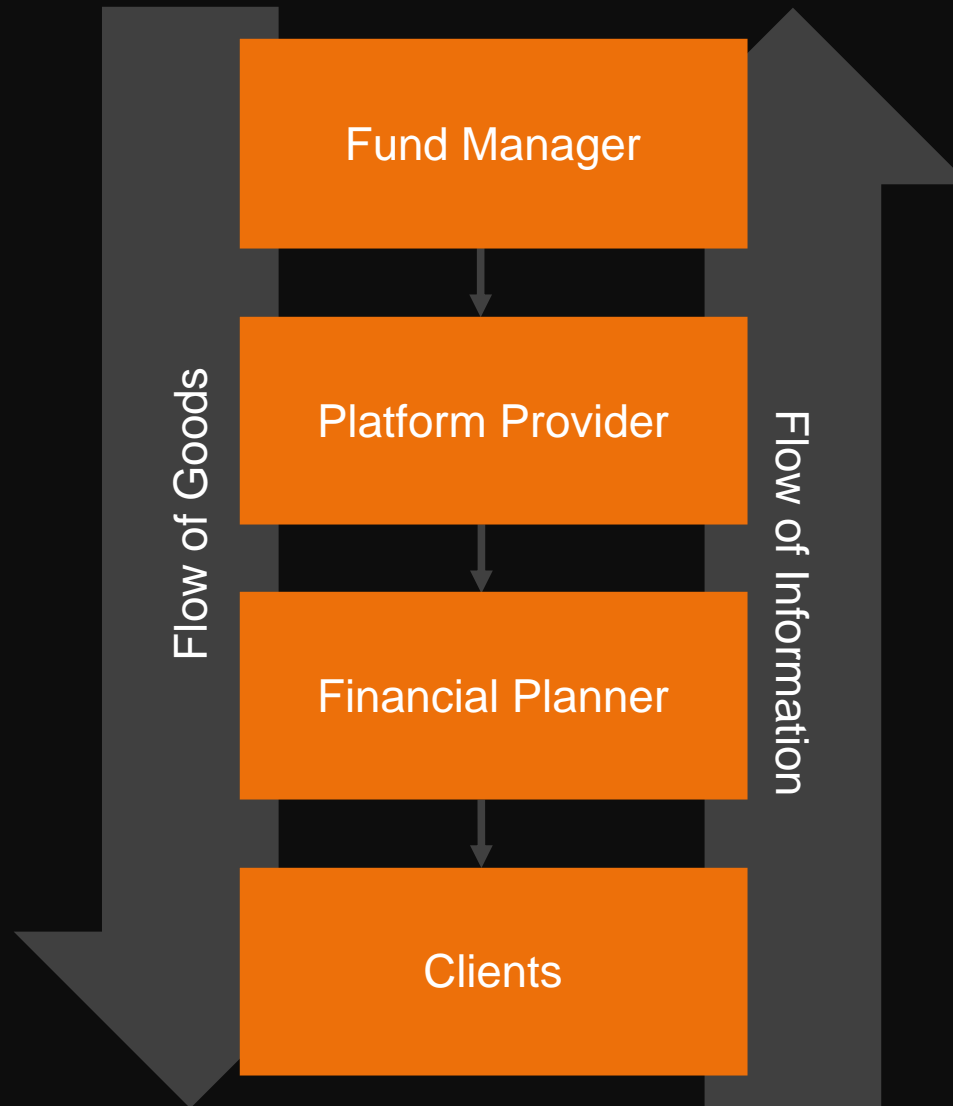
Old Model to New Model



These are really useful...

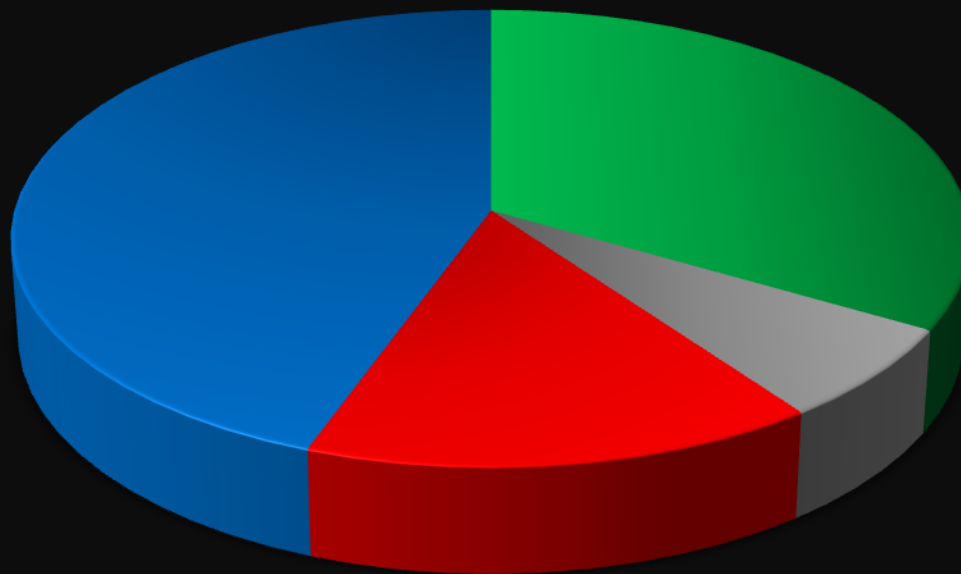


'New Model' Investment Supply Chain



New model annual charge

225 bps total cost of ownership (new model)



- Fund Manager = 75bps
- Tax Wrapper = 15bps
- Platform = 35bps
- Advice = 100bps *

*Includes financial planning
& investment advice

So, that's it then!

- But adviser charging means we have to justify revenue – does that mean trail is less valuable?
- Have you just shifted control out of the hands of Product Providers and into the hands of Platform Providers?
- And who are these Platform Providers anyway?

Offence vs Defence platforms

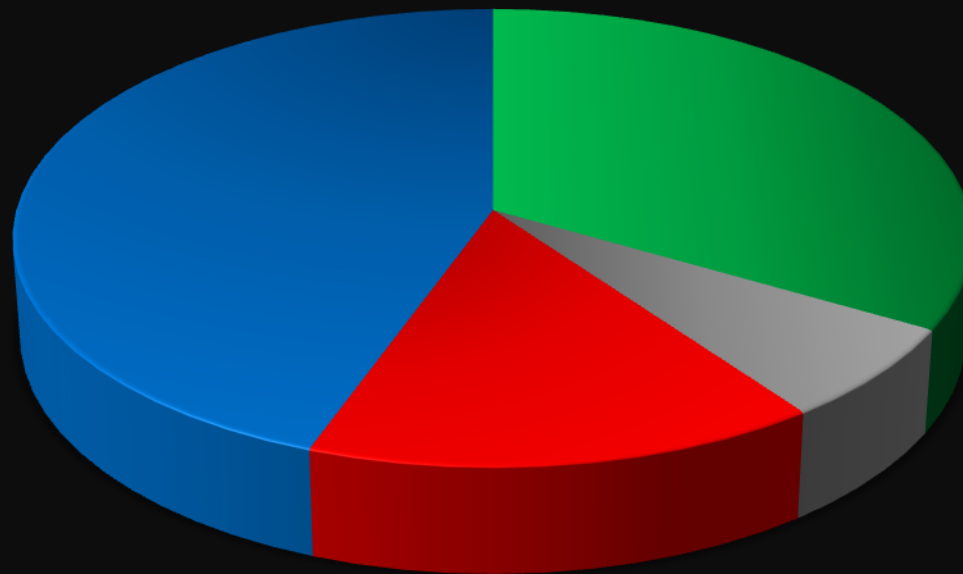
Offence	Defence
Transact	Aviva
Nucleus	Axa Elevate
Ascentric	Skandia
James Hay	Fidelity
Standard Life?	
Novia?	

Lets take a different perspective



Question - how much can we get?

225 bps total cost of ownership (new model)



- Fund Manager = 75bps
- Tax Wrapper = 15bps
- Platform = 35bps
- Advice = 100bps *

*Includes financial planning
& investment advice

Distributors of investment advice

DFM

Direct

*Private
Bank*

BANKS

IFA

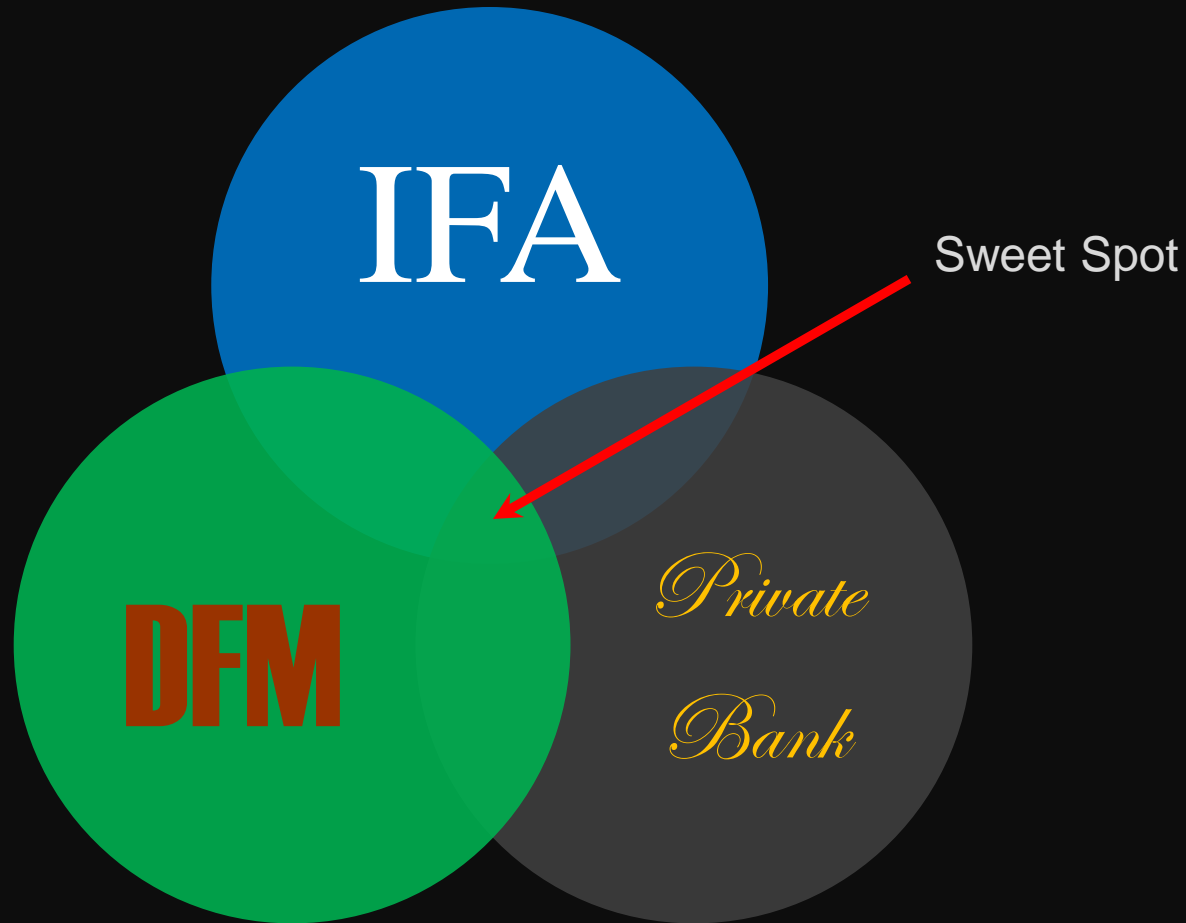
Our main competition

DFM

*Private
Bank*

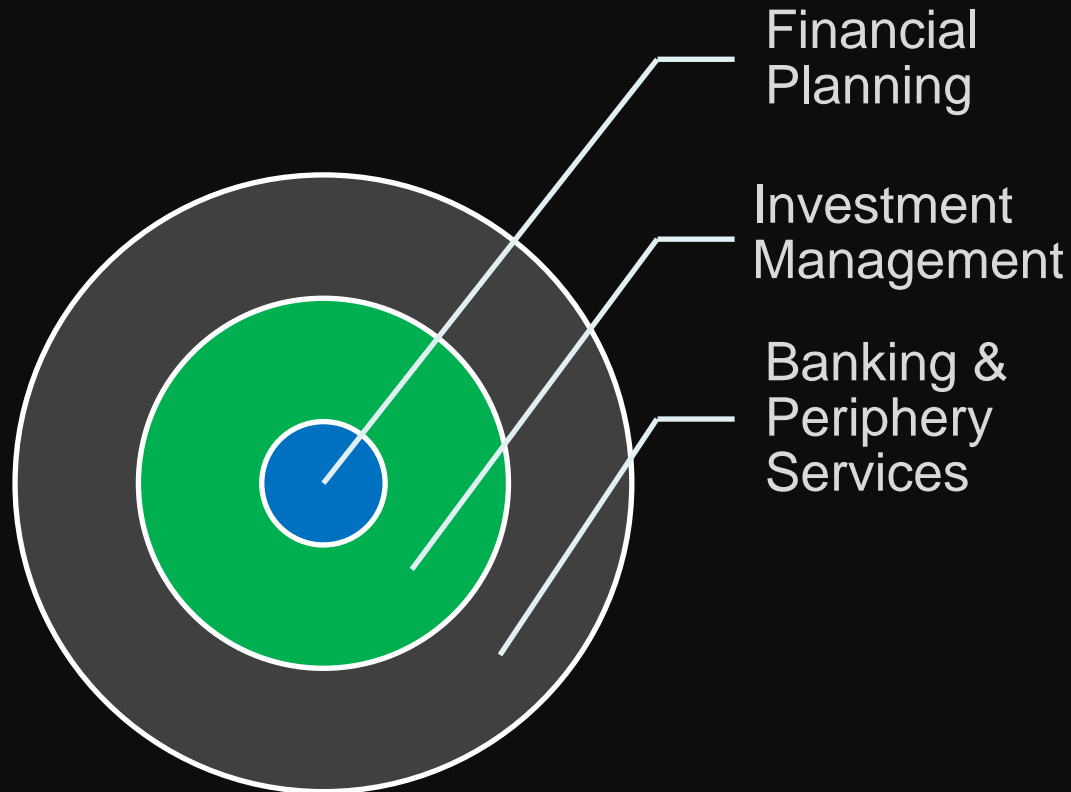
IFA

A possible long-term outcome?

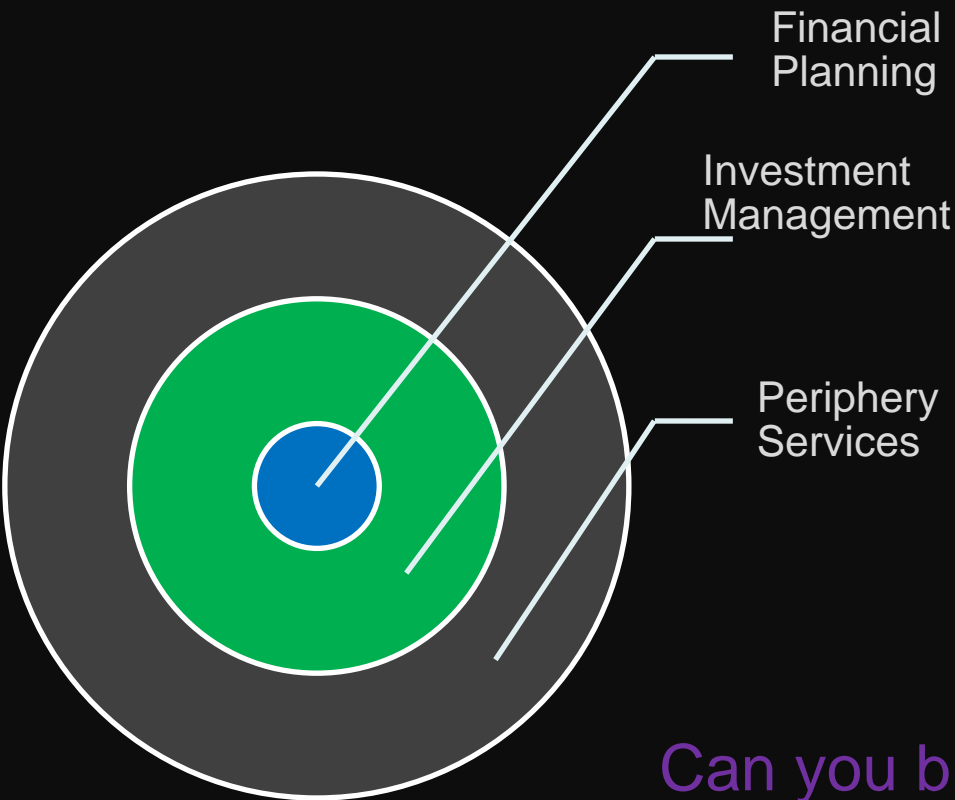


The Optimum Model?

All under 1 roof



Core proposition?



There are Private Banks & DFMs doing this right now, but can they pull it off?

Each type of firm sees their core proposition at the centre of the diagram.

If Financial Planning isn't central to the proposition, where is the context?

Can you build a proposition, in partnership with other businesses, that includes all of this and looks and feels like it's all done in-house?

You're in the driving seat



Questions about the competition?

1. How are these other businesses aiming to cope with the various drivers of change?
2. What's the mix between D2C and B2B?
3. Do they have the same businesses in their supply chain?

Answers...

1. How are these other businesses aiming to cope with the various drivers of change?

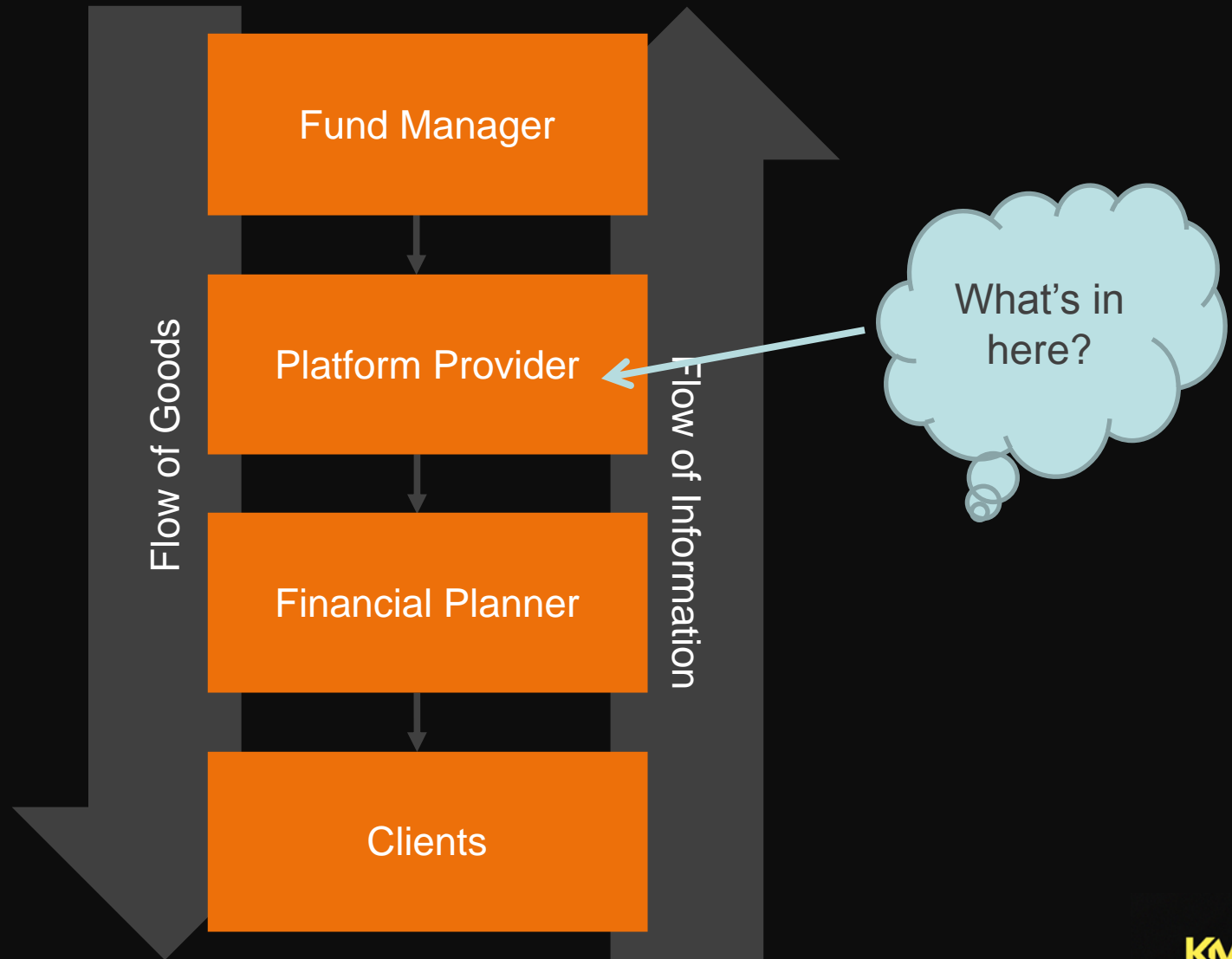
Attack other channels

2. What's the mix between D2C and B2B?

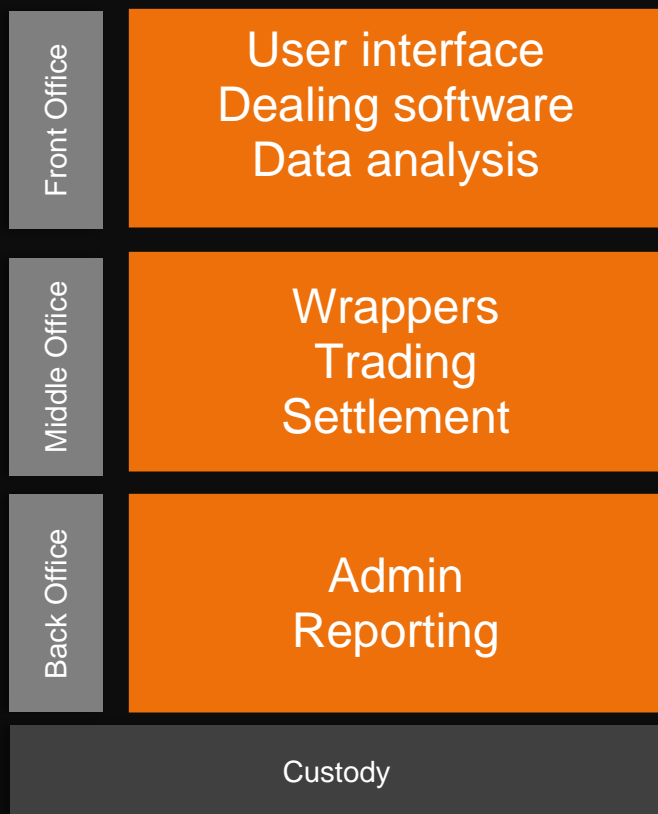
Many are heavily weighted towards D2C

3. Do they have the same businesses in their supply chain? **No**

'New Model' Investment Supply Chain



Inside the Retail Platform



A retail platform also has a supply chain of its own.

Could you approach these Businesses and build your own platform?

Advantages of 'building your own'

- Take the extra revenue available upstream
- Give the client a better deal
- Control delivery
- Fully integrate the investment proposition with the financial planning proposition

and

You get to choose the (w)rappers



How to approach this

Take a clean slate approach to your offering

Create your own Financial Planning & Investment Management services/products

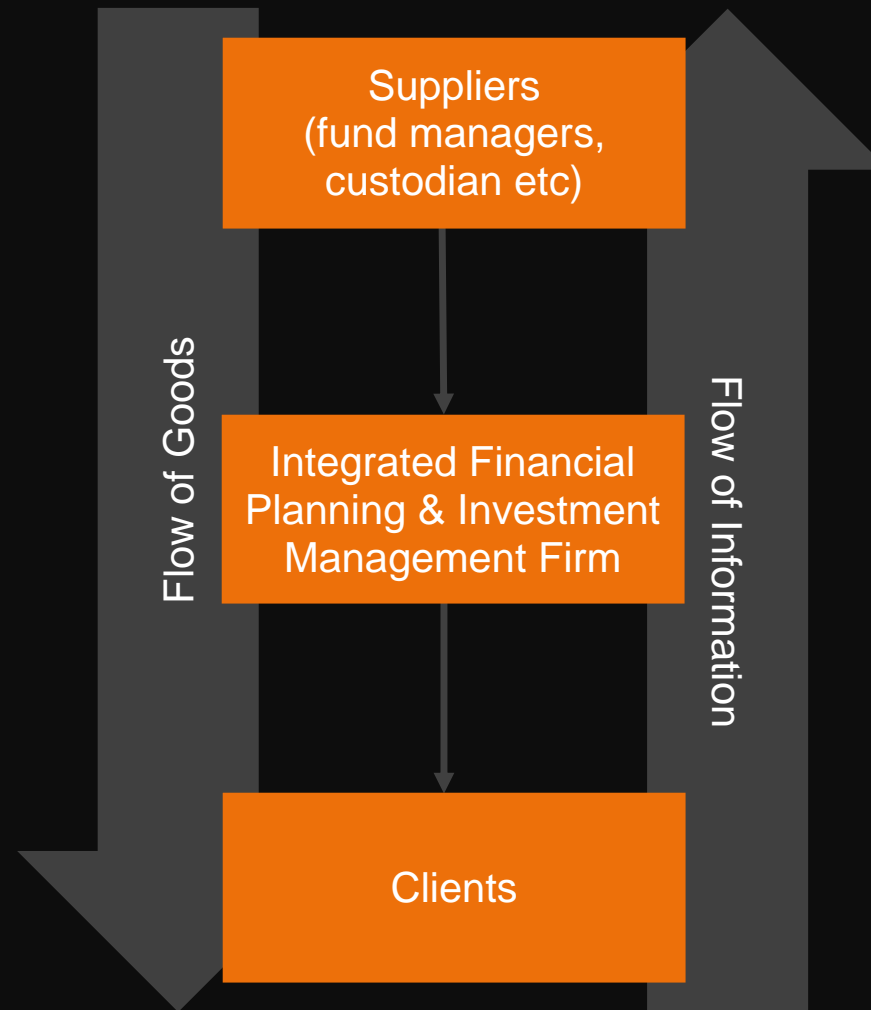


Remember the 7 P's

1. Product or service (what is it)
2. Price (how much, now and later)
3. Place (marketing & distribution logistics)
4. Promotion (or communication)
5. People (who delivers it)
6. Process (predictable outcomes)
7. Physical environment (the right setting)

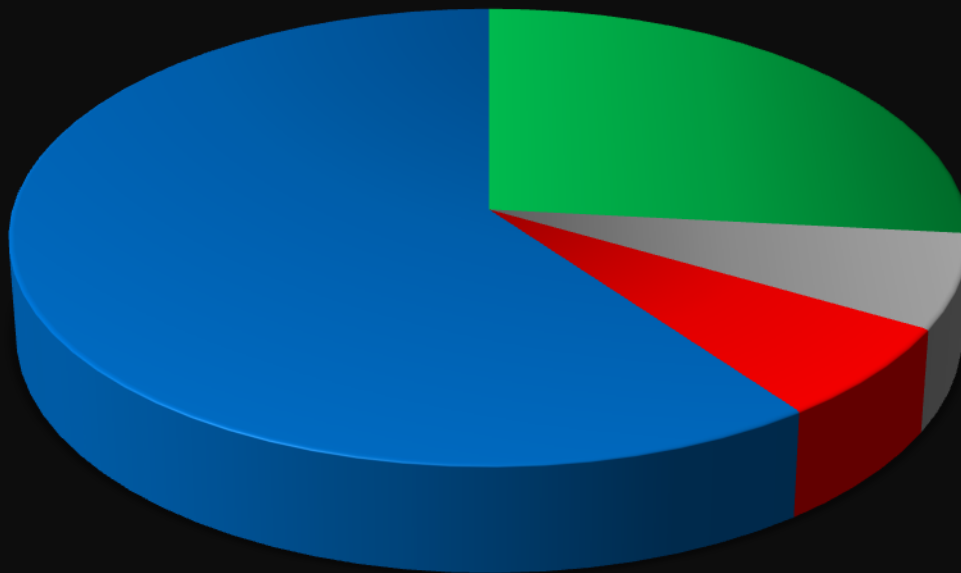
Research the custodian market for deals

The integrated supply chain



What share do we get now?

225 bps total cost of ownership (new model)



- Fund Manager = 60bps
- Tax Wrapper = 15bps
- Platform = 15bps
- Advice = 135bps *

*Includes financial planning
& investment advice

Benefits of upstream vertical integration

- Take the extra revenue
- Additional revenue attracts lower direct costs
- Operational overheads rise initially, but quickly stabilise
- Profit margin should increase on the basis of operational discipline
- Quality of earnings increases

Capital Value – Current Model

	£
Turnover	4m
Variable costs (40%)	1.6m
Fixed Costs (35%)	1.4m
EBITDA (25%)	1m
PE Ratio	7
Value	7m

Capital Value – Integrated Model

	£
Turnover	4.65m
Variable costs (30%)	1.4m
Fixed Costs (40%)	1.85m
EBITDA (30%)	1.4m
PE Ratio	9
Value	12.6m

The Outcome

- Capital value shift from

£7m to £12.6m

- 1.8 x capital value with no new clients, no investment growth
- Where capital value is concerned, it's just as important to increase the quality of earnings as it is the volume of those earnings

A word of caution

- You will need the following: -
 - A fully aligned group of shareholders
 - A strong management team – operational skill
 - Sufficient clients & funds (min £250m)
 - Sufficient time – 18 month minimum project time
 - Money to invest - ???

But...

The results should be worth it



www.kingmakersgroup.co.uk

